Small and Medium Business in Belarus

QUARTERLY REVIEW

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In this issue:

Macroeconomic results of the year. Main changes in the legislation that regulates entrepreneurial activities. Business climate in Belarus: evaluation of entrepreneurs. Survey of markets: the market of sweets and candies in Belarus.

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Dear Readers!

We are honored to offer you the 9th issue of the quarterly "Small and medium business in Belarus". In this issue, we would like to draw your attention to macroeconomic results of the year, the survey of the main changes in legislation and the estimate of internal and external factors that stimulate business activities or block them. The survey is made on the basis of empirical studies.

Depending on the emphasis of the economic events in 2007, we can call the year very successful, successful, unsuccessful or the failed one. In the first part of the bulletin we try to objectively and impartially analyze the changes in the macroeconomic situation and offer our readers the right to judge for themselves how to estimate the year of 2007 and what kind of year we may have n 2008.

In the second part, we analyze a few changes in the regulatory environment where SMEs operate. In autumn individual entrepreneurs (IEs) that employ people who are not their close relatives were supposed to re-register into private unitary enterprises (PUEs). As a result of this campaign by January 2008 the number of IEs may fall. At the same time, the costs of small enterprises' adjustment to the new state of the regulatory environment (the costs of time and resources to get permissions etc.) are the highest. Among the positive tendencies, we can mention Decree №7 that changed some of licensing procedures. However, it did not reduce the number of licensed kinds of activities. It is still one of the biggest drawbacks in this sphere.

In the third part, we offer the results of the SME sector study made by IPM Research Center and CASE (Warsaw) in August 2007. In this study we emphasized not primarily macro problems of the regulatory environment and their impact on doing business but rather we focus on the micro level of private enterprise functioning. The results of the study showed that for SME development the most important issues for development are the issues of financing, human resources, management system (internal factors) and features of demand, supply and competition (external factors). At the same time, most companies still do not pay enough attention to professional training of their employees.

Starting from this issue, we plan to broaden the range of topics that we present materials on. We will include surveys of various segments of the Belarusian consumer market. We will also cover the news in the market of business education and consulting services. For this issue the company INDECOM prepared a short survey of the Belarusian sweet and candy market. We hope that the publication of such materials will be fruitful to the companies that are interested in the development of their businesses.

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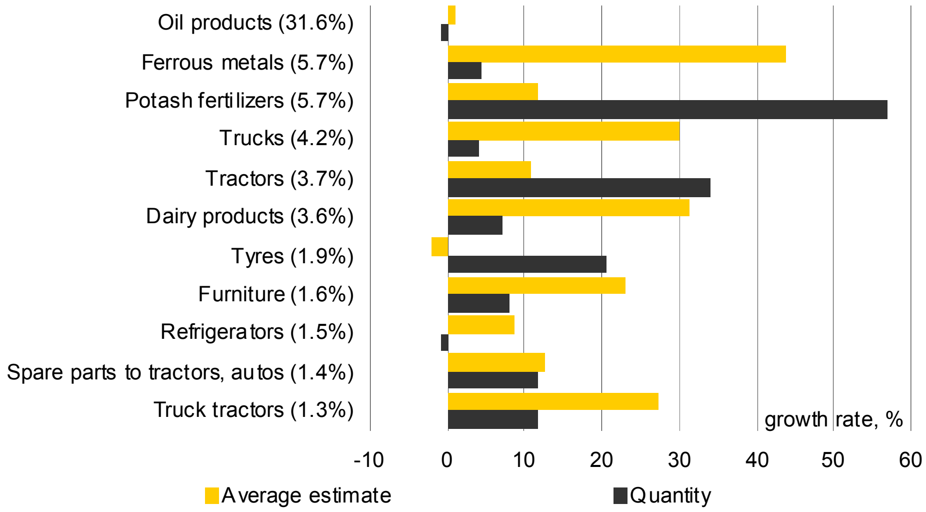
1. MACROECONOMIC RESULTS OF 2007

Reduction of the growth rate of household income, investment, GDP, inflation acceleration, increase of external trade deficit and foreign debt, improvement of financial indicators of enterprises, budget surplus, growth of export and gold reserves – these are the events and tendencies that happened in 2007. Can they describe one economy in one period of time? They can if this is the Belarusian economy of 2007. Depending on what events you put an emphasis on you can characterize the year as very successful, successful, unsuccessful or the failed one. We will do our best to be as objective and impartial as possible in the analysis of the changes in macroeconomic situation. We would like to let our readers decide for themselves what kind of year we had in 2007 and what year we will have in 2008.

