BUSINESS IN BELARUS 2010

STATUS
TRENDS
PERSPECTIVES

IPM RESEARCH CENTER
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Business in Belarus 2010:
Status, Trends, Perspectives

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Business in Belarus 2010: Status, Trends, Perspectives. The report discusses the economic situation of small and medium enterprises (SMEs), the business climate changes and the competitiveness of the Belarusian economy. The report also provides assessment of the impact of economic liberalization on the private business development. The role of the support infrastructure of SME development and public-private partnerships is analyzed. In conclusion there are results of the survey on the problems of SMEs in Belarus.

CONTENTS

1. INTRODUCTION

The small and medium-sized (SMEs) enterprises development is becoming increasingly important for the Belarusian economy, as, despite the Government's desire to retain the current economic structure and especially the high industrial share in GDP, the structural changes in the economy are inevitable. Large companies are reducing the production due to the drop in the external markets demand and are looking for the cost reduction opportunities. That means that companies will start large-scale employment reduction programs sooner or later. Accordingly, by that moment there should exist some mechanisms allowing the redundant labor force absorption. SMEs can take an active part in the oncoming large enterprises' restructuring through the outsourcing mechanisms, participation in privatization, initiative development and new management and marketing approaches introduction. In addition, despite some small businesses neglect by the authorities, the SMEs tax revenues, especially in the large cities (i.e. where the amount of SMEs is very significant), are essential for the local budgets. That's an important argument in favor of sustainable SMEs development in the contexts of declining tax revenues.

Thus, that's needless to say about the SMEs development importance. The Government also considers the active SMEs development as the new factor of the Belarusian economy and its competitiveness growth. The Government has been implementing the economic liberalization and business climate improvement program since the end of 2008 in order to support the local businesses development and encourage the foreign businesses arrival into the country. "The economic activity liberalization priority measures plan 2009"[1] was designed for this purpose, which contained a concrete list of the economy's liberalization actions the government was intended to commit. The plan can be criticized for its vagueness, inconsistency, lack of depth and systemic nature, but the fact of its appearance and realization reflects the authorities changing attitude to the business regulation policy. A similar plan, just with the new liberalization elements, will operate in 2010.

The IMF's Economic and Financial Policies Memorandum became the other document describing the Government's economy liberalization intention. IMF required the fulfillment of certain conditions by Belarus including the economy liberalization in exchange for financial trenches in 2009–2010. As it's specified by the IMF Country Report № 09/109[2], "the Belarusian authorities and the IMF concur that the Belarusian economy midterm growth stimulation requires broad structural economy liberalization reform." IMF Economic and Financial Policy Memorandum[3] in the area of structural policy emphasized the priority importance of economy and especially price liberalization. The IMF required private sector's position strengthening using such measures as the tax, wage systems and prices reforming, the state control and influence on the production enterprises weakening, privatization continuation.

The Government's efforts were appreciated both within the country and by the international experts. Thus, the obligations fulfillment within the stand-by program framework by Belarus was confirmed by the IMF. The World Bank raised Belarus by 24 positions up in its business climate quality "Doing Business 2010" ranking. Belarus, in terms of the amount of implemented reforms according to their estimations, is ranked the fourth in the world.

However, the measures' potential, focused on the business climate further improvement, is far from being exhausted. Moreover, according to many lawyers, economists and entrepreneurs, the nature of many changes is partial, cosmetic or temporary and requires further and more serious reforming. Some of those possible changes as well as the managers' and private companies owners' opinions concerning the Belarusian SMEs economic situation, their challenges, adaptive strategies for crisis, attitude to the economic liberalization policy and some other issues are presented in this analytical report.

The report is based on the results of several focus-groups polls, informal interviews with entrepreneurs, as well as a national sociological study on a representative sample (390 SMEs owners and managers in total). We are grateful to all of our studies, discussions and round tables participants, who contributed to a constructive discussion on the Belarusian

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[1] The plan was approved by the Presidential Administration (13.01.2009 №09/5) and the Council of Ministers (13.01.2009 №11/4) http://w3.economy.gov.by/ministry/economy.nsf/c0f0523c581097c9c225701900349321/7fc7c5d8ced22284c225757b0030f9dd?OpenDocument.

[2] International Monetary Fund. 2009. *IMF Country Report № 09/109* (April 2009), including Letter of intent, Economic and Financial Policy Memorandum and Technical Memorandum of Agreement http://www.imf.org/external/russian/pubs/ft/scr/2009/cr09109R.pdf.

[3] http://www.imf.org/external/russian/pubs/ft/scr/2009/cr09109R.pdf.

entrepreneurship promotion issues. We thank Mr. Jaroslav Romanchuk, the Head of the Scientific Research Mises Center, and Mr. Vladimir Koryagin, the Chairman of the Minsk City Union of Entrepreneurs and Employers. Special thanks to Ms. Elena Suhir (Program Manager of the Center for International Private Enterprise (CIPE) in the countries of Eastern Europe and Eurasia/Central Asia, USA) for her invaluable contribution to the development of free entrepreneurship in Belarus.

The Editors

2. ECONOMIC LIBERALIZATION IN BELARUS: PRECONDITIONS, INSTRUMENTS, PROGRESS

2.1. Belarus in 2009: a year of hopes and disappointments

2009 in many ways was a special year for the country. On the one hand, the authorities acknowledged the existence of problems in the economy (not because of inefficiency of the realized economic model though, but because of "the wings of their crisis have hit us"). On the other hand, such words as reforms, liberalization, privatization, the IMF, the stand-by program, international cooperation, the Eastern Partnership and etc. became commonly used by the common people, which allowed the experts to start up talks about this new phase in the development of the country relating to certain economic and political reforms.

This year was the worst in terms of economic situation over the last ten years. The drop in demand and the prices collapse on the main country's export goods showed the vulnerability and volatility of the implemented economic policy. Besides, the deteriorating condition of the trade balance has forced the country sharply to extend its external debt (Table 2.1), as well as to agree to several unpopular reforms, the implementation of which was a part of requirements of IMF stand-by loan.

The industrial enterprises showed the worst performance (Table 2.2). However, the results could be worse, but the increasing stock reserves forced the authorities to start up the curtailment of production in the middle of the year.

The increase in stock reserves was caused by the sharp decrease in exports. The greatest drop is characteristic to such traditional industries as machinery, chemical products (Table 2.3). There was a significant decline in exports of major Belarusian exported goods like engineering products and machinery tools (to Russia), petroleum products (to Europe) and potash fertilizers (to China and India). According to the trade balance the export volume was equal to USD 21.3 billion, import –

Table 2.1. External debt of the country

	2003	2004	2005	2006	2007	2008	2009	2010Q1
Gross external debt, million USD	*4174.9*	*4935.4*	*5168.4*	*6785.7*	*12494.0*	*15154.1*	*22029.9*	*22243.5*
Public authorities	343.9	492.1	606.8	589.0	2036.3	3597.2	4924.1	4891.5
Authorities of monetary control	283.7	76.8	0.7	0.7	596.2	429.9	3862.6	4493.4
Banks	400.7	625.8	842.0	1486.7	2570.8	3081.1	3553.0	3487.2
Other sectors	2853.6	3402.5	3365.6	4368.0	6782.0	7326.7	8933.2	8592.4
Intercompany lending	293.0	338.2	353.3	341.3	508.2	719.2	757.0	779.0
GDP, million USD	*17755.4*	*23133.3*	*30220.2*	*36970.6*	*45267.2*	*60797.7*	*48961.7*	*49730.7*
Gross external debt, % GDP	23.5	21.3	17.0	18.5	27.6	24.9	45.1	44.7
Long-run, % GDP	7.9	4.7	4.9	5.6	10.2	11.3	24.8	25.6
Short-run, % GDP	15.6	16.6	12.1	12.9	17.4	13.6	20.3	19.2

Source: National Bank, personal calculations of the author.

Table 2.2. Implementation of the main socio-economic indicators

	2009 in % to 2008	
	forecasted	actual
Gross Domestic Product	110–112	100.2
Industrial production	112	97.2
Consumer goods production	113	99.9
Real population income	115	102.9
Labor productivity (in terms of GDP calculation)	108.1	99.5
Export of goods	118.5	65.3
Import of goods	117.0	72.5
Balance of foreign trade, USD million	-4065.0	-7281.4
GDP energy intensity (%)	-8.0	-5.1

Source: Belstat.

USD 28.6 billion. The value of the country's export in comparison to 2008 has decreased by 34.7% or USD 11.3 billion, imports has decreased by 27.5%, or USD 10.8 billion. Such increase of the foreign trade imbalance was caused by the fact that Belarus had to import energy resources, the metal from Russia in order to maintain the high rates of production, while exports of finished goods reduced (e.g., to Russia by 40%), even though the currency devaluation carried out in January. As a result, import fell less than export.

Nevertheless, despite of the growing stock reserves and IMF assistance, the Belarusian authorities have not abandoned the supporting of the GP-forming and export-oriented enterprises, as well as production plan targeting to the state enterprises.

The authorities didn't allow starting the wholesale redundancy, as it happened in Russia and Ukraine, though many businesses used the mechanisms of under-employment one way or another (shorter working day or week). The absence of private owners at the largest enterprises didn't allow the quick development and implementation of the anti-crisis strategy, reduction in production and personnel, thereby losses minimization. In such a difficult economic and financial situation the government priority was to maintain the artificial social stability. Companies continued production under the sharp demand drop through the consumption of foreign reserves (which, in turn, were accumulated due to the increase of public debt). Besides the agricultural policy stayed the same resulting in the losses accumulation, growth of the banks' bad debts share, currency emission and prices appreciation in the Belarusian stores. There are strong reasons to believe that such a policy will remain the same in the current year, meaning the number of unresolved issues and challenges the country will face in 2011–2012, taking into account the necessity of loans' disbursement provided by the IMF, Russia and Venezuela.

Among the positive sides of the previous year are the undertaken steps for the business climate improvement in the country (see the details in the further sections). New mechanism of business opening, audit, first steps of the tax law reform, price liberalization can be highlighted. Therefore, the 30 point upward motion of Belarus according to the World Bank Doing Business rating scale (to the 84th position) looks deserved. Economic liberalization has become an important anti-crisis course of the Belarusian authorities. However, this policy is carried out non-systematically and lots of changes have partial or cosmetic nature. Besides, that's not enough to change the legal system. What is more important is to make the officials to implement and keep within the law. The absence of the equal business conditions with the state enterprises is a special challenge for the private sector, which is still not being solved.

As for the failures and disappointments of the last year, almost total absence of privatization (in fact, just a single sale transaction of the BPS-Bank to the Russian "Sberbank" was held) could be mentioned. Authorities are treating the privatization only from the fiscal position; they don't want to sell property at lower prices, preferring to take the state loans. At the same time, privatization is a key element of the structural reforms so necessary for the country and its delay only increases the alternative (imputed) costs of reforms. The lack of structural reforms was also characteristic for the infrastructure sectors, where the equitisation, activities division, tariff reform, private investment attraction and network access provision to the "third persons" had not even started.

The 20% devaluation held at the beginning of the year also left an ambivalent impression. According to our estimates, a political compromise with the IMF requirements had more likely negative economic impact, as both the population and businesses lost confidence in the local currency, while the devaluation didn't improve the situation with the trade deficit. A one-stage devaluation had to be either greater (in order to reduce country's imports significantly) or it should not had happened at all.

Thus, 2009 was quite an ambiguous year. It promised lots of hopes and even surpassed them somewhere. However, the amount of disappointments was none the less, first of all, in terms of the fact that the authorities didn't accepted the fallaciousness of the feasible policy and kept insisting on the earlier forecasts, indicators and programs. Despite the business climate improvement policy, the authorities' attitude to the local private businesses continued to remain cool, the priority is given to foreign investors.

Nevertheless, due to the ongoing global economic crisis the reformatting of the global environment and global economic policy is occurring. This means that Belarus will have to change further. And in this respect 2010 will continue intrigue of 2009. The pretense

Table 2.3. The export's structural and volume changes in 2009

	Share, %			Growth rate, %		
	2008	2009	changes	2008	2009	changes
Export	100.0	100.0	–	34.2	–34.7	–68.8
Food	6.8	10.8	3.9	22.4	3.1	–19.2
Mineral goods	37.5	37.9	0.5	41.2	–33.9	–75.1
Chemical goods	19.0	18.2	–0.8	73.2	–37.2	–110.4
Textile	2.5	2.9	0.4	8.6	–23.4	–32.0
Base metals	7.9	6.9	–1.0	31.1	–43.1	–74.2
Machinery and equipment	9.0	8.9	0.0	16.0	–34.9	–50.9
Means of transport	9.9	6.8	–3.1	11.6	–55.3	–66.9
Other goods	7.5	7.6	0.1	14.1	–33.8	–47.9

Source: National Bank, personal calculations of the author.

that nothing is happening will not work anymore. It is necessary either to suspend the plants or to seek other sources of finance for their work (there is no chance to sell the goods, that are produced on the plants, which are mostly non-upgraded, in such quantities as before). The mechanical growth of the external debt is not a long term solution, as the servicing of external debt may become a significant problem in the very nearest future. 2009 has become a year of public debates among the Belarusian policy makers about the ways of country's development. That will persist in 2010, as well as the realization of some concrete steps. We can expect a continuation of the partial liberalization policy of the business environment and upward motion of Belarus under the different ratings in 2010. There will be several large privatization deals. But it is unlikely that 2010 will be fundamentally different from 2009.

New strategic decisions will be taken later, after the presidential elections in 2011.

2.2. Economic liberalization: evaluation of the reforms' content and depth

As it was noted above, economic liberalization has become one of the directions of the Belarusian government's response to crisis. Both international and domestic experts accept several changes and implemented reforms. However, the reforming progress and consistency are evaluated differently by the government, business and experts.

2.2.1. Major reforms in terms of business climate simplification in Belarus

The Government implemented fairly crucial steps in terms of business environment liberalization in Belarus in 2008–2009. Among them[4]:

- Simplification of the new business registration procedure (four steps of registration procedure were combined into one, the requirements concerning the minimum statutory fund were cancelled out, the length of the registration period decreased to few days);
- The licensing procedure was simplified (some objects of licensing were combined into groups as it is accepted in the world practice);
- The certification activity, construction, sanitary and fire regulations were simplified, the compulsory certification of tourist services and certain types of construction works was abolished;
- The range of the small enterprises, which can use the simplified taxation system was expanded, besides the tax rates were reduced;
- The new goods price registration was cancelled (except for the rates on the newly paid medical services), the restrictions on the trade increments on almost all goods were abolished (the are just 50 positions on which prices are still regulated) including import goods, it was allowed to divide the wholesale discount between the unlimited number of trade units;
- The moratorium on the limit imposition of the price index growth per month (quarter) was extended;
- The overhead regulation for the catering enterprises of the luxe, highest and first categories was canceled;
- The list of goods, services, prices and tariffs, which is regulated by the state authorities decreased by 14 positions;
- The list of export goods, the prices on which are regulated by the government, was shortened;
- The range of the products, the price formation of which implies free trade increments, was significantly expanded and the specific list of goods, the price formation of which implies limited size of trade increments, was approved. The trade increments are limited only on the most important social goods (50 positions);
- Some reforms regarding renting were implemented (the minimum rental period was increased to 3 years, the state registration of the lease agreements was abolished, the rental rates of the public property for the renters of different proprietary forms were standardized, increasing and decreasing coefficients for the base rates were set, the rent is calculated in base rates in Belarusian rubles and not in euros as before;
- The reforms in remuneration of labor were implemented (the enterprises obtained more flexibility in wages raise and differentiation, but the wage scale, even for the private companies, remained unchanged);
- The transition to the linear (single) income tax rate of 12% was made;
- Various administrative procedures were normalized and clarified, a sufficiently transparent lists of administrative procedures executed by the ministries and their departments were formed and are posted on the websites of these organizations;
- The business control approach was changed – the economic entities were combined into risk groups, and the intervals between inspections were set depending on the degree of risk associated with the risk groups' activities, besides a two year moratorium on the planned inspections of the newly formed enterprises was imposed.

Besides, a lot of innovations in the tax system were implemented in terms of tax payment and tax rates in 2010. They were put into practice with the adoption of the Special section of the Tax Code since the

[4] See "Economic policy monitoring" for more detailed information, http://research.by/rus/mep/.

beginning of 2010. The total tax burden was reduced through lowering the rate of the environmental tax, abolition of the agricultural producers support levy, elimination of vehicle purchase tax and local sales tax on goods in retail (the 5% tax on services is left). A transition to quarterly disbursement was performed, which allowed to reduce the enterprises' amount of payments and time consumption.

In addition, it is allowed to choose the profits tax payment period (monthly or quarterly), to include all costs associated with producing and selling goods and services which are reflected in accounting records into the profit tax computation, in comparison they were normalized before (advertising, marketing costs). Besides, the tax rate on foreign organizations' dividends was reduced from 24% to 12%. At the same time the VAT rate was raised to 20% from 18%. It is hard to evaluate the final effects of such reforms now, but it's possible that they will encourage the business activation in the country. The major part of these changes should positively affect the country's ranking in the "Doing Business 2011" rating. Perhaps, Belarus will manage to leave the last 183 rank in taxation complexity.

According to the assurances of the Government, the new plan of economy liberalization in 2010 is prepared, measures of which will be connected with the administrative procedures, licensing, pricing, monitoring activities, labor market liberalization, investment activities and property rights (the plan isn't available for the open access). This year goal is to enter the list of 30 countries with the most favorable doing business conditions. In addition, the National Bank has initiated the activation of Belarus image improvement in other international ratings, which should stimulate the foreign direct investments attraction. That's possible, that some further reforms of business environment or at least their visibility will encourage the rating institutes to raise the rank of Belarus in the international rankings. Nevertheless, the key point for the Belarusian economy is the competitiveness growth, which is unlikely to achieve without the significant reforms of the business climate.

2.2.2. Progress in the World Bank's "Doing Business" rating

The progress in the business climate changes wasn't unnoticed by the international experts. The World Bank's (WB) analysis "Doing Business 2010" ranked Belarus the 4th country in the world in terms of implemented reforms in 2009. Our country rose by 24 points. The recent outsider, Belarus, which shared the position with Uzbekistan and other Third World countries, is in the 58th position now, ahead of Italy, Poland, Russia and Ukraine[5].

Belarus has implemented reforms in six out of ten, traditionally analyzed in the "Doing Business", spheres of business regulations over the last year, which are business registration, building permit receipt, hiring of labor, property registration, taxation, foreign trade (Table 2.4). This allowed Belarus to improve its position for another 24 points in 2009 and to take the 58th place in the overall ranking (30 points up in 2008 from 115th to 85th place). The goal of the Belarusian government is to enter the list of 30 leading countries in term of doing business in the coming years. And this goal may be achieved with such a progress very soon.

As expected, the greatest progress was observed in the enterprises registration. Due to the adoption of the decree № 1 of January 16, 2009 "About state registration and dissolution (suspension of operations) of economic entities" Belarus managed to move from 98th to 7th place in the world (91 positions up) in terms of registration conditions. Because of that decree, four steps of registration procedure were combined into one; the requirements concerning the minimum statutory fund were eliminated, the period of business opening declined by almost a month.

The ongoing and declared measures of economy liberalization in the country are conducted in order to attract foreign direct investments. The Government is trying to form a positive image of the country for the foreign investors. However, in terms of "investors' protection" Belarus moved from 105th to 109th place in the "Doing Business" rating. The experts evaluated that the investors' protection index is equal to 4.7 points (10 is maximum), the companies' openness index is equal to 5 points and the Director's Liability index to one point.

Belarus is staying on the last 183rd place in the "Doing Business" rating in terms of complexity of taxation and tax burden, despite some reforms undertaken in the Belarusian legislation, during the last three years. For instance, according to the "Doing Business 2010", the Belarusian enterprises spent 900 hours on payment of 107 taxes, in comparison to 1,188 hours and 112 payments a year earlier. Nevertheless, in terms of difficulties of tax rates and tax burden Belarus is far behind the average for other countries (Table 2.5).

At the same time, the World Bank experts noted that due to the wide spread of the electronic system the tax payment procedure in the country improved. The tax burden was slightly decreased by reducing the rate of environmental tax, sales tax, the number of tax payments on real estate (other tax reforms were implemented after the rating's publication, since were not included in the "Doing Business 2010").

Objectively assessing the success of the Belarusian authorities in the view of WB, its impossible to deny the fact that much was indeed done (in the field of starting a business, dealing

[5] http://doingbusiness.org/documents/fullreport/2009/DB09_Full_Report.pdf.

Table 2.4. Position of Belarus in the World Bank's "Doing Business 2010" and "Doing Business 2009" ratings

	"Doing Business-2010"	"Doing Business-2009"	Rating changes
Ease of Doing Business Rank	*58*	*82*	*+24*
Starting a business	7	98	+91
Dealing with construction permits	44	62	+18
Employing workers	32	40	+8
Registering property	10	13	+3
Getting credit	113	109	–4
Protecting investors	109	105	–4
Paying taxes	183	183	0
Trading across borders	129	134	+5
Enforcing contracts	12	14	+2
Closing a business	74	74	0

Source: World Bank and IFC (2010).