1.1. External conditions

Before we start talking about the results of the year, it is necessary to describe the conditions in which the Belarusian economy functioned. Apart from the most obvious factor – the increase of gas prices and the deterioration of oil delivery terms – there are many less obvious external factors that are opposite in nature to the gas and oil changes. We mean the increase of export prices for the majority of the Belarusian export goods that took place in 2007 (Figure 1). It ensured a quite high growth rate of export in value terms and consequently the inflow of hard currency revenues. The external demand in 2007 can be compared to that of 2004 when Belarusian economy grew by 11.4%. In 2007 the government could not boast such expressive results though. GDP is likely to grow just by 8% (in 2006 it went up by almost 10%).

Figure 1: Growth rate of export prices and physical volumes of export in January – September 2007, compared to January – September 2006



Source: Ministry of statistics and analysis.

1.2. GDP, consumption and investment

Slowing down of GDP growth is not surprising. The growth rate of all main components of aggregate demand fell – consumption of households, investment and export. Why has it happened? The most obvious explanation is the energy “shock”. For example, the fall of export growth rate is easily explained by the termination of oil products and Belarusian crude oil deliveries. Trade problems with Russia connected with the delivery of meat and sugar also contributed to this tendency. That is why even export growth of machine building products, ferrous metals, chemical and petrochemical goods did not save the situation.

The “shock” explanation of the consumption slowdown is simple: after the gas price rise both the budget and enterprises had less money to raise wages and pensions at the previous rate. However, the slowdown of the growth of these sources began earlier, in April 2006, i. e. right after the end of the presidential campaign. There is nothing unusual in it: the reduction of the growth rate of wages and pensions after elections is common in Belarus. The same phenomenon was observed in 2001. However, that time it was a bit different. Earlier the reduction of wage and consumption growth rate contributed to the acceleration of investment growth. In 2007, the growth rate of both income and investment fell at the same time. It is due to the deficit of turnover capital to finance investment after the rise of energy prices. The government could not support additional expenditures either. As a result, it was the Belarusian banks that had to face a considerable part of the burden of financing investment (Figure 2).

1.3. Prices

Inflation acceleration became another peculiarity in 2007. Inflation growth rate increased for the first time since 1999. From April to November the growth of inflation accelerated from 7.0% to 10.3% (yoy). This indicator of inflation is much higher than planned for 2007 (6 - 8%). Of course, the explanation that the price increase is due to the increase of energy prices seems to be logical. However, the energy prices went up in the beginning of 2007 when inflation was within 7- 8% bracket. The prices peaked mostly due to food products. Their prices are just indirectly related to the price of oil and gas. In fact, it was the government that raised inflation to this level. It increased the prices for so-called “socially important” food products. Finally, the inflation acceleration happened on the background of relatively tougher monetary policy and the stable exchange rate of the Belarusian rouble to the US dollar. It means that the policy of the government contradicted the policy of the National Bank.

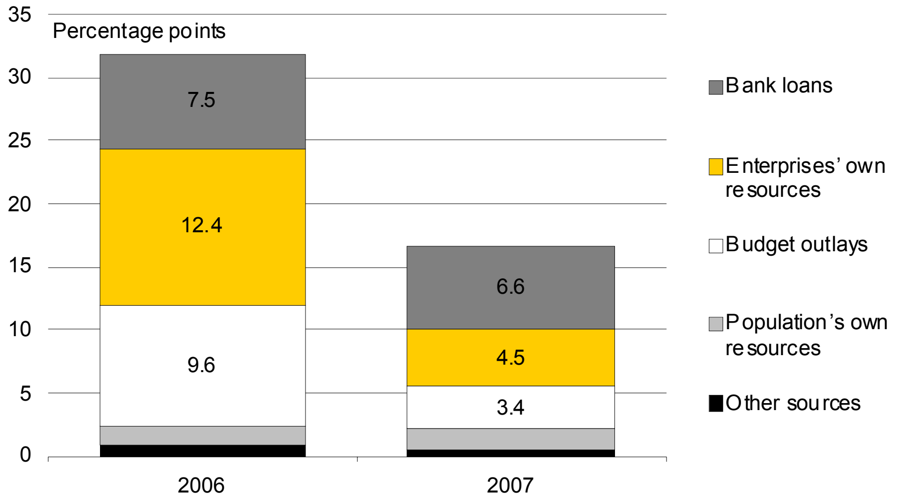
1.4. Trust to the national currency

Evidently, the worst consequence of the energy shock was the fall of the population trust to the national currency. However it is difficult to assume that it was the price rise by itself that caused the surge of demand in the currency market in the beginning of 2007 and led to the sharp fall of the growth rate of rouble deposits later. The panic started before the agreement on the gas price was reached. It was the deficit of transparency in the negotiations with Russia that probably became one of the reasons of apprehension to the Belarusian rouble. Another “failure” of the government was the lack of any reaction to the rumors on denomination and devaluation and then the reaction itself ("National Bank will do its best to prevent devaluation" – after such "calming down" even those who trusted the Belarusian currency could consider exchanging their rouble savings into hard currency). After such actions any statements on the stability of the economy and that it had successfully overcome the consequences of the gas price rise sounded unconvincing. The actions of the National Bank to keep the exchange rate in the beginning of 2007 convinced the population that it was no use to lose interest income and to buy hard currency but as they say the "bad taste" from this situation remained. The trust to banks was kept and the trust to the Belarusian rouble fell.

The fall of trust to the national currency is seen in Figure 3. Rouble deposits of the population grew faster than hard currency ones for the last seven years. However, in the end of 2007 the tendency got broken. In March, the growth rate of hard currency deposits turned to be higher than the growth rate of rouble deposits of the population. The acceleration of hard currency deposit growth and slowing down of the rouble deposits began in October 2006. In 2007, their growth rate fell from 69.5% to 29.2% yoy and the growth rate of hard currency deposits went up from 11.3% to 70.4% yoy.

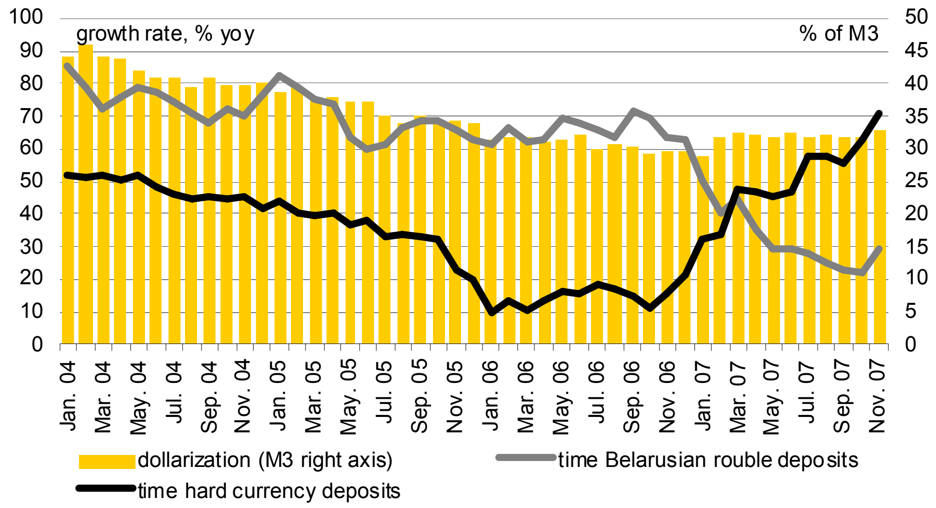
Evidently, the fall of trust to the national currency alongside with the increase of the role of banks in the economy has serious consequences for the future of the economic policy. Any negative shock either in the form of a panic in the currency market or problems in relations with Russia or Europe can lead to the outflow of deposits. Consequently, banks will at least lose a considerable part of their resources and will not be able to finance the economy. In the worst-case scenario, we may face liquidity crisis and a systemic banking crisis. It will have an extremely negative economic (inflation, devaluation, GDP fall) and political (the failure to meet the commitment to achieve a certain size of wages in US dollars) consequences. In such situation, the exchange rate remains a key element of the economic policy. The most dangerous measure of economic policy is devaluation of the Belarusian rouble.