Table 2.5. Complexity of tax payments and tax burden: comparison by countries in "Doing Business 2010"

Indicator	Belarus	Europe and Central Asia	OECD average
Payments (amount)	107.0	46.3	12.8
Time (hours)	900.0	336.3	194.1
Profit tax (% of profit)	20.1	10.8	16.1
Wage tax and payments (% of profit)	39.6	23.1	24.3
Other taxes (% of profit)	40.0	9.5	4.1
Total tax rate (% of profit)	99.7	43.4	44.5

Note. *Ease of Doing Business Rank for* 2008 ("Doing Business 2009") was estimated once again taking into account the revision of the methodology and the data on three new countries.
Source: World Bank and IFC (2010).

with construction permits, etc., see the related reports of the IFC and the WB). On the other hand, we have to agree with those experts who criticize the imperfection of rating's calculation methods. This rating is estimating a narrow number of rules and regulations. For instance, the Doing Business index refers only to permits for the construction of a small warehouse (the time and money spent on obtaining the necessary permits are estimated). It is obvious that the issue of permits and approvals for the whole economy is rather more complicated than for the construction. The index does not take into account the situation with the pricing discretion, wage determination and many other nuances of the business climate. In addition, one important point is that pretty often the index does not take into account what is called *law enforcement practice*. Since laws are laws, but their practical application, especially in the regions, may vary greatly.

Among disadvantages of the index we can mention the equal weight of its individual components. But taxes, for example, (the situation in which is very bad in Belarus) sometimes play a dominant role in investors' business decisions making. As it was noted above, Belarus is staying on the last 183rd place in terms of complexity of taxation and tax burden, although small improvements occurred. And there is a chance that Belarus will move up again in the ranking index in 2010, staying the country with the worst tax legislation.

According to the authors of "How Belarus can get to the top thirty countries with the ease of doing business" Belarus can significantly improve the position in the rankings without actual complex structural reforms' implementation, but only through point liberalization and several norms of the law correction[6].

While analyzing the World Bank's methodology, the authors came to the conclusion that the selected Bank's indicators, which are applied both for the countries with the market and administrative economies, give to the governments of the latest the opportunity of significant investment reputation improve, without any changes in the principles of economic policy. But the authors believe that even such image changes will be beneficial for the economic policy as well as the way of thinking of the countries' ruling elites.

2.2.3. The evaluation of the implemented reforms by the Belarusian experts

The majority of the Belarusian experts point out the inconsistency and insignificance of the structural reforms. For instance, in pricing, which is a very important vector of business climate reformation and where lots of things have to be changed in Belarus, a large-scale state regulation is mostly preserved. So, instead of complete abolition of the decree № 285 of 19.05.1999, the moratorium on its several provisions is functioning (limits on price index change per month). Thus, on the one hand, companies may raise prices on goods and services according to their own discretion without any registration. On the other hand, this right is preserved only for the duration of the informal moratorium on the maximum price limits establishment. Companies have to continue all sorts of calculations making and to justify the price level; their absence leads to heavy penalties (up to 30% of the cost of goods (works, services)).

[6] Pikulik, A., Znak, M., Lashuk, A., Rakova, E., Roshchina M. (2010) How Belarus can get into top thirty countries with the most favorable business climate, *BISS Analytical Note PP02/2010RU*, http://www.belinstitute.eu/index.php?option=com_content&view=article&id=660%3A2010-04-22-08-51-34&catid=8%3Aeconomy&Itemid=28&lang=ru.

In addition, the state regulation of allowances in service sector remains. There are still restrictions on price discretion for the trading (wholesale) enterprises. The marginal allowances are actively adjusted by the local authorities (regional executive committees and Minsk Executive Committee). Especially it's true for the catering enterprises, the markups' limits for the catering firms are strictly set, depending on the category of the catering enterprise (the main part of them belongs to the second category, where the state regulation remains), as for the semi-finished goods, the markups' limits depend on the type of the traded goods.

The implemented licensing reform is very superficial. The Government intends to simplify the licensing (reduction of around 20 types of activity licensing, in particular, cancellation of retail (except for tobacco and alcohol), audit, tourism services licensing; there is a plan to implement a mandatory liability insurance instead of abolished licensing) further. However, there is still no decree regarding the licensing liberalization, even though the announcement of the proposed licensing reform was made a year ago (July 2009).

The temps of privatization are very slow, and it's still characterized as a point, backstage with a fiscal focus. There is a need in further reforms of tax and foreign trade legislation, besides there is a great entrepreneurs' dissatisfaction regarding the lease, salary adjustment reforms and etc.

The conclusions obtained by the experts of the IPM Research Center about the limited economic liberalization are affirmed by the leaders of the business associations, entrepreneurs (see the relevant section of the yearbook below) and experts of the Belarusian Institute for Strategic Studies (see the quarterly survey BISS Trends)[7].

2.3. The main priorities of the country's economic policy in 2010

The actions and appointments, made by country's policymakers in H12010 allow judging what will be the economic policy in 2010. That's obvious that the U-turn in priorities and governmental programs is impossible, even though the significant course correction was expected by many people. The correction occurred. However, it was not so deep though to allow the previous mistakes analysis, new growth assumptions and factors examination, the development of the effective adaptation strategy to the shocks occurring in the world and global market corrections. In fact, that's the *pre-election* year for the country, which determines the main counters of the economic policy.

The main outline is the maintenance of the social stability, which implies the impossibility of the serious structural reconstruction of the economy with the significant limitations of unclaimed production, mass layoffs, conservation of the housing construction program and concessional lending, the growth of public utility rates and etc. The old demand stimulation policy (through the growth of the government investments) and the officials confidence that the world crisis is over (thus the demand for the Belarusian goods will increase soon) remain unchanged.

So, what are *the main priorities of the economic policy in 2010*?

- External markets diversification – president's export sales "by teaspoon" strategy to all the countries further implementation involving all required resources from companies, ministries, the Ministry of Foreign Affairs and etc.;
- Continuation of the production increase in order to achieve planned 10–12% GDP growth;
- The largest state banks support, state (emissive) funding of a number of state programs and enterprises;
- Continuation of external (both national and commercial) debt accumulation policy;
- There is still a spot privatization, but with the shift of the ideological accents towards willingness to sell at a reasonable price;
- Modernization of economy comes "from above" through the framework of intergovernmental meetings, agreements, contracts signed on top;
- Pointed cosmetic business climate liberalization of such areas that will stimulate the yearly growth of the World Bank "Doing Business" rating.

What has changed in 2010 in comparison to 2009? Petr Prokopovich, the Head of the National Bank, expressed the intention to move from the government (on a bilateral or multilateral basis) to private borrowings at the end of 2009. The idea was that the main borrowings will be made not by the Government but by the commercial banks and enterprises. However, the deterioration in the terms of Russian oil supply made the new IMF loan a burning issue. The authorities are ready to make several concessions (especially if they have to be done after the elections in the beginning of 2011) and later on gradually change the institutional and macroeconomic conditions in the country in order to obtain that loan. However, the IMF hasn't expressed the willingness to enter into a new stand-by program before the presidential elections. At the same time the policy of external debt accumulation by the private sector remains. As a reminder, the external resources can be attracted by the commercial banks (with the further loan issuing to the enterprises) and by the enterprises themselves (for instance, "Minskenergo" is upgrading TPP-3 and TPP-5 within the Chinese credit line).

However, the external loans are very expensive for Belarus and their

[7] http://www.belinstitute.eu/index.php?option=com_content&view=article&id=664%3A-biss-trends&catid=37%3Abiss-trends&Itemid=35&lang=ru.

servicing becomes very costly in such a deteriorating economic situation on most of the enterprises. Just few Belarusian enterprises are ready to take a loan out as they are very expensive; besides there's another problem, that is very problematic to pay the foreign currency loan back, due to the fact that its rather complicated to buy the currency on the domestic market (because of the chronic demand-supply imbalance in the foreign exchange market only enterprises from the special list are allowed to buy foreign currency).

The business climate liberalization, which wasn't very active before, almost came to nought. That's rather hard to name the actions except for the overhead regulation cancellation for the catering enterprises of the luxe, highest and first categories and inclusion of several new enterprises into the list for corporatization and privatization. The authorities fairly believe that the changes planned to be done at the end of the year (elimination of a number of turnover taxes and transition to the quarterly payment period for the several taxes) will be enough to improve the country's rank in the "Doing Business" ranking.

The failure in the FDI attraction policy can be noted. The reality in this area is always worse than the plans and projections of the Government, despite the boom of forums, meetings, delegations and etc. The thing is that everything looks fine during the meetings. However, when the time of investment agreements or business plans realization and license obtention comes, the investors' enthusiasm goes down.

The Government doesn't show its work on the elimination of the main threat for the Belarusian economy, which is *the trade balance imbalance*. All the attracted investments (loans) are stimulating imports and not exports (even such a widely advertised Chinese credit is a net import of Chinese goods and technologies into the country). Another growing systematic danger is the external debt growth. It is still in its reasonable limits (both in absolute and relative terms). But if the growth rates will stay the same the critical size (60% of GDP) might be achieved in 2011–2012. And it will be the 2008–2009 loans payment time. So what is the proper way of debt management? Seems like the Government doesn't think much on this problem.

We shouldn't disregard the *problem of the bad debts growth* in the banking sector. In terms of the continuing massive enterprises and individuals' lending it threatens not just the banking sector's but the entire economy's stability.

Thus, there is still no long-run component in the work of the Government. Everyone is concentrating on the short-term projects like Russian export duties, Venezuelan oil, the Chinese loan, which don't change much neither in the Belarusian economic structure nor in the working principles. Joint efforts of the Government will maintain the stability and provide the GDP growth. However, the achievement of these goals will substantially increase risks and threats of the main sectors and financial flows imbalances in the nearest future.

3. THE ECONOMIC SITUATION OF SME. BELARUSIAN SME AND THE CRISIS

3.1. Economic situation of SMEs in 2009–2010 and the channels of the crisis influence

According to the official statistics the number of the small enterprises more than doubled during the 2007–2009 and is around 80,000 now (there is still no legally fixed definition of the middle-sized enterprise, but it seems that around 10–15% of small are middle-sized enterprises). The number of individual entrepreneurs increased by 15% during the same period of time and was equal to 220 thousand at the beginning of the year. Thus, on the one hand, there is a significant progress in terms of private sector growth. On the other hand, however, despite the significant quantitative sector's growth, its role is still almost negligible in the economy. Just around 10% of GDP and 13–14% of labor force fall to the small enterprises' share. According to the statistics the share of the small enterprises in total output of industrial goods and services is slightly more than 8% and in the capital investments is about 13%. In other words, the quantitative growth of small enterprises doesn't provide an adequate change in the GDP growth, which is explained by the faster growth of large SOEs and JSC.

There are no significant structural changes within the sector. The main part of SMEs is concentrated in Minsk, Minsk region and big cities. About 40% of the Belarusian business is involved into trade. As it was stated above, there are no growing medium-sized enterprises, which are able to enter the company's higher development level in terms of technology and the final good production. The Belarusian business structural "plug" is explained by the business climate complexity and severity (high penalties, high taxes, the need in multiple permits) and by the institutional peculiarities, which lead to the production and nonmanufacturing costs' growth (high payroll taxes amid a public sector salaries' growth, high rents, the lack of production facilities and etc.) and make the country's production uncompetitive.

The Belarusian business is operating in the highly competitive environment despite the existing legal and organizational bureaucratic difficulties. According to the conducted research, just large private enterprises (with more than 200 employees) noted that the number of competitors in their sphere is small (46% of the respondents). The vast majority of the rest SMEs is competing with the large number of rivals and believes that the competition has increased in recent years.

2009 was a difficult year for the Belarusian business. Around 20% of the managers and small and medium-sized business owners evaluated their economic situation as bad or very bad (in comparison only 6% of the respondents gave the same answer in 2007). The main share (57%) answered "neither good nor bad", same like it was in 2007. That is more the evidence that the Belarusians according to their mentality desire to see the uneasy equilibrium, and not to differ from their competitors than of a solid middle company status. That is proved by the fact that economic situation of the half of SMEs deteriorated, while only 20% of SMEs managed to improve the situation. The situation, which is worse than the SME's average is in the construction (27% of the respondents described it as a poor or very poor), trade (23%), education (50%). Above average is the situation in the catering enterprises (10% of the respondents evaluated the situation as poor or very poor), industry (18%) and it is very good in the consulting and IT companies (50%

Table 3.1. Responses' distribution to the question "Do you have a lot of competitors?"

	Number of enterprises	%
None	6	1.6
Few	82	21.1
Many	301	77.3
Total	389	100.0

Source: IPM Research center.

Table 3.2. Responses' distribution to the question "How the level of competitiveness has changed over the last three years"

	Number of enterprises	%
Has become stronger	265	68.2
Hasn't changed	114	29.2
Has become weaker	8	2.0
No answer/Hard to say	2	0.6
Total	389	100.0

Source: IPM Research center.

Table 3.3. Responses' distribution to the question "What is the current economic situation in your company?"

	Number of enterprises	%
1. Very bad	22	5.6
2. Rather bad than good	56	14.3
3. Neither good, nor bad (average)	220	56.5
4. Rather good than bad	89	22.9
5. Very good	3	0.7
Total	389	100.0

Source: IPM Research center.

stated that the situation is good or very good).

Only 10–16% of the respondents stated that their economic indicators increased, the rest claimed that the indicators were stable or decreased. The managers and business owners keep looking guardedly positive towards the upcoming future despite the fact that more than half of SMEs reported profits and turnover decline during the year (Table 3.4). About half of the respondents think that the sales volume, profits, level of employment and investments will keep stable in 2010. One third believes that there will sales and profits growth. The situation with the answers regarding the investment level is the worst as only 11% of the respondents consider its growth and about 25% believe that there will be a reduction. Thus, that is possible to say that the crisis' impact on the Belarusian business hasn't revealed itself to the full extent yet. In that way, the economic situation on the private enterprises with the crisis development will become worse.

It should be noted that the economic situation of the small enterprises (with the number of workers less than 50) was worse in comparison to large and medium. For instance, around 50% of the small enterprises had a drop in sales volume, while only 23% of the medium (100–200 employees) and 6% of the large companies (more than 200 employees) came up with the same results. The profits, employment and investments of the large companies fell less than of the small enterprises. Besides, medium and large companies are more optimistic about the value of their performance indicators in 2010.

The main channels of the crisis influence on SMEs are the decline of population purchasing power (73%), arrears in payment for the delivered goods (48%), decrease in demand from state-owned enterprises (32%), customers' reorientation towards cheaper suppliers (26%), and restricted access to the banks' financial resources due to high interest (23%). However, several large foreign trade companies state that the decrease in demand is caused mostly by the internal problems, which became a burning issue during the crises. Those problems are mostly caused by the National Bank policy. Very expensive credits, complexity and in actual fact the inability to buy the exchange currency are slowing down not just the company's development but the current performance as well.

Such crisis' channels of influence as decline in demand of the foreign markets and the investment projects freeze are also mentioned by the large companies. However, in general such channels of crisis expansion as decline in demand from Russia or other external markets, restrictions on the currency market are much less widespread (less than 10% of the answers, that's more important for the medium-sized companies, the number of which isn't large) than the drop in demand and non-payments. That confirms the statement about the shallowness of the Belarusian business is its orientation on population (services provision) or state-owned enterprises.

Accordingly, the decrease of demand from the main customers (the population or SOEs) can't be compensated by the institutional framework of business conduction improvement. That means that the legislation simplification on licensing and pricing won't change much for the company, which has a 9 month non-payment for the delivered goods from the SOEs. This company is focusing on how to survive and has completely different problems to solve.

3.2. Adaptation strategies of the Belarusian SMEs to the deteriorating economic conditions

The main anti-crisis SMEs' activities were the decrease of nonproductive costs, new suppliers and customers search, price and wages reduction (Table 3.5). A very small number of

Table 3.4. What was the behavior of the following performance indicators of your firm in 2009? What is your forecast for 2010? (%)

	Firm's performance			2010 forecast		
	Increased	Were stable	Decreased	Will increase	Will be stable	Will decrease
1. Turnover (sales volume)	16.5	36.5	47.0	28.2	51.1	18.7
2. Profits	11.7	33.5	53.5	27.9	47.9	20.8
3. Employment	12.7	52.7	33.7	17.2	63.1	16.7
4. Investments	6.4	40.9	35.1	11.4	46.6	23.9

Source: IPM Research center.

SMEs performed the decrease of production volume, quality degradation and release of a lower quality product (mostly manufacturing companies), certain types of business elimination, the R&D (innovations) and investments or their growth rejection. Thus, business used mostly the short-term measures. Obviously in terms of crisis expansion such anti-crisis strategy will be ineffective (the permanent nonproductive costs decrease is impossible), and lots of companies will face more serious problems, which one way or another will require business restructurings or its liquidation. The lack of finance makes the investment and innovation activities, companies' modernization of the majority of SMEs irrelevant and undermines the long-term competitiveness level of the Belarusian enterprises.

Table 3.5. How does your company react on crisis?

		Number of enterprises	%
1.	Decrease of nonproductive costs (ads, marketing, training etc.)	194	49.8
2.	New markets search (suppliers, customers)	183	47.0
3.	Price reduction	134	34.4
4.	Wages reduction	125	32.0
5.	Change in the goods range	93	23.9
6.	Low qualified stuff decrease	92	23.5
7.	Management personnel decrease	87	22.3
8.	Cancellation of lease	55	14.2
9.	Decrease of production volume	53	13.5
10.	Reduction of working hours	51	13.2
11.	Several types of business liquidation	27	6.9
12.	Introduction of piece-work payment	18	4.7
13.	Rejection of investments	17	4.4
14.	Growth of the investment activity	13	3.4
15.	Quality degradation and production of cheaper goods	12	3.2
16.	Growth of innovation activity	13	3.2
17.	Business separation on small businesses	9	2.2
18.	Rejection of innovations	8	2.0

Note. The respondents were able to give no more than 5 variants of answers.
Source: IPM Research center.

Таблица 3.6. What new opportunities the crisis offers to your company?

		Number of enterprises	%
1.	More rational approach to the use of financial resources (careful risks and results evaluation, rise of returns on resources)	194	49.8
2.	The crisis had non positive effects	168	43.1
3.	New business model and solutions search, more hardy decision making, mobilization of own resources	155	39.9
4.	Improved positions in the relations with the suppliers, suppliers' prices reduction	66	17.1
5.	High-qualified staff hiring for lower wages	66	16.8
6.	Competitors' withdrawal from the market	63	16.1
7.	Modernization of production capacities	45	11.4
8.	Expansion of import substitution possibilities	20	5.1
9.	Increase in use of subcontracting and piece-wage schemes	14	3.5
10.	Increase in state support (like concessional lending)	12	3.2

Note. The respondents were able to give no more than 5 variants of answers.
Source: IPM Research center.

The Belarusian business doesn't consider the crisis as a *window of new opening opportunities*. According to the answer of one of the focus group members, with which more than half of the SMEs' managers agreed, "there are no positive consequences of the crisis". The effects caused by the crises in the West were the lowering of the primary goods' prices and money (credits) value, state assistance in restructuring. However, there is nothing similar in our country. At the same time a lot of managers and owners of the companies consider the changes in their views and managing approaches in the field of company management as a positive impact of the crisis. SMEs became more careful, cautious and selective; they stop the "back door" hiring, suit with the nonpayers, get rid of dependency and free riders (including the customers). In other words "the turn of effective owners" came in some private companies.

Additionally, the lack of qualified staff was much more important problem than business environment difficulties and government regulation for many SMEs before the crisis. That is now is the new business opportunity to hire well-qualified specialists for lower wages. Thus, despite the fact that a lot of Belarusian managers disagree with the phrase that "the crisis brings new opportunities", it provides business with some development incentives. Another thing is that just the most flexible and advanced SMEs are able take the advantages of the appeared opportunities and as the study shows "to focus on business training when the time allows".

3.3. Conclusions and recommendations. Possible directions of the SMEs' state support under the ongoing economic crisis conditions

Despite the growing number of the private enterprises, the structural development of the sector is frozen. In the pre-crisis period the growth of the private initiative was cramped by the organizational and legal doing business conditions in the country. As for now, the main problems are the demand decrease and non-payments. Thus, the Belarusian business is facing the systematic obstacles, which couldn't be solved with the help of the liberalization and business climate simplification. Moreover, the occurrence of the country in the list of the top 30 ranked by the World Bank Doing Business rating and the efforts focused on the business environment simplification will attract foreign investors into the country, which will complicate the local companies functioning.

High costs and falling demand deteriorate the economic and financial indicators of SMEs. As a result, the companies pay little attention to the modernization, investment and innovation activities. Hence, they will face serious challenges and problems threatening them with bankruptcy under the conditions of the improving foreign companies' entrance into the domestic market and increased competition. As just the large-scale modernization allows companies to stay competitive.

In the context of on the one hand increasing crisis developments and on another the willingness to support the domestic SMEs development, the complex and strategically correct economic policy becomes especially vital. That's very important today not just to make pointwise changes in several legislative vectors (although this is important), but to create a fundamentally *new policy of SMEs development stimulation in the country.*

Thus, in our opinion, the concrete measures that support the business lines desirable by the authorities are more important than the improvement of the business climate elements. For instance, the authority's willingness to support manufacturing SMEs rather than SMEs involved in the consumer imports is clearly understandable. However, little was done on it. So, despite the rental rates reform, implemented to reduce the rates, 40% of SMEs' rental rates increased in 2010 (35% of SMEs rates stayed the same). And there are also increased (not subsidized) utility rates. Moreover, there is nothing done regarding the simplification of the *production lease enterprise's possibility to buy the state rented area* (on the contrary, this method of privatization is excluded from the new edition of the Privatization Law), which would significantly reduce the companies' production costs and would strengthen them technically.

The equal economic conditions for the private and state enterprises (payment for services, authority's attitude, and protection possibilities in different instances) will be the important real form of support. Contrary to the national policy of business climate improvement, the private sector work is built on the residual principle that means that all possible orders are directed to SOEs. Even businesses operating in the field of import substitution are mentioning the departmental and unfair approach, when "the interests of certain SMEs are lobbied and the directors of SOEs are forced to buy from them".