Figure 2: Contribution of main sources of financing to the increase of investment in January – September 2007 compared to January – September 2006



Source: own estimates based on the data of Ministry of statistics and analysis.

Figure 3: Change of population deposits and dollarization *



* hard currency deposits to broad money M3.
Source: National Bank.

1.5. Can we avoid devaluation?

There are two indicators that tell us about the stability of the exchange rate – the relation of hard currency reserves of the country to the value of import and to the money base. It is believed that if reserves meet a three month volume of import of goods and services there is no reason to worry about the crash of the exchange rate of the national currency under pressure of external negative shocks. In Belarus, this indicator has become close to 1.5 months of import just recently. However, such volume of reserves is quite enough to cushion short-term outburst of demand in the currency market. While we do not have the convertibility of the Belarusian rouble on the capital account it is difficult to imagine such speculative attack on the Belarusian rouble in which the National Bank will not have enough reserves to neutralize it. Not long ago the reserves were just 0.5 month of import and there were no prerequisites for devaluation.

The second indicator is the relation of money base to hard currency reserves. In Belarus it is about 100%. It means that the National Bank does not let excessive money emission which could lead to additional pressure on the exchange rate. Hence, at present we observe both internal and external stability of the Belarusian rouble, which does not raise any concern in this matter.

However, as deputy Prime Minister Andrei Kobyakov rightly said at the November session of the government we could forget about the reduction of foreign trade deficit in the near future. The trade deficit will inevitably grow alongside with the increase of gas and oil prices. This energy component of the trade balance will definitely have an impact on the state of the trade balance. In addition, the growth of household income and the urgency to modernize Belarusian enterprises mean that non-energy import will also grow. In this situation a logical question arises, “How can we avoid devaluation in the conditions of growing foreign trade deficit?”

1.6. Scenarios of economic development

In order to answer this question IPM Research Center models three scenarios of economic development: base, negative and positive. They can be shortly characterized in the following way: The base scenario means keeping the same economic policy, which is as close to the “pre-shock” period as possible, financing of the growing deficit by external loans and privatization in case of necessity. Under this scenario, considerable devaluation can be avoided even until the next presidential elections. In the negative scenario, an additional shock is envisaged (for example trade war with Russia). Under this scenario, it would be impossible to finance the deficit without extensive privatization but according to this scenario, Belarusian authorities would not let privatization happen. In this case, devaluation would happen before the elections. In addition, there would be considerable accumulation of external debt. Finally, the positive scenario would assume avoiding a conflict with Russia, the beginning of economic restructuring and privatization by foreign investors as the main tool of financing the growing foreign trade deficit. Under this scenario, there would be minimal need for devaluation. The National Bank can start it only as a means to increase price competitiveness of Belarusian goods in foreign markets.

Which of these three scenarios is most likely? The year of 2007 showed that the economic policy (at least by the end of 2007) has not changed much and the interest of foreign investors to Belarusian enterprises is unsatisfied yet. The main source of financing the deficit was the increase of foreign debt. That is why we can say that the economy is operating within the base scenario.

Table 1: GDP growth forecast for 2007 and 2008

	2007	2008
Official	8.0–9.0	8.0–9.0
IMF (October 2007)	7.8	6.4
EBRD (September 2007)	8.5	5.0
Economist Intelligence Unit (August 2007)	7.8	6.5
IPM Research Center (September 2007)	8.0	7.8
Average	**8.1**	**6.8**

Source: EBRD, IPM Research Center.

However, it is obvious that the base scenario can be easily transformed into the negative one. An additional shock would be enough for that. The only scenario that can provide a sort of insurance against negative economic and political consequences is the positive one. Only this one guarantees the achievement of wage level in 2010 that is targeted by the government. That is why the implementation of this scenario would be the most desirable for the authorities though mere “desirability” of this scenario does not increase its probability. The existing legislative system and the system of decision making that have been built for years are the main obstacle for the implementation of such scenario. Dismantling such system and building a new one would take time and in our case, it would mean losing money and votes.