In the forthcoming Directive on SMEs' liberalization and support the priority of *successful and developing SMEs over the unprofitable SOEs* can be noted (while that's opposite in fact). Same situation is in the *tax policy* – the need in changes of its general contours towards the civilized countries is obvious. However, the ratings pursue isn't the only important thing. The changes in the VAT payments with Russia could be very helpful for the Belarusian exporters (including small enterprises), although that won't affect the rank in the Doing Business rating. Some changes in the taxes paid from the payroll fund can be worked out, which will stimulate the employment and payment of the officially declared salary.

The idea of the state support should change its context and become a point, benevolent and responsive to the business needs. So far, according to the words of one SME's director, which is involved into the production of innovative goods, "the officials are only interested in numbers and indicators of how many funds you assimilated, how much invested and why so little. Profits, returns and amount of orders don't interest them". The same formalism is observed in the context of SMEs state support, that is "state support will be hampered by numerous inspections. There are 103 state programs, but none of them suits. State support is mostly a propaganda and declaration. The total volume of support dedicated to Minsk is equal to 2 billion BYR, which is obviously not enough". According to the businessmen, if the country's budget doesn't have a required amount of finance, its better not to provide any support with all further inspections regarding the finance application, the administrative procedures simplification will be more beneficial in that case. Meanwhile, SMEs management still spends lots of time and efforts on agreements and licensing obtainment.

Thus, in the context of the ongoing economic crisis, the government must carry out a prudent economic policy that would not just ease the new companies' (both local and foreign, which a priori have larger amount of resources, marketing technologies etc.) entrance to the domestic market, but also would create stable operating conditions for the existing companies and, moreover, would stimulate and support their development through the appropriate mechanisms (both administrative and economic) establishment.

A special supportive policy of primarily manufacturing SMEs (if the Government doesn't want to support the importers) may be the privatization policy. A lot of Belarusian SMEs involved in manufacturing would like to take part in the privatization. Belarusian business is rather afraid to participate in the privatization, however, subject to transparency and fairness of the process (32%), guarantees of results' permanence

(27%), reasonable and not speculative prices (27%), provided access to the necessary financial resources or use of schemes that ease the participation in privatization (18%), introduction of private ownership of land (12%), provision of the public preferences for the state property purchasing (11%) is ready to take part in it[8]. However, despite the fact that the business is approximately equally divided between the supporters of an open transparent privatization without the restrictions for foreign capital participation and with the restrictions (30%), 37% consider that the priority in the privatization should be given to the tenants. Around 40% of the commercial and 27% of manufacturing enterprises are interested in such privatization. Accordingly, the changes in the Privatization Law regarding the return of the possibility of the leased property redemption by the lessors become important. The manufacturing SMEs should have the priority in the SOEs privatization, where they the main landlords are.

[8] In order to answer the question "Are you interested in that your company will take part in the Belarusian SOEs privatization?", the respondents were allowed to choose up to three variants of answer.

4. COMPETITIVENESS OF ECONOMY AND BUSINESS CLIMATE

4.1. Competitiveness issues and linkages with the business climate

The competitiveness of the country/ economy and the business climate are the two most popular concepts defining the politicians and economists discourse regarding the international economic relations and investments in recent years. Moreover, the problems of business environment and competitiveness are extremely relevant to the Belarusian private SMEs, as the business development depends on the institutional and macroenvironment, which determine the competitiveness.

According to Paul Krugman[9], one of the main competitiveness researchers, the country's competitiveness depends not just on the resources availability but also on the existing productivity, which is related to the business environment conditions and the economies of scale presence. The author includes regulations, institutions, infrastructure, human capital and etc. affecting the firm's performance, into the business environment. The business environment affects the costs at the firm level, the market structure and competition at the industry level and country's attractiveness for the foreign investments at the national economy level.

Belarus is trying to occupy the high positions in the international ratings, like the business environment "Doing Business" ranking[10], in order to improve its image in the world community and increase the foreign investors' attractiveness in recent years. There is a significant progress in these goals achievement. In particular, as it was noted above, the joint rank of Belarus in "Doing Business" rating rose by 54 positions (30 positions up in 2008 and 24 positions up in 2009) and reached 58th place out of 183 over the last two years. That is an essential improvement which allowed Belarus to be one of the top four countries with business climate reforms during the last two years. However, Belarus is absent in the global competitiveness ratings, like World Economic Forum (WEF) rating[11] or IMD Business School in Lausanne rating (IMD)[12].

The World Economic Forum (WEF) "The Global Competitiveness Index" is the most representative competitiveness index and is calculated annually by more than 130 countries all over the world (133 in 2009). The rating is based on twelve components, which are institutions, infrastructure macroeconomic stability, health and education, efficient goods and labor markets, financial markets development, ability to introduce new technologies and etc. (Figure 4.1), which in turn are evaluated by the number of indicators (113 totally). Twelve components are combined into three types of competitiveness factors, more specifically the basic factors, effectivization factors and innovation factors.

According to the World Economic Forum methodology all countries are ranged the same way as the components, in other words economies competing due to the basic factors, economies competing due to the effectivization factors and economies competing due to the innovation factors. Later on the competitiveness factors obtain different weights, depending on the group the country belongs to. The factors, which are most important at that stage of country's development, receive greater weights (Table 4.1).

The segmental countries' data is reunited into one overall rating. At the same time, the individual country's rating according to each of the 113 indicators is estimated. Despite the fact that it's a WEF 2010 rating, it was based on the 2009 data. Switzerland, USA, Singapore and Sweden were the first four in the global competitiveness rating in 2009. African and Asian countries with the low institutional level and unfavorable macroeconomic indicators were at the end of the list. Russia was 63rd (51st in 2008) and Ukraine was 82nd in 2009.

If Belarus was included into list, it's likely that it would be in the interval between the countries of first and second groups, that are countries competing due to basic and effectivization factors. Accordingly, the basic and effectivization factors have the highest weights in Belarus. This confirms the importance of effective institutions, favorable business environment (basic factors), effective goods and labor markets, educational level (effectivization factors) for the country's competitiveness improvement.

Both institutional and macroeconomic factors are included into the competitiveness rating. Statistical data helps

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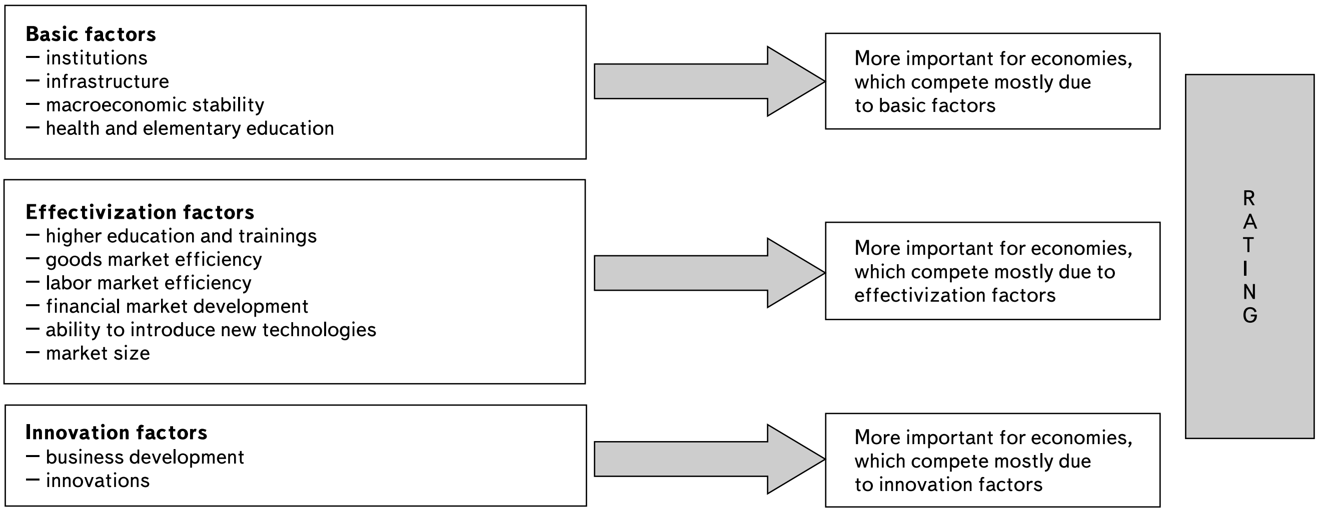
[9] Krugman P. (1996). *Making sense of the competitiveness debate*, Oxford Review of Economic Policy, vol. 12(3), pp. 17–25.

[10] World Bank and International Financial Corporation project, which evaluates the doing business conditions in 183 countries annually, www.doingbusiness.org.

[11] *The Global Competitiveness Report 2009–2010*, http://www.weforum.org/en/initiatives/gcp/index.htm.

[12] *IMD World Competitiveness Yearbook*, www.imd.ch/research/publications/wcy/index.cfm.

Figure 4.1. Twelve competitiveness components according to WEF



Source: adapted from the World Economic Forum (2010).

Table 4.1. Factors' weights for the countries of different development level (%) in WEF rating

	Economies, which compete mostly due to basic factors	Economies, which compete mostly due to effectivization factors	Economies, which compete mostly due to innovation factors
Basic factors	60	40	20
Effectivization factors	35	50	50
Innovation factors	5	10	30

Source: World Economic Forum (2010).

to analyze the macroeconomic factors. As for the institutional factors, they are estimated with the help of the country's manager's surveys. This paper disregards the macroeconomic competitiveness factors and focus only on the institutional ones, which significantly affect the country's competitiveness. As a result some international comparison is provided in order to identify the possible Belarusian position in the global competitiveness rating upon several important indicators. The group of economies in transition (25 countries) was taken in order to make the correct comparison.

4.2. Belarusian institutional competitiveness factors and their comparison with the situation abroad

We asked the SMEs directors to evaluate several competitiveness factors according to WEF methodology in order to compare the Belarusian economy's competitiveness with the situation in the world. The respondents were offered 14 out of 113 factors, which are included into the global competitiveness index calculation and are of the utmost interest in terms of country's economic development. Each of these factors was evaluated using seven-grade scale, where "1" meant factor's evaluation as very adverse and "7" meant that factor is very favorable. Later on we compared the estimations with the data on other countries, especially with the data on the countries in transition. The results are described below.

The factors have the exact wording used for the global competitiveness index calculation in the World Economic Forum survey (the abbreviate wording is presented for convenience). The WEF methodology used the same rating scale, and the averages were calculated on its basis. The averages are presented in the Table 4.2.

The infrastructure quality (4.1 points), the link between salary and performance (4.0), the quality of education (3.9) and business environment changes ease of tracking (3.8) got the highest average ratings among the competitiveness factors in Belarus. In fact, the quality of infrastructure has significantly improved in Belarus in recent years. The substantial progress was made in energy consumption, telecommunication infrastructure is tightly distributed across the country and the telecommunication tariffs are continually decreasing. Moreover, the roads quality is much higher than in the neighboring countries. As for the salary and productivity ratio, the situation is rather favorable, that means that the wages in Belarus are lower even in comparison to neighboring countries and allow maintaining the products' competitiveness.

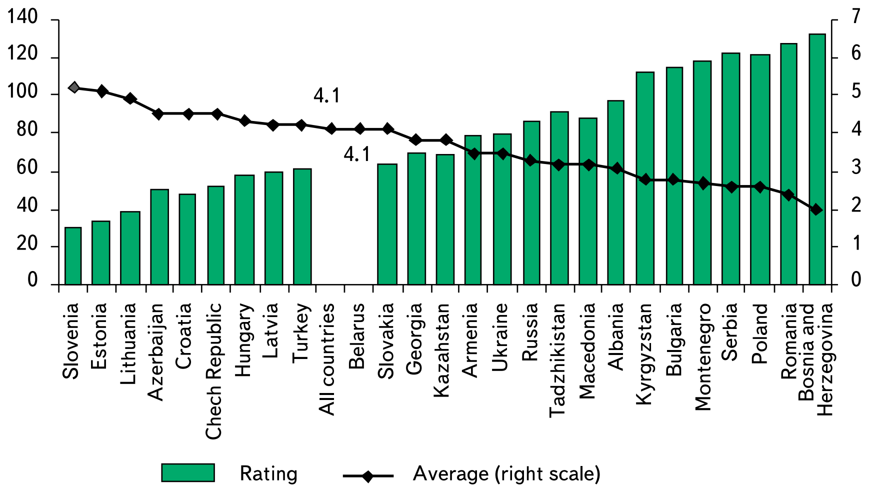
At the same time, the Belarusian business environment reforms are implemented very actively in recent years and this process is widely publicized in mass media and by public authorities explaining the relatively high average rate of business environment changes ease of

Table 4.2. The average rates of several competitiveness indicators

	The average
Infrastructure quality (energy supply, transport, telecommunication)	4.1
The link between salary and performance	4.0
Quality of education	3.9
Business environment changes ease of tracking	3.8
Legal system effectiveness in terms of disputes resolvability	3.7
Corruption	3.5
Handling public funds (taxes)	3.4
Competitive advantage in the external markets	3.3
Tax level, work and investment attraction motivation	3.2
Investment climate	3.2
Tariff and nontariff barriers for the foreign goods	3.2
Property rights protection	3.1
Judiciary system independence	3.1

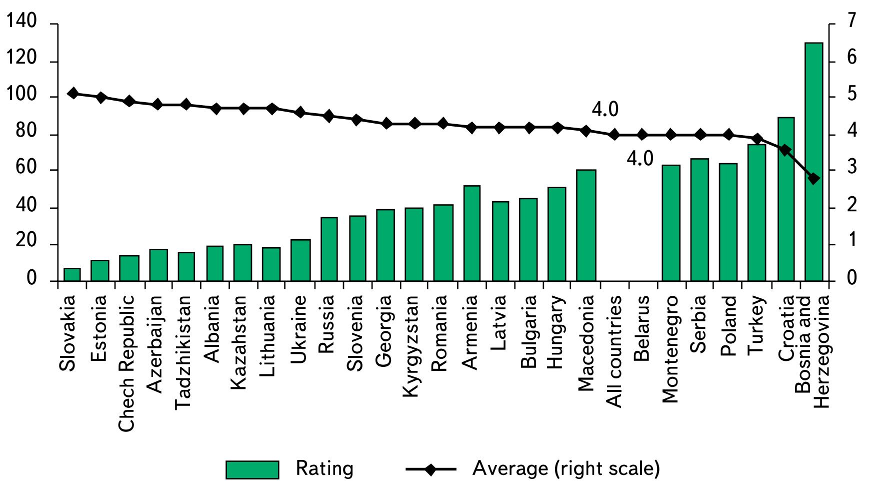
Source: IPM Research center.

Figure 4.2. Quality of infrastructure



Note. the higher is the index value, the lower is country's position in the rating (left scale); the average is estimated according to 7-grade scale, where "1" – very adverse factor, a "7" – very favorable factor.
Source: World Economic Forum (2010) and authors' calculations.

Figure 4.3. The link between salary and performance



Source: World Economic Forum (2010) and authors' calculations.

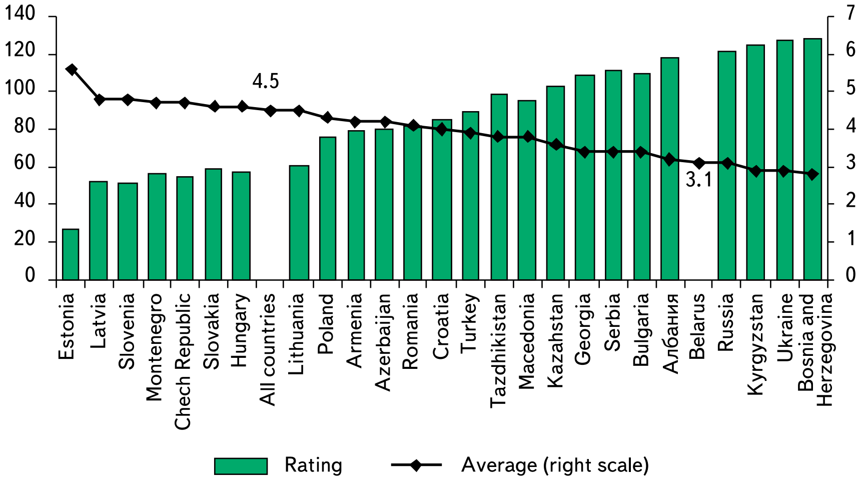
tracking as this information is quite available. The quality of education is also rather high even though its average score, as well as other factors estimation, is substantially below the 7 point maximum.

The judiciary system independence (3.1) and the property rights protection (3.1), which are the key factors in the open market economy, got the lowest rates among the competitiveness factors. The investment climate (3.2), tax level (3.2) as well as the absence of perfect competition between the foreign and domestic goods in the Belarusian market expressed in the form of tariff and nontariff barriers for the foreign goods (3.2) also receive the average low rates.

In order to evaluate the Belarusian competitiveness level according to the institutional and infrastructural characteristics, that's necessary to make and international comparison. The infrastructural quality got rather high evaluation and is equal to the average world level. Latvia, the Czech Republic, Hungary and Estonia are the most developed countries in transition and are ahead of Belarus, the main part of the emerging countries, including all CIS countries except for Azerbaijan, is behind Belarus in terms of infrastructural quality. Belarus could be at approximately 60th position in the global competitiveness rating according to that indicator (Figure 4.2).

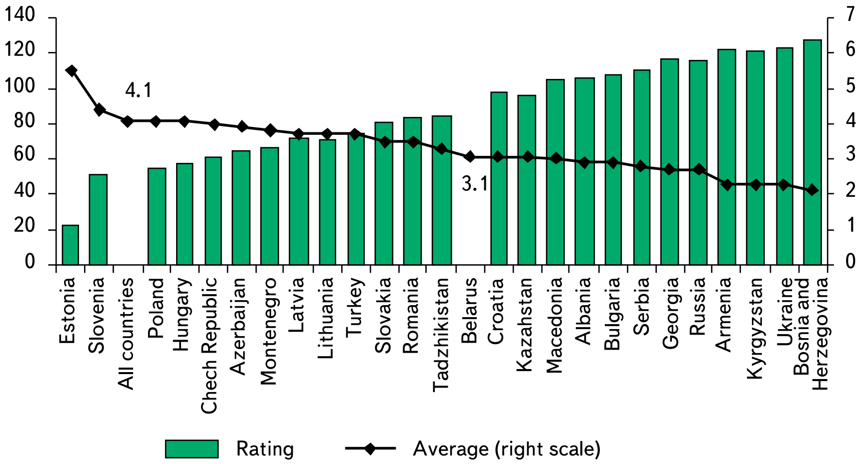
Belarus could also get one the high rating places and be around 60th position in terms of the link between salary and work performance as the country's evaluation coincided with the world averages. Nevertheless, the position of Belarus doesn't look so high in comparison to other countries in transition. The relatively low wages combine with relatively high productivity in Central and Eastern Europe. At the same time despite the comparatively low Belarusian wages, the Ukrainian and Russian positions (according to the managers' surveys) in terms of wages and productivity

Figure 4.4. Property rights protection



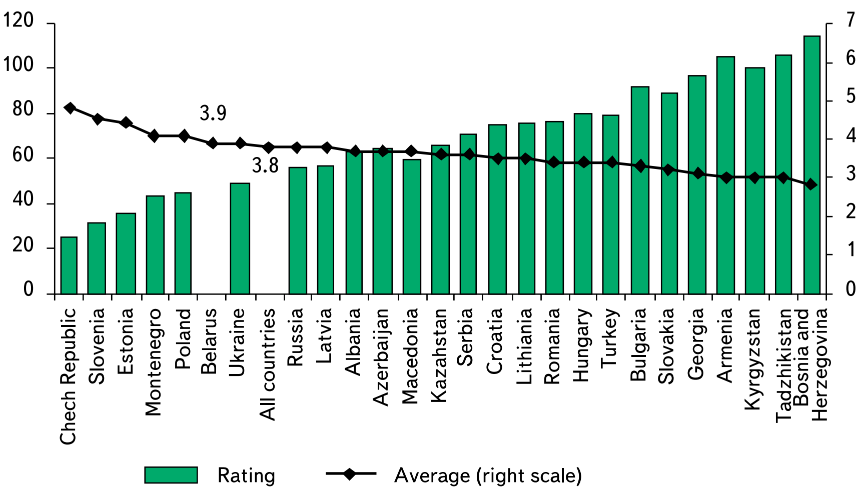
Source: World Economic Forum (2010) and authors' calculations.

Figure 4.5. Judiciary system independence



Source: World Economic Forum (2010) and authors' calculations.

Figure 4.6. Quality of education



Source: World Economic Forum (2010) and authors' calculations.

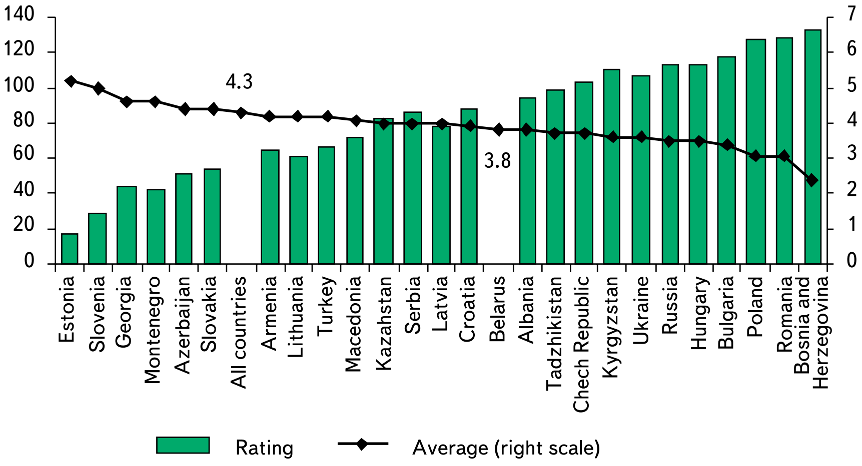
ratio are higher, which can be explained by the better performance due to the larger amounts of the invested capital. Most of the developed countries are behind the countries in transition in terms of that factor, as they provide them the opportunity to use the competitive advantages associated with the low production costs. However, it should be taken into account, that the countries' estimations of that factor are sufficiently smoothed (the estimates are around the average in the range of 3 and 5), which may be an evidence of a low difference between the countries (Figure 4.3).