Economists are still unanimous in their forecasts (actually in evaluations) for 2007. Traditionally they differ in forecasting for longer perspective. International organizations are traditionally pessimistic and expect GDP in 2008 to grow by 6.5% (Table 1). Until the November session of the government, the authorities were cautiously optimistic forecasting GDP growth at 0.5 percentage points less than in 2007. However later they reconsidered their opinion and left the forecast on the level of 2006. The IPM Research Center forecast is an average of three scenarios. It is close to the lower border of the official one, which traditionally is the most accurate. In any case, it is obvious that if an economic crisis happens it will not be in 2008.

2. LEGAL CHANGES IN THE SPHERE OF SME REGULATION

2.1. Transformation of individual entrepreneurship into small business

Decree 302 adopted beneficial conditions for re-registration of individual entrepreneurs (IES) into private unitary enterprises (PUEs)[1]. This decree continued the process of liquidation of the institute of individual entrepreneurs in Belarus in the form it existed until 2008. According to the new legislation since January 1, 2008 only those IEs will operate who have no more than three employees who at the same time are their close relatives. It is obvious that the number of IEs will soon go down. Simultaneously legislative acts were passed that simplified a little the process of transformation of IEs into PUEs. For example Decree 496[2] adopted the procedure of laying off employees according to which employment agreements can be terminated and the fired employee receives the sum of his two week wage (earlier it was tree week wage). In addition, one year after the registration of a PUE it can make payments the way an IE made. Hence, such enterprises are given some period for adaptation. In addition, Decree 497[3] stipulates that IEs that operate in retail trade and/or cafe/restaurant/cafeteria with the number of employees up to five persons can work under simplified tax system. For them the tax base is not gross revenues but gross income. It will reduce the tax burden on IEs. They will pay 20% of their gross income.

It is quite difficult to estimate these changes for newly set and existing small companies. However, we argue that these measures are not enough

[1] Decree 302 as of 28.07.2007. “On confirmation of the Procedure on the order of setting up a private unitary enterprise by an individual entrepreneur and its activities” (version as of October 15, 2007).

[2] Decree of the president the of Republic of Belarus 496 as of 15.10.2007 “On improvement of the order of setting up private unitary enterprises by individual entrepreneurs and their activities” came into force from the day of its official publication.

[3] Decree of the president of the Republic of Belarus as of 15.10.2007 N 497 “On some issues of implementation of the simplified tax system and on amending and changing Decree of the President of the Republic of Belarus 119 as of March 9, 2007” came into force from the day of its official publication.

to compensate for the losses cause by the change of the organizational and legal form of doing business. Experts, business associations and entrepreneurs themselves believe that IEs that work in the sphere of trade suffer most due to sharp decrease of effectiveness of doing business. Moreover for the IEs that stay after re-registration beneficial VAT treatment and absence of documents for the purchased good are allowed only until the end of 2008. Taking into account the fact that these benefits are critically important for most of IEs working in trade we can conclude that the whole institute of IEs in retail trade in the form it exists today will be fully liquidated in 2008.

To justify such policy the bodies of government administration state that it is necessary to call equal and transparent conditions for doing business for all Belarusian enterprises and to liquidate unfair competition. It exists as foreign goods (mainly Chinese) are sold at dumping prices in the Belarusian market. However, the ban to employ non-relatives will increase the number of unemployed and deteriorate social economic situation in the country.

The conditions for natural development and growth of small business have not been created. As empirical studies show the regulatory environment is difficult. Transaction costs of doing business remain quite high primarily for small enterprises.

November 10, 2007 was the deadline for filing applications for re-registration of IEs into PUEs. Final data on the number of IEs that transformed their business into PUEs are still not available as documents are still being processed. As of the end of November out of 203000 IEs that operate in Belarus only 1700 IEs received the certificate of registering a private unitary enterprises. Another 9000 IEs applied for state registration.

Hence the overall number of IEs that got re-registered into PUEs varies from 5.5 – 6% according to different estimates. However as representatives of the Ministry of economy argue from all IEs registered in Belarus 30000 were not involved in any commercial activities. Many IEs operated alone. Only about 60000 IEs operate with hired workers. Consequently, they believe that each fifth IE that was supposed to make a choice made it in favor of a PUE. It is still unclear whether other IEs will close down their businesses or they will protest or they will register a legal entity in the general order.

2.2. Simplification of administrative procedures

As early as in 2006 different state bodies declared their intentions to simplify administrative procedures in Belarus. All ministries were given orders to revise the excising procedures and to liquidate or to reform unnecessary ones. The work in this direction started after the president's order to simplify procedures to develop business, which was made at the 3rd National People's Assembly on March 2006. Alongside with ministries representatives of business associations and International Finance Corporation took part in the process of considering administrative procedures and working out their revised versions.

The draft of the legal document on simplification of administrative procedures should have been ready by September 2007 but it has not been presented yet. Heads of different state bodies almost ignored the discussion of these procedures. In addition a fruitful dialogue among government employees, IFC and business associations failed to happen. As a result, this cooperation has not brought meaningful results.

At the same time in November, the government made a statement on the intention to improve business climate. The government set up a working group to liberalize legislation in the sphere of entrepreneurship. The organizers of the group believed that the group should prepare the legislative base for reducing the number of procedures and time for registration and liquidations of a commercial organization, for licensing, property registration, foreign trade, lowering tax burden, ensuring equality of economic conditions for all economic entities in terms of the access and the price of banking credits. All these measures are aimed at creating favorable investment climate in Belarus.

The government considers draft normative acts which should come into force in the near future. They are aimed at stimulating entrepreneurial activities in rural area, stimulating manufacturing and sales of some goods, the procedure and terms of privatization of loss making enterprises as single property units. The government also plans to broaden the list of the kinds of entrepreneurial activities that physical entities can be involved in without state registration.

2.3. Simplification of licensing

Decree 7[4] (it will come into force on January 1, 2008) changes some procedures of licensing. For example, the requirement to get a new license when a commercial organization is reorganized in the form of merging or splitting is abolished. To extend the duration of the license it will enough to write a statement and to indicate necessary information in it. The term of the license was also extended from five to ten years. Moreover, the list of violations that can lead to the cancellation of the license became conclusive. Before that legal act, the reasons for revoking a license were interpreted by the state employees.

At the same time, the new decree contains a lot of points for criticism. In general, it does not stipulate any considerable changes in licensing. It rather clarifies and corrects some aspects of licensing. Most importantly, it does not reduce the number of licensed kinds of activities. It is one of the biggest administrative obstacles in doing business in Belarus. Moreover, according to this decree it is the body that issues the licenses – not the court that keeps the right to revoke it. It is a violation of the rights of a licensee. The term of suspending a license was extended to six months (it was one month before).

2.4. Increase of rent rates

According to Decree 533[5], from April 2008 the lowering indexes to the rent rate for most NGOs are abolished. In Minsk, they will pay 10 euro per one square meter rent instead of 1 euro. The increase of rent by 10 times can be lethal to many non-governmental organi-

[4] Decree of the president of the republic of Belarus as of 26.11.2007 #7 "On amending and adding changes in Decree of the president of the Republic of Belarus as of July 14, 2003 N 17" will come into force on January 1, 2008 excluding a few points in it.

[5] Decree of the president of the Republic of Belarus as of 23.10.2007 N 533 "On amending and adding Decrees of the president of the Republic of Belarus as of September 30, 2002 № 495 and as of August 4, 2006 г. № 498", comes into force in April 2008 excluding a few points.

zations (there are 2000 of them in Belarus). Business unions and centers for support of entrepreneurs will also suffer. The reduction of the possibility of institutes of business environment to protect the interests and rights of private business can lead to the deterioration of the whole business climate in the country.

3. MAIN PARAMETERS AND FACTORS OF SME DEVELOPMENT IN BELARUS

3.1. Economic situation of SMEs in Belarus

In August 2007, IPM Research Center carried out another study in SME sector[6] to see how this sectors changes. The aim of the study was also to analyze SMEs problems.

General characteristics of the regulatory framework in Belarus have not changed much recently[7]. At the same time, enterprises have to adjust to and to survive in this environment. It is internal factors of success for enterprises that become particularly important under such conditions. That is why in the latest IPM Research Center study experts put an emphasis rather on micro level development of SME than on the problems of regulatory environment impact.