The situation with the degree of property rights protection is opposite, that means is that the developed countries with the market economies are above the countries in transition in the rating. The property rights protection in Belarus is weak and the country is below not just the countries in transition but the rating's average, which includes both developed and developing countries. Belarus is above only Russia, Kyrgyzstan, Ukraine and Bosnia and Herzegovina out of 25 countries in transition. Belarus would be not above than 120 according to that factor in the global rating (Figure 4.4).

Belarus is characterized by low estimates of judiciary system independence from the Government, individuals and enterprises in continuation to the weak property rights protection. Belarus is again significantly behind the world's average (that's equal to 4.1 for the developed and developing countries) in terms of that factor. However, Belarus is around transitive countries' average, indicating the human rights institutions underdevelopment in these countries. Belarus could be around 90th in terms of that factor in the World Economic Forum rating (Figure 4.5).

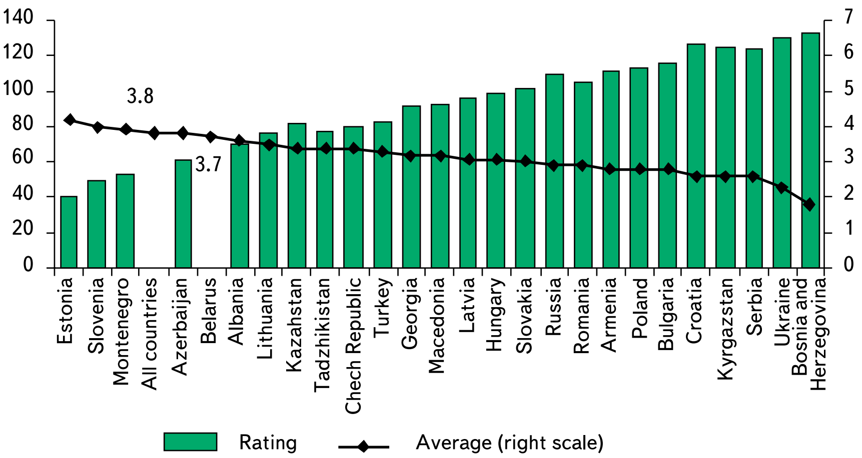
The position of Belarus varies according to other factors. In particular, the Belarusian managers came to the conclusion that the quality of education meets the

Figure 4.7. Ease of tracking of business environment changes



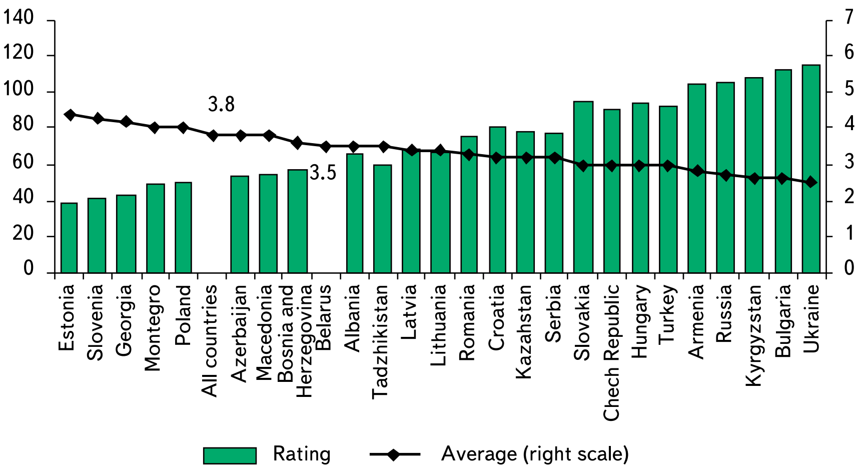
Source: World Economic Forum (2010) and authors' calculations.

Figure 4.8. Legal system effectiveness in terms of disputes resolvability



Source: World Economic Forum (2010) and authors' calculations.

Figure 4.9. Corruption



Source: World Economic Forum (2010) and authors' calculations.

modern competitive economy requirements and on average is at the level of 3.8, while the global total index is equal to 3.9. Hence, Belarus is above almost all countries in transition (Figure 3.6).

The Belarusian business environment changes ease of tracking indicators is equal to 3.8, which is around countries in transition average rate, while the global rate is substantially higher and is equal to 4.3 (Figure 4.7).

The Belarusian legal system effectiveness in terms of disputes resolvability is relatively high. Its average rate coincides with the global average and is ahead of almost all countries in transition, which isn't a surprise taking into account the high degree of Belarusian economy overregulation (Figure 4.8).

The Belarusian corruption expansion indicator is also quite favorable and is estimated as 3.5, while the global average is equal to 3.8, indicating a fairly rare funds diversion to companies or groups because of corruption during the tendering or public procurement for example (Figure 4.9).

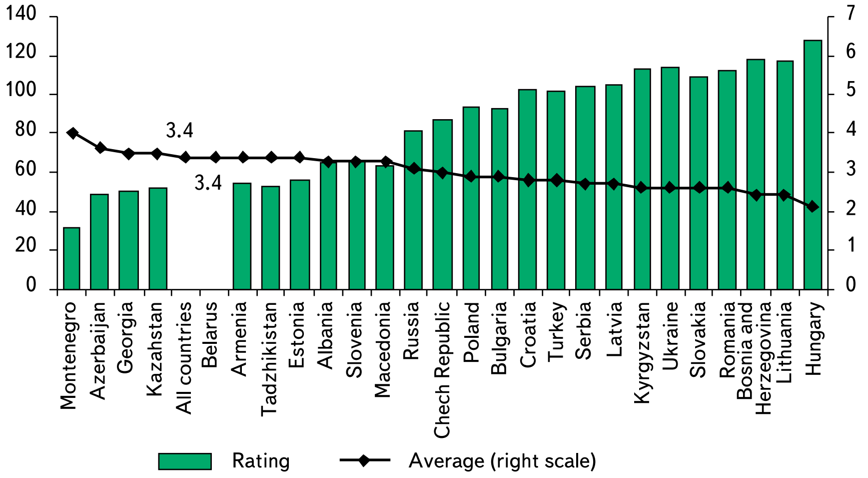
The evaluation of public funds handling is fairly positive and around the global average level (Figure 4.10).

The competitive advantages in the external markets are a bit below the global average level but are at the countries in transition average rate, indicating the intermediate position of the Belarusian exports, that is that export is based on the low prices of the natural resources as well as on the goods' and production and realization processes' uniqueness (Figure 4.11).

The country's tax level doesn't contribute a lot to the country's competitiveness, but isn't far behind the global average rate (Figure 4.12).

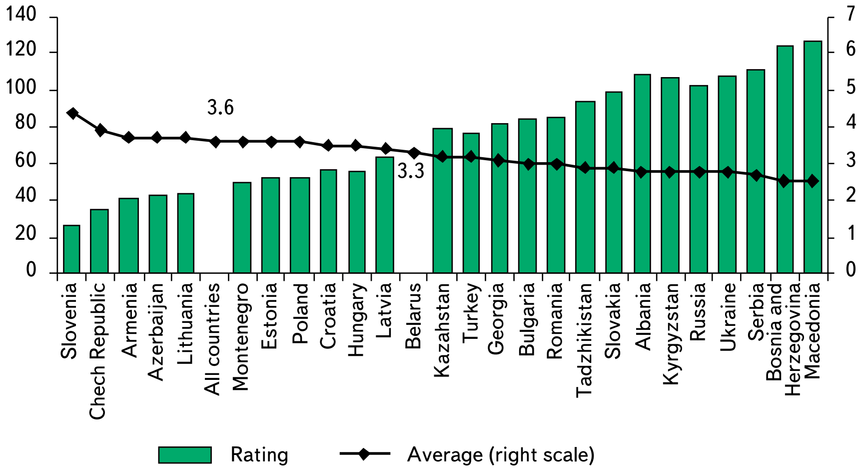
On the contrary, Belarus is far behind all countries in transition and the global averages in terms of favorable investment climate. The investors' game rules don't contribute much to the foreign direct investments attraction here (Figure 4.13).

Figure 4.10. Handling of public funds



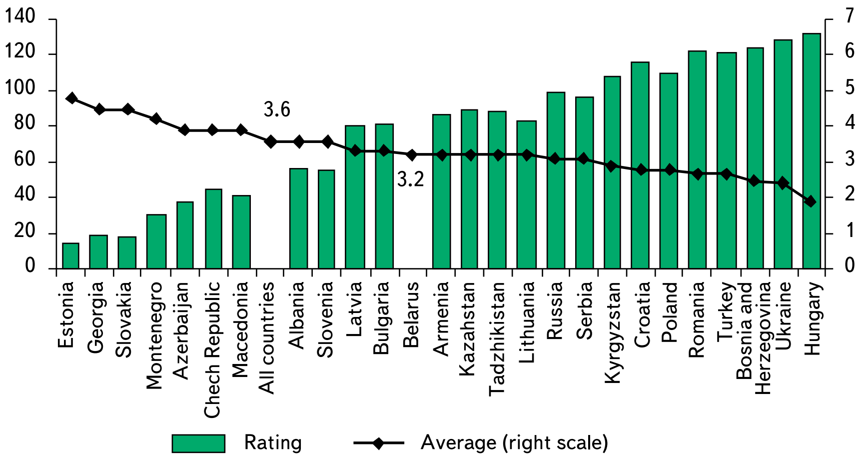
Source: World Economic Forum (2010) and authors' calculations.

Figure 4.11. Competitive advantages in the external markets



Source: World Economic Forum (2010) and authors' calculations.

Figure 4.12. Tax level, work and investment attraction motivation



Source: World Economic Forum (2010) and authors' calculations.

The same refers to the domestic market protectionism. The amount of barriers for the foreign goods in the Belarusian domestic market is larger than in all 25 studied countries in transition, being and evidence of the Belarusian substantial economy isolation from the foreign investments, technologies and competition in spite of the business climate liberalization reforms implemented in recent years (Figure 4.14).

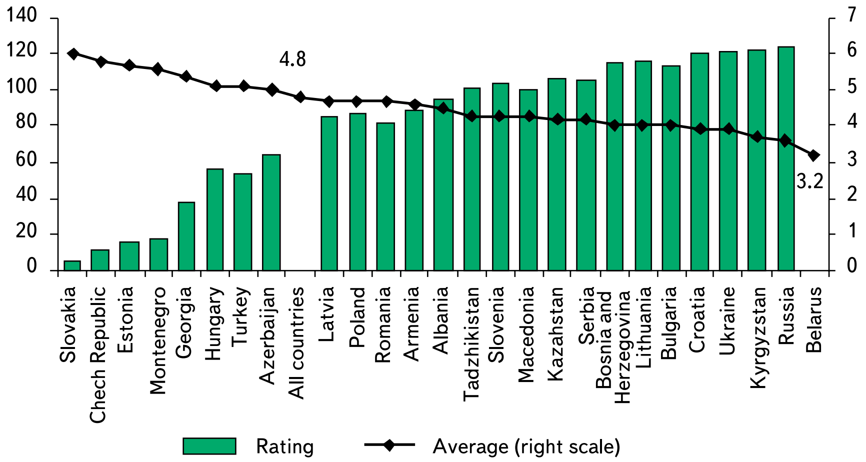
4.3. Conclusions and recommendations for the Belarusian economy and business climate competitiveness improvement

As the study showed, the estimation of the most of the competitiveness indicators doesn't exceed 4 on the 7-grade scale. The highest evaluation of the contribution to the competitiveness obtained the country's infrastructural quality and the link between salary and performance. On the contrary, the weak property rights protection and, in most cases, absence of judicial independence doesn't promote the competitiveness.

The international comparison, with the countries in transition in particular, produces some other results. In the international context, the investment climate characteristics and tariff and nontariff barriers for the foreign goods in the Belarusian market are the most problematic Belarusian issues. Belarus is behind all 25 countries in transition in terms of these indicators. The property rights protection indicator is significantly lower the regional estimates as well. Belarus could take a place in the range from 60^{th} to 120^{th} position in the global competitiveness index.

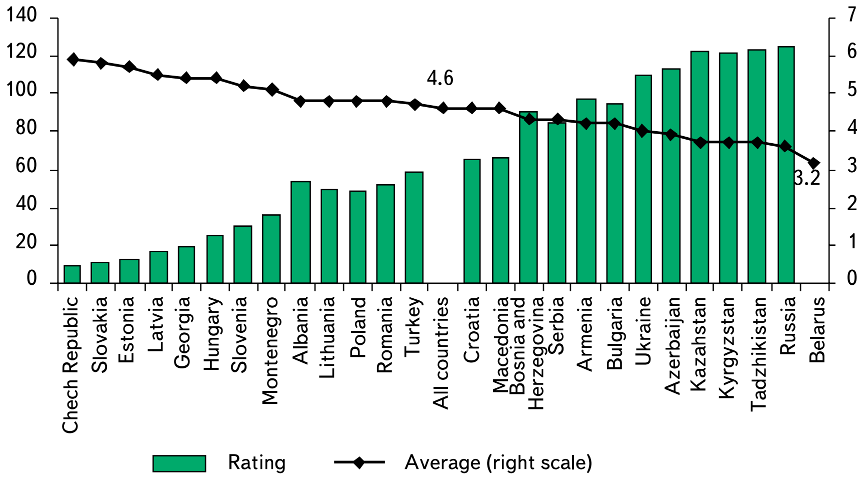
Despite the country's liberal reforms attempts, the key market economy institutions like the property rights protection and competition aren't operating in the country yet. This leads to the restrictions on the inland business development and foreign capital inflow. The efforts should be focused not only on the precise and

Figure 4.13. Investment climate



Source: World Economic Forum (2010) and authors' calculations.

Figure 4.14. Tariff and nontariff barriers for the foreign goods



Source: World Economic Forum (2010) and authors' calculations.

partial business climate reforms conduction but also on more fundamental and significant economy's performance reforms like the full-fledged market institutions development. It would be helpful to:

- Focus efforts on the courts transparency provision and elimination of individuals, companies and authorities influence on it;
- Take property, investors and private business rights protection measures;
- Reduce tax rates, introduce other foreign direct investment attraction encouraging mechanisms in the country;
- Ensure the equal conditions for the local and foreign goods in the domestic market;
- Stimulate the labor productiveness increase by means of labor management improvement and new technologies introduction;
- Improve the Belarusian goods competitiveness in the external markets not just through the new technologies and know-how introduction but also through the unique products creation and their promotion.

5. CORRUPTION AND SHADOW ECONOMY

5.1. Belarus in a Corruption Perceptions Index ranking

In the annual ranking of countries by Corruption Perceptions Index (CPI), of an authoritative international organization Transparency International in the 2000"s the place of the Republic of Belarus has declined steadily, reaching the lowest level in 2006 – 151st place out of 180 possible (in 2002, Belarus occupied 36th place among the analyzed countries, in 2005 – already 107th). This decline was especially noticeable in comparison with stable or even improving situation in neighboring countries. Russia has moved from 126th place to 121st, Ukraine – from 107th to 99th. 151st place Belarus "shared" with the CIS countries: Tajikistan, Uzbekistan and Kyrgyzstan. Belarus consistently occupied a 151st place till the global economic crisis in 2008. After the global economic crisis and the ensuing actions of the Belarusian leadership, focused on liberalizing the economy, the country has slightly improved its position in the global rankings.

During 2009–2010 Belarus climbed 12 positions up – from 151th to 139th place in the Transparency International rating with a score of 2.4 of 10 points possible. However, on the other hand, the 139th place in the world ranking of CPI is still demonstrating the continuing high corruption and administrative control burden on the economy and the citizens of Belarus. Thus, Belarusian score (2.4) is much smaller (9.4) than the leader's of the rankings – New Zealand (the higher the accumulated points, the lower is the corruption – the highest possible score – 10 points). In addition, Belarus shares 139th place with the

Table 5.1: Answers to the question: 'How often executives of private companies are forced to bribe (in any way) administrative agents?' (%)

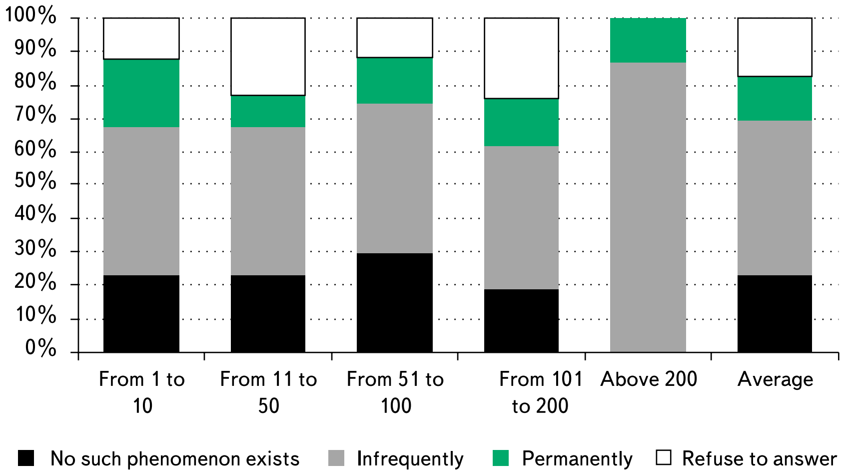
	% of the respondents			
	2002	2005	2007	2010
Infrequently	40.7	57.0	45.4	46.1
Permanently	39.4	20.3	22.7	13.5
No such phenomenon exists	18.5	18.8	28.8	23.1
Refuse to answer	1.4	4.0	3.2	17.3
Total	100.0	100.0	100.0	100.0

Table 5.2: Answers to the question: 'How often executives of private companies are forced to bribe (in either way) administrative agents?' (%)

	No such phenomenon exists	Infrequently	Permanently	Refuse to answer
	Field of activity			
Trade	27.4	49.3	11.6	11.6
Catering	31.6	42.1	5.3	21.1
Industrial production	17.4	52.2	14.1	16.3
Construction	26.7	24.4	17.8	31.1
Transport and communication	18.4	47.4	7.9	26.3
Domestic services	27.8	38.9	11.1	22.2
Consultancy	0.0	25.0	75.0	0.0
Education	50.0	0.0	50.0	0.0
IT services	0.0	50.0	25.0	25.0
Real estate	0.0	100.0	0.0	0.0
Tourism	33.3	0.0	33.3	33.3
Advertisement	100.0	0.0	0.0	0.0
Publishing	0.0	50.0	0.0	50.0
Other	7.1	71.4	14.3	7.1
Average	23.1	46.0	13.4	17.5
	Number of employees			
From 1 to 10	22.9	44.6	20.5	12.0
From 11 to 50	22.8	44.6	9.8	22.8
From 51 to 100	29.9	44.2	14.3	11.7
From 101 to 200	19.0	42.9	14.3	23.8
Above 200	0.0	86.7	13.3	0.0
Average	23.1	46.0	13.4	17.5
	Region			
Minsk	17.5	51.0	14.0	17.5
Minsk region	21.6	37.8	23.0	17.6
Brest and Brest region	51.3	17.9	5.1	25.6
Grodno and Grodno region	26.7	36.7	10.0	26.7
Vitebsk and Vitebsk region	52.6	28.9	7.9	10.5
Gomel and Gomel region	0.0	55.9	23.5	20.6
Mogilev and Mogilev region	6.1	90.9	0.0	3.0
Average	23.3	45.8	13.6	17.4
	Year of establishment			
Prior to 1996	16.9	59.2	8.5	15.5
1997–2004	23.0	45.3	16.2	15.5
2005–2007	29.7	37.6	9.9	22.8
2008–2009	20.3	46.4	18.8	14.5
Average	23.1	46.0	13.6	17.2

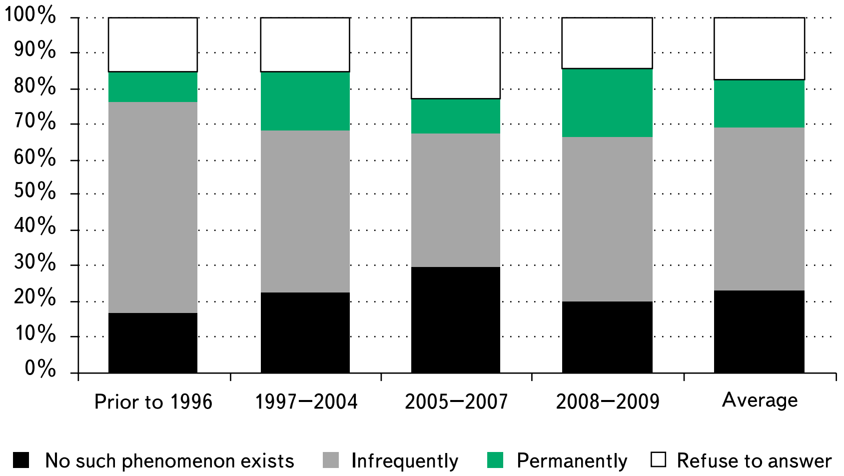
Source: IPM Research Center.

Figure 5.1. The relation between the size of the company and frequency of bribing



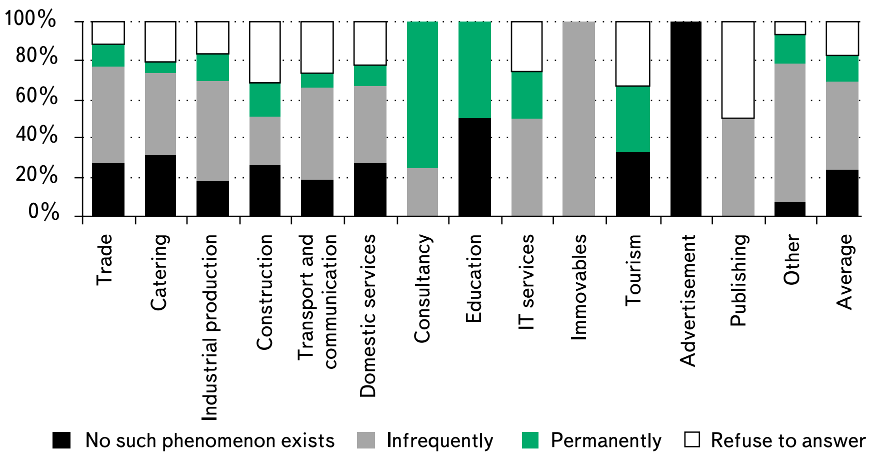
Source: IPM Research Center.

Figure 5.2. The relation between the year of establishment and the frequency of bribing



Source: IPM Research Center.

Figure 5.3. The relation between the field of business and the frequency of bribing



Source: IPM Research Center.

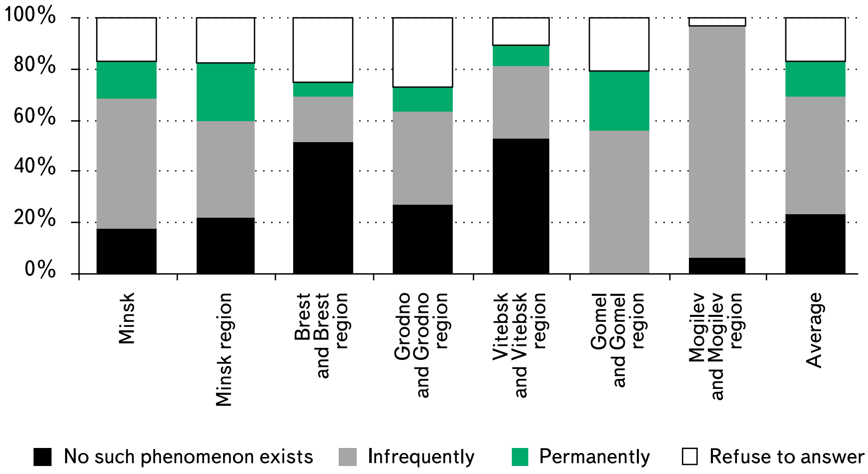
Philippines, Pakistan and Bangladesh.

Ten of the least corrupt countries in the world are following: New Zealand – 1st place, Denmark – 2nd place, Singapore and Sweden – 3rd place, Switzerland – 5th place, Finland and the Netherlands – 6th place, Australia, Canada and Iceland – 8th place. Norway is on the 11th place, Hong Kong and Luxembourg – on the 12th. The most corrupt in the world are: Chad – 175 th place, Sudan and Iraq – 176th place, Myanmar – 178th place, Afghanistan – 179th and Somalia closes the list on the 180th place.

Among the CIS countries and neighboring countries the situation is following: Estonia – 27th place, Poland – 49th place, Lithuania – 52th place, Latvia – 56th place, Georgia – 66th place, Moldova – 89th place, Kazakhstan and Armenia – 120th place, Belarus – 139th place, Azerbaijan – 143rd place, Russia and Ukraine – 146nd place, Tajikistan – 158th place, Kyrgyzstan – 162th place, Turkmenistan – 168th and Uzbekistan – 174th place. It is worth noting that, despite the low place in rankings, Belarus, unlike in past years, ahead of its European partners on the CIS – Russia and Ukraine.

A. Lukashenko on May 7, 2006 throw Decree № 220 approved the State Programme on fight against corruption for 2007–2010, which was developed to replace the "work out" program to strengthen the fight against corruption for 2002–2006. In general, a new program aimed at solving the same problems as the old one: reducing corruption crime, improve law enforcement efforts to combat corruption, strengthening public prosecutor's supervision and state control over the proper execution of anticorruption measures, the establishment of an effective mechanism to prevent corruption. However, as shown in our research, corruption is almost not reduced, despite the harsh and relentless struggle against it. As international experience shows, no country has

Figure 5.4. The relation between region and the frequency of bribing



Source: IPM Research Center.

Table 5.3. Answers to the question "In your opinion, in what areas of business corruption happens?" (%)

	1	2	3	4	5	Average
Price regulation	31.0	22.9	17.0	9.0	5.2	2.2
Licenses	27.7	20.5	17.3	12.3	8.8	2.5
Hygienic registration and certification	25.2	14.3	19.9	18.4	10.7	2.7
Sanitation	15.0	17.0	19.7	22.4	14.5	3.0
Fire Supervision	16.3	16.4	21.1	19.6	15.6	3.0
Tax payment	33.1	22.7	16.8	9.2	4.7	2.2
Tax audits	25.5	14.7	22.1	16.1	7.1	2.6
Customs clearance	27.7	12.9	20.2	13.8	8.7	2.6
Permits for land	16.8	19.6	21.7	13.4	12.9	2.8
Obtaining various permissions in local authorities	19.9	15.4	19.8	16.6	15.5	2.9

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

Table 5.4. Answers to the question: 'How is such a phenomenon as 'kickbacks' in return for profitable contracts widespread in Belarus?' (%)

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

Source: IPM Research Center.

coped with corruption solely in punitive way and throw harsh sanctions. Competition, openness, transparency, publicity, simplicity and accessibility of legislation and administrative procedures are the main instruments to fight corruption.

5.2. Bribes

According to the results of the survey, a significant proportion of respondents permanently or from time to time give bribes to representatives of government (Table 5.1–5.2). This share – 70% – remained unchanged for the past several years, despite the active fight against corruption in the state, which indirectly confirms the findings of Transparency International on corruption in the Belarusian state administrative bodies. At the same time, according to our surveys, the number of respondents supporting the regular (permanent) cases of bribery, significantly reduced. However, the important fact – the number of those who refused to answer the question about the frequency of bribing has recently increased, and that doesn't allow to speak with confidence about the positive dynamics.

The number of bribes depends on the size of the company (Figure 5.1). Large firms do not conceal that more than 87% of them bribe at least frequently, while more than 13% do it permanently. At the same time, none of the representatives of large companies said that such a phenomenon as a bribe in their practice is not observed. 20% of small firms bribe permanently, but at the same in 20% bribes are not observed. Probably, this can be partially explained by the possibility that there is no one to bribe (since special connections and acquaintanceship are needed for that purpose) or that there is no reason to do so (since turnover of a firm is too small to risk with bribing).

Analysis of corruption in terms of age of the company doesn't allow to identify a clear pattern. Approximately 60–70% of respondents, regardless of the date of establishment of the company, say about the incidents of bribery, about 20% say there is no such thing in their practice, while 15% did not answer the question, Figure 5.2.

Companies operating in fields such as Real Estate, Publishing, IT services and Consultancy tend to bribe officials most frequently (Figure 5.3). These facts distinguishes this survey from the results of the previous one, when the greatest number of bribes were observed in trade and construction. There are several possible explanations. On

Table 5.5. Answers to the question: 'How is such a phenomenon as 'kickbacks' in return for profitable contracts widespread in Belarus?' (%)

Transaction made	There is no such phenomenon	Every tenth	Every fifth	Every third	Every second	Every single	Refuse to answer
Field of business							
Trade	27.6	13.1	13.1	7.6	2.8	4.1	31.7
Catering	30.0	–	10.0	10.0	–	–	50.0
Industrial production	20.9	14.3	9.9	12.1	4.4	1.1	37.4
Construction	30.4	8.7	6.5	6.5	2.2	4.3	41.3
Transport and communication	13.5	13.5	21.6	2.7	5.4	5.4	37.8
Domestic services	27.8	11.1	5.6	0.0	16.7	0.0	38.9
Consultancy	–	20.0	20.0	40.0	20.0	0.0	0.0
Education	0.0	0.0	50.0	0.0	0.0	0.0	50.0
IT services	0.0	25.0	0.0	0.0	25.0	0.0	50.0
Real estate	13.3	13.3	6.7	6.7	13.3	6.7	40.0
Tourism	50.0	0.0	0.0	0.0	0.0	0.0	50.0
Advertisement	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Publishing	0.0	0.0	50.0	0.0	0.0	0.0	50.0
Other	50.0	50.0	0.0	0.0	0.0	0.0	0.0
Average	24.1	12.3	11.8	7.9	4.6	3.1	36.2
Number of employees							
From 1 to 10	22.0	11.0	15.9	8.5	8.5	3.7	30.5
From 11 to 50	23.8	11.9	9.8	6.2	4.1	2.6	41.5
From 51 to 100	31.6	14.5	10.5	3.9	2.6	2.6	34.2
From 101 to 200	27.3	4.5	4.5	18.2	0.0	4.5	40.9
Above 200	0.0	26.7	33.3	26.7	0.0	6.7	6.7
Average	24.2	12.4	11.9	7.7	4.4	3.1	36.3
Region							
Minsk	18.9	16.8	13.3	11.9	5.6	3.5	30.1
Minsk region	24.7	13.7	15.1	9.6	6.8	2.7	27.4
Brest	52.5	2.5	2.5	0.0	2.5	0.0	40.0
Grodno	30.0	10.0	10.0	10.0	0.0	10.0	30.0
Vitebsk	45.9	8.1	5.4	5.4	8.1	0.0	27.0
Gomel	0.0	15.2	27.3	9.1	3.0	3.0	42.4
Mogilev	6.1	3.0	3.0	0.0	0.0	0.0	87.9
Average	24.2	12.1	11.8	8.2	4.6	2.8	36.2
Year of establishment							
Prior to 1996	20.8	12.5	9.7	8.3	2.8	2.8	43.1
1997–2004	22.4	13.6	12.2	6.8	6.1	4.8	34.0
2005–2007	30.7	11.9	5.9	7.9	4.0	2.0	37.6
2008–2009	21.7	11.6	20.3	10.1	4.3	0.0	31.9
Average	24.2	12.6	11.6	8.0	4.6	2.8	36.2

Source: IPM Research Center.

Table 5.6. Answers to the question: 'What is the share of shadow turnover (unreported deals) in the total turnover of private companies?' (%)

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

Source: IPM Research Center.

one hand, in manufacturing and construction more people are employed, there a greater turnover of money is observed, thus the risk of the consequences of bribery is incomparably greater, while in the service sector is relatively new for our country, well-developed monitoring cases of bribery have not yet established. On the other hand, field of services in recent years rapidly developed alongside with controversial and regulated legislation (which in other areas has undergone significant changes for the better, reducing incidents of corruption).

Table 5.7. Answers to the question: 'What is the share of shadow turnover (unreported deals) in the total turnover of private companies?' (%)

	There is no such phenomenon	Every tenth	Every fifth	Every third	Every second	Every single	Refuse to answer
Field of business							
Trade	36.3	10.3	15.8	18.5	2.1	1.4	15.8
Catering	20.0	15.0	20.0	10.0	0.0	0.0	35.0
Industrial production	33.0	12.1	16.5	8.8	3.3	1.1	25.3
Construction	40.0	11.1	11.1	6.7	2.2	0.0	28.9
Transport and communication	31.6	18.4	15.8	18.4	0.0	0.0	15.8
Domestic services	36.8	15.8	21.1	0.0	5.3	5.3	15.8
Consultancy	0.0	0.0	40.0	40.0	20.0	0.0	0.0
Education	0.0	0.0	0.0	0.0	0.0	0.0	100.0
IT services	0.0	25.0	50.0	25.0	0.0	0.0	0.0
Real estate	6.7	20.0	26.7	20.0	0.0	0.0	26.7
Tourism	0.0	25.0	25.0	25.0	0.0	0.0	25.0
Advertisement	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Publishing	0.0	0.0	0.0	33.3	33.3	0.0	33.3
Other	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Average	32.3	12.5	16.8	14.0	2.5	1.0	20.9
Number of employees							
From 1 to 10	24.1	15.7	16.9	21.7	4.8	1.2	15.7
From 11 to 50	30.9	10.3	17.5	10.8	3.6	0.5	26.3
From 51 to 100	48.1	13.0	13.0	11.7	0.0	0.0	14.3
From 101 to 200	42.9	9.5	14.3	9.5	0.0	4.8	19.0
Above 200	6.7	20.0	26.7	33.3	0.0	6.7	6.7
Average	32.6	12.3	16.7	14.1	2.8	1.0	20.5

Source: IPM Research Center.

In a regional perspective, the situation with corruption appears to be 'best' in the Brest and Vitebsk regions (Figure 5.4). In Vitebsk region the largest number of respondents have denied the bribery cases. The smallest number of bribes is observed in the Brest region, although there is large percentage of those who refused to give the answer to the question.

According to the survey, the most frequent bribe cases occur in the health and fire control, as well as in obtaining permits for land and other permits in local authorities (see Table 5.3). At the same time it should be noted that in the sphere of price regulation abuses are extremely rare, that suggests a positive impact made by the government measures to liberalize pricing policy.

5.3. 'Kickbacks' and unofficial payments in cash

Research has shown that such a phenomenon of corruption as a "kickback" is still largely presented in the economy of the country. 16% of private firms work with the "kickbacks" (remuneration for the transaction received the order, etc.) in each – every third transaction. At the same time, the positive moment is that the number of kickbacks over time has reduced (Table 5.4–5.5). But we must once again focus on the significantly increased number of refusals to answer or embarrassed to answer.

The prevalence of "kickbacks" almost does not depend on the sphere of activities. High figures were named by representatives of such sectors as consulting, IT services and industry (Table 5.5). The least this phenomenon occurs in the areas of tourism, advertising and working with real estate.

Number of kickbacks also depends on the size of the firm. Most kickbacks take place in large firms, which employ at least 200 people. It should be mentioned, that no large company said that such thing as a kickback in their practice is not observed.

It is interesting, that the age of the company has no significant effect on the phenomenon of "rollback".

5.4. Shadow turnover

In the area of shadow economy it is possible to state a slight tendency improving the situation (see Table 5.6–5.7). Shadow turnover, understood as the traffic that passes without being reflected in the accounting documents in Belarus for many years has been reduced (it means, that the amount of outstanding schemes for cash decreases). However, this may mean that firms move to more civilized forms of "optimization" of taxes. The boundary between the legal schemes to reduce taxes and shadow turnover often blurred, and therefore to the interpretation of data on the shadow turnover should be treated with caution. Here, in 2010, also seen a sharp increase in refusals of respondents to answer, which makes it difficult to analyze the exact dynamics.

Thus, we can say that the situation with corruption in Belarus, in spite of measures taken by the Government, remains highly controversial. Despite some improvements from the government for the simplification of legislation and the positive signals in the responses of business, percentage of enterprises that use in their activities such thing as a “bribe”, “rollback”, “shadow turnover remains sufficiently high. So, the more systemic, consistent, large-scale measures of the Government to liberalize the economy, reduce the regulatory burden, simplify legislation will be, the less corrupt is the Belarusian economy.

6. THE ATTITUDE OF THE BELARUSIAN SME TO THE POLICY OF IMPROVING THE BUSINESS CLIMATE

6.1. Barriers to business development

Like three years ago, entrepreneurs call lack of protection of property rights and interests of private business the main external barrier for business development (3.3 on a 5-point scale); next come unequal conditions compared with the public sector (3.1), the complexity of tax regulations and high tax rates (3.1), bureaucratic barriers and restrictions (3.1), and checks and fines (3.1). Moreover, the global crisis has strengthened the importance of economic factors (in previous years, SME estimated them lower): high level of competition has 3.8 points; next come rents (3.7), expensive credit resources (3.6). Thus, in the face of deteriorating of economic conditions and reduced demand for products of SMEs, economic factors become more important than administrative ones.

The analysis of internal factors, contributing to the business, is interesting as well. Thus, the growth of the legal culture of business and liberalization of overly regulated laws lead to the fact that such internal success factors as law knowledge and enforcement, the ability to bypass certain legal provisions lose their importance to the business (though their influence is still large, their importance is ranked higher than, for example, the importance of a high professional level managers). At the same time, there is an ability to improve administrative reform and to reduce corruption (which remains high), because the value of such a factor of competitiveness of the company as good relations with authorities and influential persons even increased (Table 6.2).

6.2. Estimate of business relationship to the liberalization

Despite policy of economic liberalization, actively sold by government, the entrepreneurs do not see significant improvements in business conditions. Thus, according to the survey, almost half of directors and top managers of private SMEs (48%) to the question “In the autumn of 2008 Government announced the beginning of economic liberalization and simplification of business conditions. How the business environment do has changed in recent years?” chose the answer “nothing has changed”. One third (28%) of respondents said that business

Table 6.1. What external (independent of the enterprise) factors interfere with you in a successful business? (%)

	1	2	3	4	5	N/A	*Average*
1. Too strong competition in the market	7.6	8.2	19.2	22.3	39.7	2.9	*3.8*
2. Lack of support from the state (soft loans, participation in state programs, etc.)	18.5	19.8	20.1	20.3	17.2	4.1	*3.0*
3. Unequal conditions compared with public sector	17.1	16.9	22.2	17.1	21.5	5.2	*3.1*
4. Lack of protection of property rights and interests of private business	6.7	18.8	31.1	20.3	18.6	4.5	*3.3*
5. Corruption	24.8	25.3	23.5	10.6	7.5	8.3	*2.5*
6. Currency Regulations (inability to buy the currency, restrictions on the purchase of foreign currency, devaluation, etc.)	32.6	20.4	17.7	10.6	9.5	9.1	*2.4*
7. Bureaucratic barriers and limitations (registration, permits, licenses, records, large documents, etc.)	17.4	16.6	21.1	18.3	22.7	3.9	*3.1*
8. The complexity of tax regulations and high tax rates	13.8	16.4	25.9	21.3	18.4	4.2	*3.1*
9. Administrative pressure (intervention of central and local authorities, not covered by existing legislation)	22.1	19.2	27.7	15.5	10.1	5.5	*2.7*
10. High rents	6.7	13.0	18.1	23.2	33.5	5.4	*3.7*
11. Administrative regulation of wages	20.9	22.8	23.0	15.0	10.1	8.2	*2.7*
12. Checks and penalties	13.8	15.6	29.0	17.9	18.6	5.2	*3.1*
13. High rates on borrowed funds from banks and other financial institutions	9.8	10.9	16.0	23.6	32.2	7.5	*3.6*
14. Economic policies of other countries (for example, protecting the domestic market from foreign producers)	38.1	18.4	17.4	9.7	7.4	9.1	*2.2*

Note. “1” – it does not matter, “5” – it highly interferes.
Source: IPM Research Center.

Table 6.2. Average ratings of respondents after the question "What internal (managed by the company) factors help you in doing business?"

	Average value in 2007	Average value in 2010
1. Availability of a team	4.12	4.2
2. High professional level of managers	3.82	2.8
3. Knowledge of market, ability to anticipate market conditions	3.96	3.4
4. Ability to produce competitive products	3.95	4.1
5. Good relations with the authorities and influential persons	3.43	4.0
6. Knowledge of legislation and ability to assert innocence in the face of administrative and judicial	3.69	2.8
7. Compliance with laws and orders of State authorities	3.70	3.6
8. The ability to bypass some of the requirements of legislation and administrative	3.13	2.7
9. Low costs of production	3.41	4.1
10. Wide range	3.00	3.6
11. Diversification of markets, access to foreign markets	2.93	4.3
12. A properly organized system of sales / marketing	3.88	3.9

Note. "1" – it does not matter, "5" – it is very helpful.
Source: IPM Research Center.

conditions slightly improved, 8% – that business conditions significantly improved. On the other hand, 9% of respondents believe that, despite the steps taken by the Government, the business environment in the country slightly deteriorated, 6% – that business conditions have significantly deteriorated. As one respondent said, "something better, something worse".

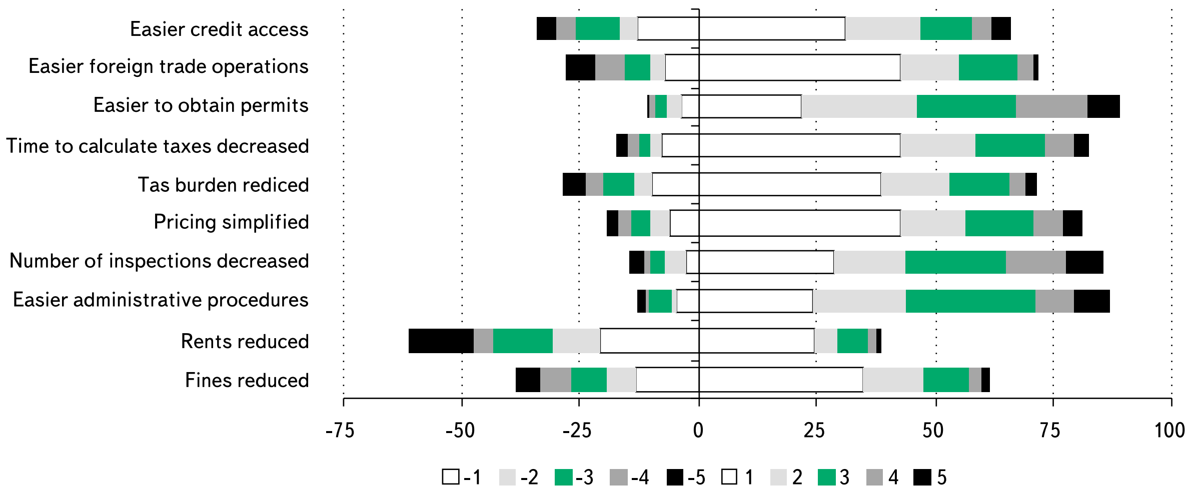
Figure 6.1 presents the estimates for areas of business climate improvement (in the survey 14 areas of reform were estimated – in all areas of business climate, where at least some reforms and improvements occurred). You can see that amount of high ratings (4 and 5) is low. The average estimates of improvements in many cases are even lower than two points (on a scale of five). More than two points have following improvements: reform of business checks (2.48), simplification of administrative procedures (2.5), simplification of obtaining various permits (2.57), easier access to credit (2.01), simplification of business registration (2.84).

Managers of private companies observe deterioration of the situation In some areas of liberalization. The greatest dissatisfaction is connected with reform of rental rates. 61% of respondents rated it negatively, so in 2009–2010 occurred deterioration in the rental relations. That is not surprising, because in 2010 the rent payments increased for 50% of respondents, for 35% it remained as in the previous year. Rents dropped only for 8% of respondents. At the same time, the government has a task to reduce rental rates.

The reform of fines has also caused dissatisfaction among SME managers. About 40% of respondents indicated that fines did not reduced, but increased (20% rated the reform of fines -4 and -5 on a scale of five).

The situation is similar with a decrease of tax burden, facilitating access to credits, reduction of number of inspections and foreign trade operations. Of course, some taxes were eliminated, but the 2% VAT increase, according to respondents, easily "compensated" for the claimed reduc-

Figure 6.1. Responses to the question "How did the measures taken to liberalize the business environment impacted on your business?" (%)



Note. Ratings were made on the following scale (if the respondent believed that the situation in this area has deteriorated): -1 – slightly deteriorated, -5 – significantly deteriorated; if, according to respondents, the situation has improved, it has positive values: 1 – slightly improved, 5 – significantly improved.
Source: IPM Research Center.

tion of tax burden. The access to credits facilitated, but this positive moment was blocked by it's increasing value. Therefore, more than 30% of respondents rated these reforms in a negative way.

Thus, the assessment of national achievements in improving the business climate varies widely with the position of the Belarusian business and the World Bank experts (Doing business rating). Entrepreneurs themselves explain this by saying that the international ratings do not include specificity of work in our country, and are based on template indicators. For example, according to the World Bank, duration of the registration of new business has declined to about 6 days, and that makes a positive fact against the average for Europe and Central Asia (17.4 days). However, in practice obtaining a certificate of registration and start of business (moreover, successful start) – are not the same things in our country. System of different kinds of permits remains still complicated, there are no fundamental improvements in such problems as reducing the number of inspections, fines, rent reduction and tax burden, simplification of foreign trade operations.

62% of directors and top managers of SMEs do not know about the ambitious plan of the Government and National Bank to enter the World Bank top 30 for quality of business environment. Only a quarter of respondents believes that the Government could succeed. Among the reasons for skepticism and pessimism – lack of "necessary skills" in the government, confidence that all the ongoing changes are "unsystematic, only at the level of declarations", that "decisive steps will not be done", belief there are no and never will be equal terms with state enterprises, which means that there will be no real significant improvement in business conditions.

For the policy of further reforms administration bodies should bear in mind the following fact: the majority of the managers of private companies in the country does not believe and does not feel that the state has a better attitude to business. It is rather "a reduction of negative attitudes," However, there is still opinion that "there is priority of government property, that state believes that "only state-owned enterprises will help the country, not private."

6.3. Conclusion. The main directions for further liberalization of the business climate in the country

Despite significant progress in simplifying the business environment in the country, this policy has a large unrealized potential. Most of the proposals aimed at reducing the rent, price liberalization, simplification of licensing and certification, foreign trade, taxes, inspections and fines were voiced by the business long ago(for example, " Belarusian National Business Platform ", prepared by experts and members of the Minsk Capital Union of Entrepreneurs and Employers)

Moreover, empirical research has shown that business still does not believe in the systemic and sincerity of the policy of liberalization. According to directors of SMEs, many of the authorities' claims are just declaratory. They prove their point of view saying that, for example, amount of documents increases instead of a reduction: " new forms of strict accountability were recently introduced", a huge amount of reporting:"mechanic could not start work until 10 papers are filled", "the master must write a few essays", "nothing is simplified – there were and there are tones of reports", "checks are still regular". There is a good phrase of one focus group participant: "They can endlessly talk about the stupidity, everything is understood, but for some reason they do not do anything.

Thus, the research of business views has confirmed a discriminatory character of the Belarusian economic liberalization. Only in the not relevant business areas it became easier and better. It's true, and most of respondents agree that it is easier to register the business now. The only problem is that for existing companies that improvement does not really matter. Simplifying and reducing the cost of holding auctions or reducing payments to the Innovation Fund are not necessary either. But improvements in important business areas – obtaining permits, pricing, payroll calculation, etc. – are little, the majority of respondents on a five-point scale, evaluate them in1.5–2 points.

The main challenges for business are high rents (40% of rentals have grown despite the Government's attempts to reduce their costs and liberalize the leases), high rates on borrowed funds, checking and fines, inadequate protection of property rights and interests of private business, unequal conditions compared with the public sector, lack of support from the state (soft loans, participation in state programs, etc.).

In addition, many representatives of SMEs fear that liberalization of business environment is not a long-term, systemic and is dictated only by need to overcome the effects of the global economic crisis. Accordingly, the State must convince the private business the seriousness of their intentions changes the place of SMEs in the economy.

Among the main directions of legislative changes required in 2010 are the following:

- Cancellation of time limit (90 days) for business entities with the state share in charter capital less than 50% to conduct foreign trade;
- Deregulation and cancellation of price registration for all business entities, except for companies in a monopolistic position in the market;
- Cancellation of tariff and price of goods (works, services) bindings

to foreign currency and "basic values";

- Reducing the size of penalties for violation of legislation on pricing;
- Elimination of extrajudicial arrests of funds in the accounts and withdrawal on the basis of regulations of public bodies;
- Ban on backdating changes in the legal acts, including changes in rental rates, tariffs, taxes, fees and other payments.
- Not mandatory but voluntary certification of construction works, tourism and other services for private small and medium enterprises;
- Exception construction, sanitary, fire regulations, as well as unworkable, burdensome, outdated, economically wasteful and excessive regulations from acts of legislation in the field of standardization;
- Enactment of the rule of recognition of certificates issued by recognized international trade certification bodies in other countries as valid on the territory of the Republic of Belarus, without the need to obtain a certificate issued by certification bodies of the Republic of Belarus;
- Maintaining licensing, mandatory certification only in those areas where there is an imminent threat to life and human health;
- Ban on practice of administrative fixing rents on private commercial real estate;
- Reducing rents for premises, production facilities, state-owned, including joint stock companies with state share over 50%. Abolition of the multiplying factor "3" for leased office space;
- Creating conditions for the development of affordable long-term (2 or more years) lending for small and medium businesses;
- Creating rules to allow the entities to purchase small quantities of goods, raw materials, components in the Russian Federation for cash and further payment of VAT to the budget of the Republic of Belarus (up to 30 million rubles for one deal).
- Creating rules establishing the proportion of small and medium enterprises in the procurement of goods (works, services) for public use at a level no lower than 15%;
- Facilitation of participation of small businesses in the competitive selection of innovative projects to receive funding from the innovation funds;
- Proportionality of fines for violations in the implementation of entrepreneurial activities according to the parameters characterizing severity and taking into account the real level of income of business entities and officials.
- Elimination of legislative rules of calculating a fine multiple value of the object offense.

In addition, to continue the policy of liberalization of business climate and creating a favorable environment for the development of the Belarusian business the following issues must be addressed:

- improved access of SMEs to financial and logistical resources, unused or inefficiently used public property;
- providing opportunities for SMEs to obtain land ownership;
- greater involvement of local businesses in privatization, firstly unprofitable and inefficient state-owned enterprises;
- early adoption of the draft law "On Support of Small and Medium Enterprises" and "On state procurement of goods (works, services)" taking into account the proposals of business unions;
- legislative enactment of the rule that the adoption of laws, decrees and regulations affecting the interests of SMEs and entrepreneurs is possible only after discussion with business unions (business community);
- adoption of the law "On Associations of entrepreneurs" that defines the legal conditions of their creation, rights and responsibilities, principles and forms of interaction with public authorities;
- help strengthen the business support infrastructure, including the provision of public contracts on works or services; improvement of their collateral security through a significant reduction in rental rates.

7. BUSINESS SUPPORT INFRASTRUCTURE. SMES AND BUSINESS UNIONS

7.1. Cooperation of SMEs and business unions

In addition to creating a favorable institutional and macroeconomic framework, developed business support infrastructure, the presence of strong professional and reputable business unions as well as the desire of the business to engage in civilized protection of their interests are very important for business development. In its study, IPM Research Center tried to assess the quality of functioning and interaction of organizations in Belarus. Similar organizations in a market economy in addition to learning and creation a platform for communication among SMEs inside country and in other countries allow the business community of any country to take the collective participation in the economic life of the state, as well as help to establish a sustained dialogue between government and business policies through advocacy – promotion and protection of their interests.

In Belarus, where economy is still in the stage of transition to market functioning, and where there are still a lot of state-owned or partly state-controlled enterprises, the question of unification of private enterprises in assosiations to protect their own interests is of particular relevance. It should be noted that in Belarus there is a certain number of business unions in Minsk and throughout the territory of Belarus. However, their members is a very small number of entrepreneurs. Thus, according to the results of our study, only about 7% of surveyed firms are members of business unions, Table 7.1. This indicates a fairly low interest in participating in unions and uncertainty in their effectiveness and ability to render any assistance in the economic and legal sphere.

Most members of business organizations are large SMEs (employing from 101 to 200 and over 200), – these companies prefer to operate openly, using all legal measures of protection. These companies are ready to think not only about themselves, but also about general ideas to promote entrepreneurship in the country. A lot of participants belong to closed joint stock companies. Their share is close to 20%. So, the large business is, the higher is a potential interest to participate in the life of a business union. Also rather high percentage of members of small firms in business unions. Obviously this is due to the fact that managers of small enterprises in Belarusian economy feel lack of secure and seek to consoli-

Table 7.1. Responses to the question "Are you a member of a business union?"

	Number of enterprises	%
Yes	28	7.2
No	362	92.8
Total	389	100.0

Source: IPM Research Center.

Table 7.2. Answers to the question "Are you a member business union?" depending on the organizational and legal form of the company and its size

	Yes	No	Total
What is the organizational and legal form of your company?			
UE	6.0	94.0	100.0
Llc.	8.5	91.5	100.0
Alc	5.7	94.3	100.0
OJSC	5.0	95.0	100.0
CJSC	17.6	82.4	100.0
General partnership	0.0	100.0	100.0
Production cooperative	0.0	100.0	100.0
No answer	0.0	100.0	100.0
Other	0.0	100.0	100.0
Average	7.2	92.8	100.0
Number of employees			
From 1 to 10	8.4	91.6	100.0
From 11 to 50	7.8	92.2	100.0
From 51 to 100	3.9	96.1	100.0
From 101 to 200	9.5	90.5	100.0
Above 200	6.7	93.3	100.0
Average	7.2	92.8	100.0
Field of business			
Trade	6.8	93.2	100.0
Catering	–	100.0	100.0
Industrial production	8.8	91.2	100.0
Construction	9.1	90.9	100.0
Transport and communication	–	100.0	100.0
Domestic services	11.1	88.9	100.0

Source: IPM Research Center.

Table 7.3. Answers to the question "Are you a member of a business union?" depending on the region

	Yes	No
Minsk	6.3	93.7
Minsk region	9.3	90.7
Brest	3.2	96.8
Brest region	11.1	88.9
Grodno	11.1	88.9
Grodno region	–	100.0
Vitebsk	14.3	85.7
Vitebsk region	4.2	95.8
Gomel	20.8	79.2
Gomel region	–	100.0
Mogilev	–	100.0
Mogilev region	–	100.0
Average	*7.2*	*92.8*

Source: IPM Research Center.

date to protect their interests. Medium-sized firms (from 51 to 100 people.) have the smallest interest in this type of organizations – membership is less than 4%, Table. 7.2.

At the same time, there is no connection between age of firm, its scope and participation in organizations, representing the interests of entrepreneurs.

Participation in business unions is not connected with location, although there are regions where the activities of business unions are represented worse, Table 7.3. Best situation with membership in business associations takes place in Gomel, Grodno, Vitebsk, Brest and Minsk regions, Table. 7.3.

Expectations of the business unions' activity among members and non-members of SMEs are different. Among the reasons for entering business unions and most popular services are legal assistance (50%), exchange of experience between members of the organization (57%), assistance on business activities (25%) and staff qualification (21%). Least popular are the following services: assistance in innovation activities (3.6%), assistance in starting a business (7.1%), improving the business climate in the country (7.1%).

SMEs-non-members of business unions, primarily expect from unions working on improving the business climate (46.4%). It indirectly shows that nearly half of business representatives are not satisfied with the status quo in a business environment. Also among the most "popular" responses there are other, related to the business climate: assistance in obtaining permits and licenses (20.4%), assistance in attracting financial resources (18.2%). Significant proportion of respondents expects business unions "to promote and protect all the interests of the Belarusian business" (29%). Exchange of experience, training and other services of business unions are not so popular among SMEs-non-members, what is most likely due to their ignorance of the specificity and competences of business unions, Table 7.4.

Among the main reasons for refusal of entry into business unions there are no prevailing. Obviously, businessmen simply do not see enough evidence and any material benefits to enter these unions. High proportion of SMEs are simply not aware of the existence and activities of unions,

Table 7.4. SMEs' demand for and expectations of business unions (%)

	SME-members: my business union provides me with the following services	SME-non-members: would like business unions to do for us
1. Assistance in starting a business	7.1	8.1
2. Assistance in obtaining permits and licenses	14.3	20.4
3. Staff Development	21.4	13.7
4. Support in internationalization (organizing contacts with foreign partners, promotion on international markets, trade missions)	10.7	11.6
5. Consulting services in finance, marketing and sales	17.9	16.6
6. Legal assistance	50.0	36.9
7. Assistance in attracting financial resources (search for investors)	10.7	18.2
8. Assistance in innovation	3.6	6.9
9. Assistance on issues of business (law, taxes, etc.)	25.0	22.2
10. Representing interests of a firm in a dialogue with local authorities	10.7	19.1
11. Representing interests of a firm in a dialogue with central authorities	14.3	14.3
12. Promotion and protection of the interests of the Belarusian business	10.7	29.2
13. Improving the business climate in the country	7.1	46.4
14. Exchange of experiences among members of the organization	57.1	18.1

Source: IPM Research Center.

Table 7.5. Answers to the question "If you're not a member of a business union, then why don't you enter it?"

	Number of enterprises	%
1. High membership fees	13	3.6
2. I believe that unions are helpless to solve my problems	121	33.6
3. I think it is politically disadvantageous	15	4.2
4. No information about activity of such unions	145	39.9
5. Hope for the independent decision of the problems	93	25.6
6. my business doesn't need their assistance and services	97	26.7

Note. No more than three answers could be given.
Source: IPM Research Center.

Table 7.6. Answers to the question "If you're not a member of a business union, then please indicate the main obstacles to cooperation with them"

	Number of enterprises	%
1. I know too little about these organizations	201	55.4
2. These organizations are too weak	85	23.4
3. Profile of these organizations does not satisfy me	31	8.7
4. These organizations do not represent my interests	66	18.1
5. Their services are too expensive	21	5.8
6. Quality of services provided by these organizations is too low	18	5.0
7. I do not have access to these organizations (they are located too far away)	22	6.2
8. It is better not to use services of these organizations for political reasons	22	6.2

Source: IPM Research Center.

Table 7.7. Answers to the question "Do you know about the creation of the National Platform for Business?" (%)

	Yes	No
Region		
Minsk	25.4	74.6
Minsk region	28.4	71.6
Brest	12.5	87.5
Brest region	22.2	77.8
Grodno	5.6	94.4
Grodno region	27.3	72.7
Vitebsk	7.1	92.9
Vitebsk region	16.7	83.3
Gomel	25.0	75.0
Gomel region	10.0	90.0
Mogilev	3.1	96.9
Mogilev region	--	100.0
Average	20.0	80.0
Number of employees		
From 1 to 10	16.9	83.1
From 11 to 50	21.2	78.8
From 51 to 100	22.1	77.9
From 101 to 200	18.2	81.8
Above 200	13.3	86.7
Average	20.0	80.0

Source: IPM Research Center.

especially in small provincial towns. So, more than half of respondents (55.4%) believe that "knowing about these organizations is too little." At the same time it must be mentioned that from a financial point of view (membership fees) membership in business unions is not considered to be expensive (less than 4% of respondents named such a reason for refusal of entry), Table 7.4 – 7.6.

Thus, according to the above data, we can say that dialogue and cooperation between business unions and business community in the Republic of Belarus are developed quite poorly. Only a small part of business is represented in such organizations. Among the reasons – passivity of business and business unions, as well as lack of information about their activities and the benefits of membership. Weakness of unions in protecting the interests of business, their inability to change the business climate in the country are also very important. So, only throw cooperation of business unions with authorities their credibility will significantly increase, and that will attract new members and effectively protect interests of entrepreneurs across the state.

7.2. SMEs' knowledge of the National Platform for Business in Belarus

According to our research, 20% of managers and owners of SMEs are aware of an annual initiative of business and expert community of the country for creation, presentation to all interested parties and mass promotion of the National Platform for Business in Belarus (NPBB), which represents a significant success. It is well known first of all in Minsk and Minsk region, Brest, Gomel, Grodno regions. At the same time, there is practically no connection between size of a company and knowledge of the creation of the Platform, Table 7.7.

According to our research, the majority of Belarusian business supports the main ideas of NPBB, though, in our opinion, a level of full support is not very high, Table. 7.8.

The smallest and the largest companies of the SME sector have the greatest skepticism speaking about the role of NPBB in consolidation of business community, Table. 7.9. At the same time, in our opinion, 37% of those who believes that NPBB has played a significant role in the consolidation of the Belarusian business community to protect its interests and the liberalization of the business climate – a significant success of the authors of the Platform.

In addition, it is important to note that the majority of Belarusian SMEs (92%) agree that the business unions must have a legal right to participate in discussion of projects of legislative acts and various aspects of business climate with parliament and government.

Table 7.8. Answers to the question “If you know about NPBB, then do you support its main idea?” depending on company size (% of those who know)

	From 1 to 10	From 11 to 50	From 51 to 100	From 101 to 200	Above 200	Average
Fully support	15.4	24.4	11.1	–	–	17.9
Probably support	69.2	65.9	66.7	100.0	50.0	67.9
Probably don’t support	7.7	7.3	22.2	–	50.0	11.5
Absolutely do not support	7.7	2.4	–	–	–	2.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 7.9. Answers to the question “If you know about NPBB, what is its role in consolidating of business community to protect its interests and liberalization of business climate?” (%)

	From 1 to 10	From 11 to 50	From 51 to 100	From 101 to 200	Above 200	Average
significant role	38.5	34.1	41.2	66.7	–	36.8
minor role	53.8	53.7	47.1	33.3	50.0	51.3
no role	7.7	12.2	11.8	–	50.0	11.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

8. PUBLIC-PRIVATE PARTNERSHIPS AND PROSPECTS OF ITS DEVELOPMENT IN BELARUS

Developing of public-private partnership (PPP) is directly connected with the changes of philosophy of government projects management, which happened in 1980"s. The concept of "new public management" appeared at that time and covered a wide range of concepts used to describe the wave of worldwide reforms of public sector. The point of this concept is that the more market-oriented public sector will lead to more effective government, without negative effects on other and priorities of the government. This concept has gained particular popularity in the Anglo-Saxon countries, where the system of governance is built on commercial basis, and aims to reduce government spending on public services.

Institute of PPP is actively developing now also in transit countries, particularly in the CIS. In Belarus, PPP is not developed yet, but taking into account the government's intention to liberalize the economy, intentions to develop public-private partnership, this collaboration can be mutually beneficial for both public and private sectors.

8.1. Idea and basic characteristics of the PPP in world practice

8.1.1. The concept of PPP

Consideration of the concept of PPP can be done at two levels. The first involves formation of a favorable business climate by recognizing by state the important role of private business in economy. The broad definition of PPP is given, for example, by Russian expert V. Varnavskiy (IWEIR): "Public-private partnership is an institutional and organizational alliance between government and business to implement socially significant projects and programs in a wide range of industries..."[13].

The second level is more narrow and based on perception of a state as a partner in economic projects of a business, transfer to private sector authority to manage state-owned assets, the execution of some works and services. The first appears earlier, the second occurs during organizing mechanisms between state and private sector and during development of the first. The second is usually in mind when considering issues of PPP in developed countries. In those countries PPP includes specific economic projects, especially concessions, privatization, management of state property.

Different countries have different regulatory practices of PPPs. For example, in Germany, Poland, Romania, Slovenia, South Korea, Lithuania, Kyrgyzstan, Moldova special laws on the PPP are adopted. In many countries, as well as in Belarus, there are legislation on concessions, state procurement, etc. Among the CIS countries PPP is more development in Russia and Kazakhstan.

Public-private partnership is widely spread in following areas:

Energy:

- Production of electricity, its transit and delivery;
- Transfer and delivery of natural gas.

Telecommunications:

- Wired or mobile internal communication;
- International communication.

Transportation:

- Runways at airports;
- Railways (including fixed assets, freight, long distance and local passenger transport);
- Toll roads, bridges, highways, tunnels;
- Port facilities, terminals, canals.

Water supply and sewage:

- Extraction of drinking water and its delivery;
- Sewage and wastewater treatment.

Traditionally, public-private partnership projects were developed in the infrastructure sectors, particularly in those where a direct payment for services is possible. The prospects of development of PPP projects in innovation were announced in Russia in recent years, and that stimulates transition from a commodity economy to innovative (including the expense of the Innovation Fund, see below).

State considers PPP projects primarily as a means of overcoming "market failures", limitations in financing large projects, to use experience of private companies in project management, to ensure profitability of projects, their cost-effectiveness (this goal is important for both sides). For the private sector in PPPs access to resources, facilities that were previously not available is also important.

Among the main characteristics of PPPs are:

- Specificity of goals (public policy issues);
- Long implementation period;

[13] Wilisov, M. (2006). Public-private partnership: political and legal aspect, the Authority, № 7.

- Availability of private funding; binding obligations;
- Risk sharing.

8.1.2. Forms and mechanisms of implementation of PPP

World experience in implementing PPP projects offers following basic forms of interaction between public and private sectors:

- Contracts (management, service provision) – the administrative agreement between the state (local government) and private firm to perform certain socially necessary and useful activities (property rights are not given to the private partner, the costs and risks remain state) – (typical duration – less than 5 years);
- Rentals in its traditional form (the lease contract) and in the form of lease (in special cases leases may end by repurchase of leased property) – (a typical duration from 5 to 10 years);
- Concession (the concession agreement), in which the government (municipality), being a full owner of the property, which is a subject of a concession agreement, authorizes a private partner to perform curtain functions during a certain period of time – (a typical duration from 10 to 30 years);
- Joint ventures – may be either public companies or joint ventures with equity participation of sides. Abilities of the private partner to make independent administrative and economic decisions depend on shares in the share capital, as well as the risks of sides.

When considering the issues of PPP we often talk about concessions. The main features of concessions are the following:

- Subject of the concession is always a state (municipal) property, as well as monopolistic activities of the state or municipality;
- Concession always has a contractual basis (concession agreement);
- Concession is based on a return of the subject of agreement, which is given to the private partner for a fee, determined in the agreement.

There are three most common types of concessions: to the already existing infrastructure; to the construction or upgrading of infrastructure facilities; transfer of management of state property to the private management company.

Cooperation between the state and the private sector in implementing PPP projects can be done in different ways, depending on various types of work, investment obligations of the sides, property rights. Among the most popular following.

- BOT (Build, Operate, Transfer) – a model often used in the concessions. Private company (the concessionaire) creates the infrastructure facility at its own expense, then gets right to use it for a period of time, enough to return investment, while state remains the owner of the facility. After the concession period management of object belongs to the state.
- BOOT (Build, Own, Operate, Transfer). In contradistinction to the previous model, here the private partner is entitled not only to use the object, but also have the ownership within a specified contract period, giving it to the state later.
- BOO (Build, Own, Operate). In this case the created object is not transferred to state authorities after the period of agreement, but belongs to the investor. In this case, the economic activity may be regulated by the state through the establishment of tariffs, certain restrictions on the order of management, etc. (Review in[14, 15, 16, 17]).

Table 8.1. The main PPP models and their characteristics

<table>
<tr><th></th><th>Implementing mechanism</th><th>Project management</th><th>Investments</th><th>Final ownership</th></tr>
<tr><td>Build, Operate, Transfer (BOT)</td><td rowspan="4">New projects, concession[18]</td><td rowspan="11">Private</td><td rowspan="9">Private[19]</td><td rowspan="2">Partly private</td></tr>
<tr><td>Building, Own, Operate, Transfer (BOOT)</td></tr>
<tr><td>Build, Own, Operate (BOO)</td><td rowspan="4">Private</td></tr>
<tr><td>Build, Lease, Own (BLO)</td></tr>
<tr><td>Partial privatization</td><td rowspan="2">Divestment</td></tr>
<tr><td>Full privatization</td></tr>
<tr><td>Reconstruction, operating, transfer (ROT)</td><td rowspan="3">concessions</td><td rowspan="5">State</td></tr>
<tr><td>Renovation, lease / Rent, transfer (RL / RT)</td></tr>
<tr><td>Build, reconstruct, operate, transfer (BROT)</td></tr>
<tr><td>Management contract</td><td rowspan="2">Contract</td><td rowspan="2">State</td></tr>
<tr><td>Leasing</td></tr>
</table>

Source: modified from Tochitskaya (2007), World Bank's PPI Database[20].
PPP in countries with middle and low income level

[14] Derabina, M. (2008) Public-Private Partnerships: Theory and Practice, *Problems of Economics*, № 8.

[15] Tochitskaya, I. (2007) The partnership of public and private sectors, The IPM Research Center Analytic Note, http://research.by/rus/pp/2007/.

[16] World Bank's PPI database http://ppi.worldbank.org/explore/Report.aspx?mode=1#.

[17] Reznichenko, N. (2008) Public-private partnerships in health care in Russia, *Health Manager*, № 6, p.19 - 28.

[18] The database of the World Bank (World Bank PPI Project Database) new projects also refer to the concessions, but are in a separate group, http://ppi.worldbank.org, date accessed: 08.06.2010.

[19] For example, in Russia is possible.

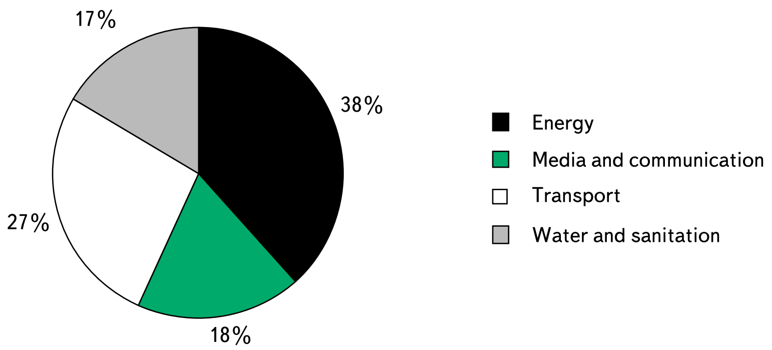
[20] http://ppi.worldbank.org/explore/Report.aspx?mode=1#.

The main PPP models with their characteristics, mechanisms of implementation, are summarized in Table 8.1.

Database of the World Bank[21] contains a history of PPP development in countries with low and middle level. In these countries the total number of PPP projects from 1990 to 2009.was 4302. Their distribution by sector is presented in Figure 8.1.

The largest number of PPP projects in these countries are implemented in the energy and transport spheres.

Figure 8.1. Distribution of the PPP projects by sector in countries with middle and low income level, 1990–2009



Source: World Bank, PPI Project Database (2010).

According to international experts, in developing countries providing government guarantees in the form of political support in law to reduce the risks of participation in the project was a key success factor for attracting private capital. State support and financing of the project is the beginning of a guarantee for private investors entering into the project, the seriousness of the Government's actions.

Despite the successful development of PPP projects in the Anglo-Saxon countries, the development of PPP projects in Eastern Europe is hampered by frequent changes of government decisions, institutional instability, short-term policy orientation. Moreover, PPP projects involve a certain pressure on the budget, it is difficult to predict the final cost, risks between the parties are not evenly distributed, and the quality of project management is also not high enough. These problems are typical for Russia.

8.2. Public-Private Partnerships in Russia

8.2.1. Regulation of PPP in Russia

Development of PPP in Russia is associated with the adoption of the Federal Law "On Concession Agreements" and Russian Federation Government Decree № 694 of 23.11.2005 "On the Investment Fund of the Russian Federation", as well as with a number of regional laws, such as the law of St. Petersburg on Public-Private Partnership. Russian Investment Fund was created as an instrument of PPP to help realization of investment projects of national significance. Creating an investment fund has given the opportunity to realize large long-term investment projects, in case of co-financing by the private sector.

According to the adopted in 2005 legislation on concessions, "one party (the concessionaire) shall at its expense to create and (or) to reconstruct real estate, but the ownership belongs or will belong to the other party (the grantor); the first party uses the object of the concession agreement, and grantor shall provide to the concessionaire ownership and right to use the object of a concession agreement".

Experts call the need to use only approved types of concession agreements one of the drawbacks of the accepted concession law. That limits the ability of the investor and government agencies in the development agreement. Another drawback – the competition procedure to participate in projects is not flexible enough. The concessionary activity itself brings risks to the concessionaire, while the penalty for the state in the law of 2005 was not foreseen and was introduced only in 2008.

In Russia, in addition to the federal law on concessions, there are regional and local laws, which have the broader content of public-private partnership (in 14 subjects of the federation). For example, in 2006, the St. Petersburg government passed a law № 627–100 "On the participation of St. Petersburg in the public-private partnerships". St. Petersburg's legislation increasingly treats the concept of PPP, not limiting it according only to the models proposed in the federal law on concession agreements. According to the law of St. Petersburg, PPP – "mutually beneficial cooperation of St. Petersburg with Russian or foreign legal person/person or association of legal entities acting under a partnership agreement (joint venture) in the implementation of social projects, which is realized by conclusion and implementation of agreements, including concession agreements"[22]. Thus, the PPP exists out of the framework of the concession agreement.

The system of legislative regulation of PPP in Russia, however, is not without drawbacks, which impedes the functioning of this institution in Russia. For example, in December 2009 at the regular session of the Accounting Chamber it was noted,

[21] World Bank PPI Project Database (http://ppi.worldbank.org). Date accessed: 08.06.2010.

[22] St. Petersburg Law "On participation of St. Petersburg in public-private partnership", 20.12.2006.

that in the main legal acts on Public-Private Partnerships in Russia:

- Credentials of the executive power to establish partnership with business are not resolved;
- There is no consistency in the administrative procedures of preparation and implementation of PPP projects, and that creates conditions for corruption;
- Procedure for allocation of funds for investment projects is complicated[23] .

Debates about the need for a federal law on PPP were initiated In Russia in recent years. However, opinions are different. On the one hand, there are supporters of such legislation at the federal level, on the other hand, it is felt that introduction of normative acts in every subject of federal, which will take into account all the specific of public-private partnership in a particular region, will be enough. According to a recent survey of the Center for Development of PPP, conducted by the Central Federal District (CFD) of Russia, the majority of federal experts support the development of regional legislation. Table 8.2 reflects the current situation on the Law of the PPP in the regions of CFD.

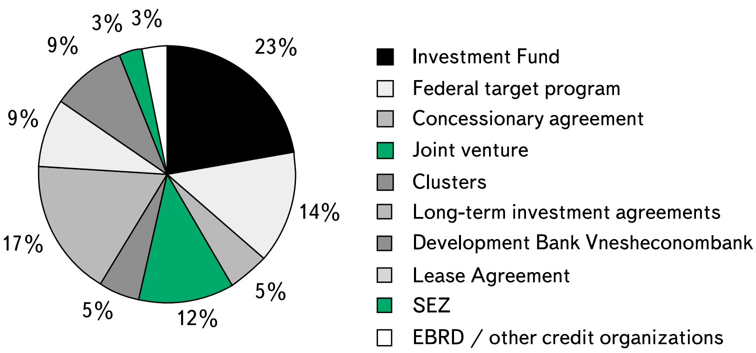
Investigation of PPP in the region of CFD has shown that in the majority of regions public-private partnership is considered in a very broad sense, just as interaction between business and government, which could have a positive impact on the socio-economic development of the region (Figure 8.2).

Table 8.2. The presence of laws on PPP in the Central Federal District

Region of CFD	The draft law, which is planned to be introduced	No draft law	The draft law, which cannot be introduced because of the absence of the Federal Law on PPP
Moscow	+		
Yaroslavl	+		
Orel region	+		
Lipetsk region	+		
Moscow region	+		
Tver region	+		
Voronezh Region	+		
Tambov		+	
Kursk Region		+	
Kaluga Region		+	
Bryansk		+	
Vladimir Region		+	
Tula Region		+	+
Smolensk			+
Kostroma			+
Ryazan			+
Belgorod region			+
Ivanovo Region			+

Source: Center for Development of PPP and the Institute of Contemporary Development (2010).

Figure 8.2. Tools of the PPP, actually used in the CFD regions (based on existing practices and views of regional representatives)



Source: Center for Development of PPP and the Institute of Contemporary Development (2010).

To PPP projects regions are often referre projects of any industry, implementation of which could create additional jobs, increase tax revenue, to ensure a positive effect on the economy of the region. According to the Center for Development of PPP, in general, the PPP in the regions is an opportunity to attract business investment or funding from public sources, but not a way for implementation of infrastructure projects with mixed funding. Representatives of only few regions (Moscow, Yaroslavl, Tver) have a deep understanding of PPP model[24].

8.2.2. Creation of the Russian Federation Investment Fund and the Russian Venture Company

One of the main tools of PPP is an Investment Fund of the Russian Federation. It was established by the Government of Russia in 2005. The Investment fund is formed from the federal budget. The Government Decree of 01.03.2008, № 134 established the rules of the implementation of PPP projects, using funds of the Investment Fund. For example, investment projects

[23] Borushko, E. (2010). Public-private partnerships: the alliance of power and capital // NEN, №28 (1345), 16.04.2010, http://www.neg.by/publication/2010_04_16_12963.html.

[24] Centre for Development of PPP and the Institute of Modern Development (2010). Analytical report on the results of the study “Development of public-private partnerships in the regions of CFD: investment and infrastructure.

should be funded only in the way of co-financing with the private sector, (created property of the investment project must yield to the owner).

The vast majority of projects with the participation of the Investment Fund is in the field of transport infrastructure, since the Investment Fund is designed to develop, first of all, infrastructure facilities, which can generate an operating profit of other projects later. Also, most projects are designed for the medium term and are implemented according to the medium-term socio-economic strategy of the Russian Federation.

The creation of the Russian Venture Company is also an important tool for development of PPP in Russia. The Russian Venture Company was established in accordance with the government directive of 07.06.2006, № 838-p and as a state fund of venture funds, through which the government promotion of venture investment and financial support for high-tech sector occurs. In fact, the State has established a source of funds to finance high-tech companies in the early stage of development of an idea or product, in the infrastructure sector either – transport systems, energy and energy efficiency, etc.

Russian Venture Company has already established seven closed-end mutual investment funds (MIF) of venture investment, in which funds are formed with equal participation of public and private capital. Number of investing projects in the beginning of August 2010 was 31, the total amount of invested funds – RUB 5 billion

8.2.3. Some barriers to the development of PPP in Russia

During the implementation of PPP projects public and private parties face several problems in the field of legislation and in the implementation of projects. Thus, according to Russian experts, lack of clear distribution of risks between partners (public and private sector) is an important barrier to the development of PPP. Russian law does not regulate risk-sharing associated with the implementation of project financing. The European Bank for Reconstruction and Development (EBRD) also names a number of problems that hinder the development of PPP in Russia[25]. For example, an interest of all parties to the project should be for the successful implementation of projects. In Russian practice the state often does not understand the benefits of private sector involvement in projects, and the private sector is only interested in access to finance funds. Among the problems of PPP also called the unwillingness of banks to work in projects, because PPP projects involve a long payback period and low margins on operations, what that is not interesting for banks. On the other hand, state participation in projects is an important guarantee for security of banks' investments.

8.3. Prospects for Public-Private Partnerships in Belarus

A traditional presidential address to the people and the Parliament (announced April 20, 2010), which announced the need to develop new forms of interaction between business and government, has become an important step in the establishment of the Institute of PPP in Belarus. Development of the draft law "On public-private partnership" and enforce the principles of public-private partnership through the participation of government in creating infrastructure and implementation of investment projects have already been included in a joint action plan of the Council of Ministers and National Bank of Belarus to reach the parameters of socio-economic development for 2010. Moreover, a research center of Ministry of Economy has begun to develop the draft law "On the basis of public-private partnership". However, before this events the Belarusian Scientific-Industrial Association (BSIA) developed a draft decree on PPP in Belarus. So, the BSIA is still playing an important role in the establishment of the Institute of PPP in Belarus.

The fundamental question of legislative clearance of PPP is in the interpretation of the concept of PPP. Honored lawyer of Belarus Vladimir Fadeev offers the following interpretation of PPP: "Public Private Partnerships is an effective legal mechanism to coordinate the interests of state and business in order to create appropriate conditions for effective social and economic development". So, he means participation of government and business not only in economic projects, but also in the development of forecasts of socio-economic development, regulation of certain economic issues.

According to Belarusian experts, for the effective cooperation between the public and private sectors in the country a political will is needed. It is difficult to take into account all the forms of public-private partnership in one law. That is why representatives of the business community believe that it is necessary for the state to show the political will to develop the PPP institution in the country through a special decree, and then make changes in various acts of legislation or enact new legislation. The effectiveness of this institution will depend on how the state implements its political will. So, a special law on PPPs is now being developed.

Some legal provisions, relating to certain forms of PPP, are already available in the Belarusian legislation, in particular, in the Investment Code (on concessions), the Civil Code (construction contracts, leases, supplies for state needs, etc.). According to experts, they do not cover the whole range of issues. A draft of a law on PPP can significantly modernize the existing normative base in the sphere of investment activity. During the drafting of legislation the Ministry of Economy expects to use foreign experience of nearest neighbors, in particular Russia.

[25] KPMG (2007). Public-private partnership in Russia: financing of projects in conditions of international competition.

It is also proposed to form a proper institutional environment, for example, an investment fund, as in Russia, combining public and private assets. It is requested to include the selection of private investors for the implementation of PPP projects in the responsibility of the National Investment Agency, to give part of the regulatory functions and powers of industry and local governments to the business associations[26]. It should give a competitive market character and independence to the PPP projects and make them effective.

Despite the fact that in Belarus the mechanism of the concession is legislated, its application in practice is almost absent. It was made an attempt to attract investment for development of certain mineral deposits (including iron ore, gypsum, betonite clay) on the principle of concession, but it was unsuccessful[27]. Moreover, in a database of the World Bank PPP projects of Belarus do not appear.

8.4. Conclusions and recommendations for the development of the Institute of PPP in Belarus

Despite the fact that the debate about the PPP are held regularly, there is no clear and common definition of this word. Most of these projects are in infrastructure, and due to the long period of realization it is difficult to estimate the effect of their implementation.

Practices of management of PPP in many countries is different. In Belarus Russian experience in developing the Institute of PPP will be used. It is important to note the deficiencies during the formation of PPP in Russia and try to avoid them in the Belarusian regulation.

[26] Borushko, E. (2010) Public-private partnerships: the alliance of power and capital // NEN, №28 (1345), 16.04.2010, http://www.neg.by/publication/2010_04_16_12963.html.

[27] Gerasimenko, A. (2010). PPP needs a political will, NEN, №35 (1352) от 11.05.2010, http://www.neg.by/publication/2010_05_11_13091.html.

In Belarus the development of PPP can be in several directions. For example, adoption of a special decree on the PPP, where willingness of the state to cooperate with business in PPP projects will be formulated, will be important for the country. Another variant is to adopt a special law on PPP, which will provide centralized legislation on PPPs, but it will take a lot of time to develop and adopt the law and can last for years.

For Belarus the following will be appropriate:

- To focus on the more narrow, economic understanding of PPP, its specific terms;
- To use international experience and the difficulties faced by public and private sectors in other countries in implementing PPP projects, clearly settle the form of the relationship of private and public sectors in implementing PPP projects;
- To identify a coordinating body – the organization that will inform potential participants about the features of the project implementation, the international experience of the PPP, to provide information about potential projects, to participate in competitions for the selection of participants;
- To show the willingness of the state to participate financially in PPP projects because the private sector does not have sufficient capital for major infrastructure projects.

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

SECTION 1. GENERAL INFORMATION ABOUT THE COMPANY AND THE RESPONDENT

1. Field of business

	Number of enterprises	%
Trade	147	37.6
Catering	20	5.1
Industrial production	91	23.5
Construction	44	11.4
Transport and communication	37	9.5
Domestic services	18	4.5
Consultancy	5	1.3
Education	2	0.4
IT services	4	1.0
Real estate	3	0.7
Tourism	2	0.4
Advertisement	2	0.5
Publishing	1	0.3
Other	14	3.6
Average	389	100.0

2. What is the organizational and legal form of your company?

	Number of enterprises	%
UE	149	38.3
Llc.	141	36.1
Alc	53	13.5
OJSC	20	5.1
CJSC	17	4.3
General partnership	2	0.5
Production cooperative	5	1.2
No answer	1	0.2
Other	3	0.8
Total	389	100.0

3. Number of employees

	Number of enterprises	%
From 1 to 10	83	21.3
From 11 to 50	193	49.5
From 51 to 100	77	19.8
From 101 to 200	21	5.4
Above 200	15	3.9
Total	389	100.0

4. Year of establishment

	Number of enterprises	%
Prior to 1996	72	18.5
1997–2004	146	37.6
2005–2007	101	26.0
2008–2009	69	17.8
Total	389	100.0

5. Region

	Number of enterprises	%
Minsk	142	36.5
Minsk region	74	19.1
Brest	31	8.0
Brest region	9	2.2
Grodno	18	4.6
Grodno region	11	2.8
Vitebsk	14	3.5
Vitebsk region	24	6.2
Gomel	24	6.1
Gomel region	10	2.4
Mogilev	32	8.2
Mogilev region	1	0.3
Total	389	100.0

6. Sex

	Number of enterprises	%
Male	213	54.7
Female	176	45.3
Total	389	100.0

7. Position

	Number of enterprises	%
Director	157	40.2
Deputy Director	77	19.8
Chief accountant	70	18.0
Head of Department	50	13.0
Other	35	9.1
Total	389	100.0

SECTION 2. ECONOMIC SITUATION IN THE ENTERPRISE

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

	Number of enterprises	%
1. Very bad	22	5.6
2. Probably bad	56	14.3
3. Neither bad nor good	220	56.5
4. Probably good	89	22.9
5. Very good	3	0.7
Total	389	100.0

9. Are there many competitors?

	Number of enterprises	%
No competitors	6	1.6
Few competitors	82	21.1
Many competitors	301	77.3
Total	389	100.0

10. How has competition in the market changed during past three years?

	Number of enterprises	%
Competition increased	265	68.2
Competition did not change	114	29.2
Competition declined	8	2.0
No answer	2	0.6
Total	389	100.0

11. How important for your business the following tasks? (%)

	1	2	3	4	5	No answer	*Average*
1. Expansion, business development	1.9	4.2	12.4	19.4	38.9	23.2	4.16
2. Preservation of the achieved level	1.6	1.5	10.5	18.6	46.0	21.9	4.36
3. Survival	4.7	7.2	12.2	13.9	32.0	30.0	3.87

Note. If there are several tasks – name the basic for the company at this time. “1” – it does not matter, “5” – it is very important.

12. What internal (managed by the company) factors help you in doing business? (%)

	1	2	3	4	5	No answer	*Average*
1. Team	4.7	4.6	11.1	22.3	55.3	2.0	*4.2*
2. The high professional level of managers	20.4	15.5	29.2	19.3	8.8	6.7	*2.8*
3. Delegation of power to lower level managers by senior managers / staff, reducing the centralization of decision-making	2.2	2.6	11.2	29.0	51.6	3.5	*4.3*
4. Market knowledge, ability to predict market conditions	10.0	16.5	21.5	23.4	24.5	4.1	*3.4*
5. The ability to produce competitive products	1.9	7.5	14.3	26.2	45.9	4.2	*4.1*
6. Good relations with authorities and influential persons	2.7	7.0	17.4	25.4	44.0	3.6	*4.0*
7. Knowledge of legislation and the ability to assert your innocence	21.5	19.9	24.6	16.4	12.8	4.8	*2.8*
8. Following laws and regulations of public bodies	8.6	11.0	21.1	23.5	28.5	7.3	*3.6*
9. The ability to bypass some of the requirements of legislation and public bodies	30.0	13.6	17.3	16.6	14.6	7.9	*2.7*
10. Low costs for production	1.9	5.2	17.6	22.8	47.6	4.8	*4.1*
11. A wide range of products	7.5	10.2	24.6	25.0	27.8	4.9	*3.6*
12. Diversification of markets, access to foreign markets	0.7	6.5	11.3	26.9	51.5	3.0	*4.3*
13. Organized system of sales / marketing	4.8	9.5	15.8	24.4	41.6	4.0	*3.9*

Note. “1” – it does not matter, “5” – it is very important.

13. What external (independent of the enterprise) factors interfere with you in a successful business? (%)

	1	2	3	4	5	No answer	*Average*
1. Too strong competition in the market	7.6	8.2	19.2	22.3	39.7	2.9	*3.8*
2. Lack of support from the state (soft loans, participation in state programs, etc.)	18.5	19.8	20.1	20.3	17.2	4.1	*3.0*
3. Unequal conditions compared with public sector	17.1	16.9	22.2	17.1	21.5	5.2	*3.1*
4. Lack of protection of property rights and interests of private business	6.7	18.8	31.1	20.3	18.6	4.5	*3.3*
5. Corruption	24.8	25.3	23.5	10.6	7.5	8.3	*2.5*
6. Currency Regulations (inability to buy the currency, restrictions on the purchase of foreign currency, devaluation, etc.)	32.6	20.4	17.7	10.6	9.5	9.1	*2.4*
7. Bureaucratic barriers and limitations (registration, permits, licenses, records, large documents, etc.)	17.4	16.6	21.1	18.3	22.7	3.9	*3.1*
8. The complexity of tax regulations and high tax rates	13.8	16.4	25.9	21.3	18.4	4.2	*3.1*
9. Administrative pressure (intervention of central and local authorities, not covered by existing legislation)	22.1	19.2	27.7	15.5	10.1	5.5	*2.7*
10. High rents	6.7	13.0	18.1	23.2	33.5	5.4	*3.7*
11. Administrative regulation of wages	20.9	22.8	23.0	15.0	10.1	8.2	*2.7*
12. Checks and penalties	13.8	15.6	29.0	17.9	18.6	5.2	*3.1*
13. High rates on borrowed funds from banks and other financial institutions	9.8	10.9	16.0	23.6	32.2	7.5	*3.6*
14. Economic policies of other countries (for example, protecting the domestic market from foreign producers)	38.1	18.4	17.4	9.7	7.4	9.1	*2.2*

Note. “1” – it does not matter, “5” – it is very important.

SECTION 3. COMPETITIVENESS OF THE COUNTRY AND BUSINESS

14. Rank on a 7-point scale the following factors

	1	2	3	4	5	6	7	No answer	*Average*
1. What is a level of protection of private property rights, including financial assets in Belarus? (1 – low level, 7 – high level)	20.8	12.9	21.6	23.8	14.8	2.7	1.9	1.6	*3.1*
2. What is a level of independence of judicial system from government influence, individuals or companies? (1 – strongly dependent, 7 – absolutely independent)	19.8	16.8	19.7	20.0	14.3	4.3	2.2	2.9	*3.1*
3. How effective is the judicial system in resolving commercial disputes? (1 – ineffective, 7 – very effective)	10.1	12.2	23.3	21.3	17.5	8.5	3.7	3.4	*3.7*
4. How is the practice of diverting public funds to companies or groups because of corruption spread in Belarus? (1 – highly spread, 7 – never found)	9.9	15.7	20.4	22.6	10.1	5.7	6.0	9.6	*3.5*
5. How are public funds (taxes) used in your country? (1 – very inefficient, 7 – very effectively, the state provides really necessary and quality services)	12.3	14.4	21.9	26.6	13.6	4.8	1.5	4.9	*3.4*
6. How easy for you to track all the changes in government economic policy and regulatory issues, related to your business? (1 – impossible, 7 – very easy)	10.2	15.2	21.1	18.5	13.0	8.9	11.6	1.5	*3.8*
7. Evaluate the quality of infrastructure in the country (such as transportation, telecommunication) (1 – extremely undeveloped, 7 – developed and efficient according to international standards)	4.7	9.3	17.0	27.4	23.9	13.4	2.7	1.7	*4.1*
8. How good is your education system meets the requirements of a modern competitive economy? (1 – very bad, 7 – very good)	7.6	10.9	17.1	28.4	21.2	10.6	1.8	2.5	*3.9*
9. What impact does the level of taxation in your country on the motivation to work and invest? (1 – limits the motivation to work and invest 7 – does not negatively impact on motivation to work and invest)	15.6	17.1	22.9	26.1	8.7	4.8	2.9	1.8	*3.2*
10.How does current legislation influence on coming of foreign investment to the country? (1 – impedes, 7 – stimulates)	17.2	12.8	19.7	22.5	12.3	4.2	1.4	9.9	*3.2*
11. How do tariff and nontariff barriers in the country, the policy of import substitution, the requirements on the presence of Belarusian products, create barriers to foreign goods in the domestic market? (1 – strongly restrict competition, 7 – no limits)	17.0	16.5	19.1	25.2	9.0	4.7	3.7	4.9	*3.2*
12. How is the wage of employees in the country related to their performance? (1 – is not connected with performance, 7 – is closely connected with performance)	9.9	9.6	19.4	22.9	14.6	9.7	12.7	1.2	*4.0*
13. What is the greatest competitive advantage of national companies in international markets (1 – low cost or natural resources, 7 – the uniqueness of products and processes)	15.9	21.1	20.4	16.4	8.5	6.1	6.3	5.3	*3.3*

SECTION 4. CORRUPTION AND SHADOW ECONOMY

15. Answers to the question: 'What is the share of shadow turnover (unreported deals) in the total turnover of private companies?

	Number of enterprises	%
1. No such phenomenon exists	126	32.5
2. Less than 10%	48	12.4
3. 10–25%	65	16.6
4. 26–50%	54	14.0
5. 51–75%	10	2.6
6. More than 75%	4	1.1
9. No answer	81	20.8
Total	389	100.0

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

	Number of enterprises	%
1. No such phenomenon exists	90	23.1
2. Infrequently	180	46.1
3. Permanently	52	13.5
9. No answer	67	17.3
Total	389	100.0

17. How is such a phenomenon as 'kickbacks' in return for profitable contracts widespread in Belarus?

	Number of enterprises	%
1. No such phenomenon exists	94	24.1
2. Every tenth	48	12.3
3. Every fifth	45	11.6
4. Every third	31	8.1
5. Every second	18	4.5
6. Every single	12	3.1
9. No answer	141	36.3
Total	389	100.0

18. In your opinion, in what areas of business corruption happens? (%)

	1	*2*	*3*	*4*	*5*	*Average*
1. Price regulation	31.0	22.9	17.0	9.0	5.2	2.2
2. Licenses	27.7	20.5	17.3	12.3	8.8	2.5
3. Hygienic registration and certification	25.2	14.3	19.9	18.4	10.7	2.7
4. Sanitation	15.0	17.0	19.7	22.4	14.5	3.0
5. Fire Supervision	16.3	16.4	21.1	19.6	15.6	3.0
6. Tax payment	33.1	22.7	16.8	9.2	4.7	2.2
7. Tax audits	25.5	14.7	22.1	16.1	7.1	2.6
8. Customs clearance	27.7	12.9	20.2	13.8	8.7	2.6
9. Permits for land	16.8	19.6	21.7	13.4	12.9	2.8
10. Obtaining various permissions in local authorities	19.9	15.4	19.8	16.6	15.5	2.9

Note. "1" – very rare abuses, "5" – very often abused.

SECTION 5: CRISIS AND LIBERALIZATION

19. How did the economic situation of your company changed in the last year?

	Number of enterprises	%
1. Deteriorated significantly	76	19.6
2. Deteriorated somewhat	143	36.6
3. Remained unchanged	92	23.7
4. Slightly improved	72	18.5
5. Significantly improved	4	1.0
9. No answer	2	0.5
Total	389	100.0

20. How did performance of your company changed in 2009? What is your forecast for 2010? (%)

	Results of activity			Forecast for 2010		
	Increased	Were stable	Decreased	Will increase	Will be stable	Will decrease
1. Sales	16.5	36.5	47.0	28.2	51.1	18.7
2. Profit	11.7	33.5	53.5	27.9	47.9	20.8
3. Employment	12.7	52.7	33.7	17.2	63.1	16.7
4. Investments	6.4	40.9	35.1	11.4	46.6	23.9

21. Through what channels does the economic crisis affect your business? (not more than 5 answers possible)

	Number of enterprises	%
1. Fall in purchasing power within the country	284	73.0
2. Delays (default) to pay for goods delivered	185	47.5
3. Reduced demand from state-owned enterprises	123	31.5
4. Reorientation of customers for cheaper suppliers	100	25.8
5. Limit access to financial resources of banks (high interest rates)	90	23.1

	Number of enterprises	%
7. Suspension of investment projects	42	10.9
8. Restrictions on the currency market (difficult / impossible to buy the currency)	31	7.9
9. Reducing demand for the company's products in other foreign markets (except Russia)	29	7.4
10. Reduced demand from government bodies (public procurement)	28	7.2

Note. Not more than 5 answers possible.

22. How does your company react on crisis?

	Number of enterprises	%
1. Decrease of nonproductive costs (ads, marketing, training etc.)	194	49.8
2. New markets search (suppliers, customers)	183	47.0
3. Price reduction	134	34.4
4. Wages reduction	125	32.0
5. Change in the goods range	93	23.9
6. Low qualified stuff decrease	92	23.5
7. Management personnel decrease	87	22.3
8. Cancellation of lease	55	14.2
9. Decrease of production volume	53	13.5
10. Reduction of working hours	51	13.2
11. Several types of business liquidation	27	6.9
12. Introduction of piece-work payment	18	4.7
13. Rejection of investments	17	4.4
14. Growth of the investment activity	13	3.4
15. Quality degradation and production of cheaper goods	12	3.2
16. Growth of innovation activity	13	3.2
17. Business separation on small businesses	9	2.2
18. Rejection of innovations	8	2.0

Note. No more than two answers possible.

23. What new opportunities the crisis offers to your company?

	Number of enterprises	%
1. More rational approach to the use of financial resources (careful risks and results evaluation, rise of returns on resources)	194	49.8
2. The crisis had non positive effects	168	43.1
3. New business model and solutions search, more hardy decision making, mobilization of own resources	155	39.9
4. Improved positions in the relations with the suppliers, suppliers' prices reduction	66	17.1
5. High-qualified staff hiring for lower wages	66	16.8
6. Competitors' withdrawal from the market	63	16.1
7. Modernization of production capacities	45	11.4
8. Expansion of import substitution possibilities	20	5.1
9. Increase in use of subcontracting and piece-wage schemes	14	3.5
10. Increase in state support (like concessional lending)	12	3.2

Note. The respondents were able to give no more than 5 variants of answers.

24. In case Belarus resumes privatization, which way of privatization is the most preferable for the economy?

	Number of enterprises	%
1. Objects of privatization should be sold to domestic investors with no restrictions (open transparent bidding) with the introduction of restrictions for foreign capital	148	38.1
2. During privatization the advantage should be given to tenants	146	37.4
3. Objects of privatization should be sold to any buyers without restrictions, both domestic and foreign	139	35.6
4. Objects of privatization should be sold to domestic investors without any restrictions with the introduction of restrictions for Russian capital	50	12.9
5. I do not support the privatization	25	6.5

Note: no more than three answers possible.

25. Are you or your company interested to participate in the privatization of state enterprises in Belarus?

	Number of enterprises	%
1. No	134	34.3
2. Yes, if the privatization process will be transparent	125	32.2
3. Yes, with the assurance that results will not be changed	107	27.4
4. Yes, at acceptable (rather than speculative) prices	104	26.8
5. Yes, if access to the necessary financial resources provided	69	17.8
6. Yes, with the introduction of private ownership of land	46	11.9
7. Yes, providing the delivery of public preferences	42	10.7
8. Yes, if there are restrictions on foreign (Russian) capital to participate in the privatization	8	2.0

Note: no more than three answers possible.

26. How do you think terms of reference of business activities changed in recent years?

	Number of enterprises	%
1. Business conditions improved significantly	32	8.2
2. Business conditions improved slightly	111	28.4
3. Nothing has changed	180	46.3
4. Business conditions deteriorated slightly	33	8.6
5. Business conditions deteriorated significantly	22	5.6
No answer	11	2.8
Total	389	100.0

27. How did liberalization measures influence your environment activity?

	–1 – deteriorated slightly, *–5* – deteriorated significantly					*1* – improved slightly, *5* – improved slightly				
	–1	–2	–3	–4	–5	1	2	3	4	5
1. Easier to register a business	0.1	0.8	0.7	0.7	1.9	18.8	25.1	22.0	12.5	17.4
2. Easier to obtain various permits	0.6	1.1	2.5	3.3	3.4	21.8	24.1	21.1	15.2	6.9
3. Administrative procedures is simplified	1.4	0.8	4.9	1.1	4.6	23.9	19.5	27.7	8.4	7.8
4. Number of inspections is decreased	3.0	1.7	2.9	4.2	2.9	28.6	14.8	21.7	12.7	7.5
5. Fines is reduced	5.1	6.3	7.9	5.8	13.4	34.7	12.7	9.6	2.7	1.7
6. Rents is reduced	13.8	4.3	12.6	10.2	20.4	24.4	4.9	6.8	1.4	1.3
7. Pricing is simplified	2.4	2.9	3.7	4.2	6.0	42.9	13.8	14.1	6.3	3.8
8. Tax burden is reduced	4.6	4.0	6.4	4.1	9.5	38.6	14.5	12.4	3.5	2.4
9. Time required for the calculation and payment of taxes is reduced	2.4	2.3	2.6	2.4	7.6	42.6	15.9	14.5	6.1	3.6
10. Reduced (abolished) contributions to innovation funds	2.7	4.5	1.9	3.0	8.2	48.5	12.2	8.0	3.8	7.2
11. Simplify access to credit	4.0	4.3	9.2	3.7	12.8	31.0	15.7	10.8	4.4	4.0
12. Foreign trade operations is simplified	6.4	6.1	5.6	2.7	7.3	42.6	12.5	12.5	3.3	1.1
13. Calculation of salaries simplified	2.4	1.7	3.2	1.3	6.4	45.9	18.2	14.7	4.7	1.5
14. Cost and simplified procedures for conducting auctions and tenders reduced	0.7	2.3	5.3	7.8	6.2	44.9	16.6	9.3	6.2	0.7

27. How did liberalization measures influence your environment activity?

	Average negative	*Average positive*	*Average*
1. Easier to register a business	–2.20	2.84	2.6
2. Easier to obtain various permits	–2.29	2.57	2.0
3. Administrative procedures is simplified	–2.46	2.50	1.9
4. Number of inspections is decreased	–2.85	2.48	1.7
5. Fines is reduced	–2.58	1.76	0.1
6. Rents is reduced	–2.69	1.72	–1.0
7. Pricing is simplified	–2.56	1.94	1.1
8. Tax burden is reduced	–2.65	1.83	0.6
9. Time required for the calculation and payment of taxes is reduced	–2.40	1.94	1.2

	Average negative	*Average positive*	*Average*
10. Reduced (abolished) contributions to innovation funds	–2.53	1.86	1.0
11. Simplify access to credit	–2.50	2.01	0.5
12. Foreign trade operations is simplified	–3.06	1.72	0.4
13. Calculation of salaries simplified	–2.49	1.80	1.2
14. Cost and simplified procedures for conducting auctions and tenders reduced	–2.26	1.73	0.8

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

28. How did rent payments change in 2010?

	Number of enterprises	%
1. Rose	190	48.9
2. Remained at the same level	134	34.4
3. Decreased	30	7.8
4. It is not clear yet	19	4.9
No answer	16	4.1
Total	389	100.0

29. Do you know that government has a task to enter top 30 countries on the quality of business environment?

	Number of enterprises	%
1. Yes	144	36.9
2. No	240	61.6
No answer	6	1.5
Total	389	100.0

30. How do you think will the government succeed?

	Number of enterprises	%
1. Yes	87	22.3
2. No	249	64.1
No answer	53	13.7
Total	389	100.0

SECTION 6. PUBLIC WORK, NATIONAL BUSINESS PLATFORM

31. Are you a member of a business union?

	Number of enterprises	%
Yes	28	7.1
No	362	92.9
Total	389	100.0

32. SMEs' demand for and expectations of business unions (%)

	Number of enterprises	%
1. Assistance in starting a business	2	7.1
2. Assistance in obtaining permits and licenses	4	14.3
3. Staff Development	6	21.4
4. Support in internationalization (organizing contacts with foreign partners, promotion on international markets, trade missions)	3	10.7
5. Consulting services in finance, marketing and sales	5	17.9
6. Legal assistance	14	50.0
7. Assistance in attracting financial resources (search for investors)	3	10.7
8. Assistance in innovation	1	3.6
9. Assistance on issues of business (law, taxes, etc.)	7	25.0
10. Representing interests of a firm in a dialogue with local authorities	3	10.7
11. Representing interests of a firm in a dialogue with central authorities	4	14.3
12. Promotion and protection of the interests of the Belarusian business	3	10.7
13. Improving the business climate in the country	2	7.1
14. Exchange of experiences among members of the organization	16	57.1

33. If you're not a member of a business union, then why don't you enter it?

	Number of enterprises	%
1. High membership fees	13	3.6
2. I believe that unions are helpless to solve my problems	121	33.6
3. I think it is politically disadvantageous	15	4.2
4. No information about activity of such unions	145	39.9
5. Hope for the independent decision of the problems	93	25.6
6. My business doesn't need their assistance and services	97	26.7

Note. No more than three answers could be given.

34. If you're not a member of a business union, what do you want business union to do for you?

	Number of enterprises	%
1. Assistance in starting a business	29	8.1
2. Assistance in obtaining permits and licenses	74	20.4
3. Staff Development	50	13.7
4. Support in internationalization (organizing contacts with foreign partners, promotion on international markets, trade missions)	42	11.6
5. Consulting services in finance, marketing and sales	60	16.6
6. Legal assistance	134	36.9
7. Assistance in attracting financial resources (search for investors)	66	18.2
8. Assistance in innovation	25	6.9
9. Assistance on issues of business (law, taxes, etc.)	80	22.2
10. Representing interests of a firm in a dialogue with local authorities	69	19.1
11. Representing interests of a firm in a dialogue with central authorities	52	14.3
12. Promotion and protection of the interests of the Belarusian business	106	29.2
13. Improving the business climate in the country	168	46.4
14. Exchange of experiences among members of the organization	65	18.1

35. Answers to the question "If you're not a member of a business union, then please indicate the main obstacles to cooperation with them."

	Number of enterprises	%
1. I know too little about these organizations	201	55.4
2. These organizations are too weak	85	23.4
3. Profile of these organizations does not satisfy me	31	8.7
4. These organizations do not represent my interests	66	18.1
5. Their services are too expensive	21	5.8
6. Quality of services provided by these organizations is too low	18	5.0
7. I do not have access to these organizations (they are located too far away)	22	6.2
8. It is better not to use services of these organizations for political reasons	22	6.2

36. Do you know about the creation of the National Platform for Business?

	Number of enterprises	%
1. Yes	77	19.9
2. No	312	80.1
Total	389	100.0

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

	Number of enterprises	%
Fully support	13	16.8
Probably support	52	67.3
Probably don't support	10	12.6
Absolutely do not support	3	3.3
Total	77	100.0

38. If you know about NPBB, what is its role in consolidating of business community to protect its interests and liberalization of business climate?

	Number of enterprises	%
significant role	29	38.1
minor role	40	51.3
no role	8	10.6
Total	77	100.0

39. Do you agree that business unions must have a legal right to participate in adopting laws?

	Number of enterprises	%
1. Yes	357	91.6
2. No	28	7.2
No answer	5	1.2
Total	389	100.0

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