In spite of the difficult regulatory environment, many small and medium enterprises still work on the market. Moreover, they positively evaluate the results of their activities. About a half of the respondents- directors of SMEs characterize the economic condition of their enterprises as "good" and 41% - as "neither good nor bad". Evaluations of relatively big enterprises[8] are higher (Table 2) which can be explained by the scale effect, higher stability and resistance to the negative influence of the external environment.

Table 2: Distribution of answers to the question "What is the economic condition of your enterprise?" depending on the number of employees SMEs have, %

	Number of employees, persons				
	1–10	11–50	51–100	101–200	More than 200
Very bad	1.2	1.9	--	--	9.1
Rather bad	11.2	9.2	8.7	--	--
Neither bad nor good	50.6	39.2	39.1	31.6	9.1
Rather good	36.5	45.0	50.0	47.4	45.5
Very good	0.6	4.6	2.2	21.1	36.4
Total:	100.0	100.0	100.0	100.0	100.0

Source: own estimates.

At the same time, economic indicators of the enterprise do not depend on the year of its founding. Evidently, at present it is not the experience of working in the market that is more important but rather the knowledge of new managers or the segments that enterprises manage to get in the market.

Sector-wise enterprises in construction, transport, telecommunication and tourism are more likely evaluate their economic conditions as positive. More than 50% of respondent in each sector gave positive evaluations. Enterprises that provide services are in the best shape. Enterprises that work in industry or in the sector of household services where the government interference is the most visible and where intense competition from the state sector (sometimes it is quite unfair) and foreign manufacturers (mainly Russian and Chinese) is observed give fewer positive evaluations of their activities.

In spite of the agreements that Belarus signed with Russia on gradual increase of energy prices and reaching the level of work prices by 2011 most SMEs (66%) evaluate optimistically their economic perspectives whereas many experts believe that it can lead to very negative consequences for Belarus which is still not reformed and energy inefficient. High degree of optimism is typical of relatively big and quite small SMEs, both for old and for new SMEs, for those that are located in the capital an in the province and in all sectors of the economy.

Adjusting these evaluation to the psychological factor (entrepreneurs typically are optimistic) and the qualitative nature of the evaluations[9] we can say that small and medium businesses look in the future with optimism in spite of all the obstacles (primarily of regulatory nature) that it comes across.

According to the official statistics for the contribution of small business to GDP is 8.8%[10] (it went up by less than 1% for the year) and to general employment - 9.2%.

These indictors are low compared to developed as well as Central and Eastern European countries. As we can see from the experience of other countries, creating favorable business climate and taking into account the "vitality" of Belarusian SMEs their contribution to the economy of the country could have been much bigger and could have led to the higher level of welfare.

In general small and medium business sector is a dynamically developing sector in the economy. In 2006, the income of SMEs grew by four times and it was higher than in the economy in general. Costs of production also grew but they only doubled. It can be the evidence that either many SMEs left the grey economy or there is favorable demand for the goods provided by SMEs.

3.2. Factors of success of Belarusian SMEs

As we mentioned earlier studies and polls conducted in Belarus on the topic of SMEs focused on the analysis of the impact of the regulatory environment (legislation, bureaucratic barriers etc.) on business. Nevertheless, the success of a business much depends on these factors but it is not fully determined by them.

A success or a failure of a business depends on a range of internal (they are managed by the enterprise) and external factors (they are beyond the company management's control). As IPM Research Center studies showed[11] for

[6] Results of this publication are based on the study of SMEs in Belarus conducted by IPM Research Center and CASE (Warsaw) experts. This research was done in July – August 2007 Owners and top managers representing 517 enterprises took part in this research. Main parameters of the sample and answers of respondents can be found at www.research.by.

[7] EBRD (2007). *Transition report 2007: Life in transition,* - 81 p.

[8] Statistically important correlation between the evaluation of the economic situation of the enterprise and its size was found but it is not significant (0.177).

[9] Belarusian enterprises tend not to reveal quantitative parameters and estimates of their activities. Consequently the authors had to deal with qualitative definitions and evaluations.

[10] Ministry of statistics and analysis, 2006

[11] Including the data received during the study of focus groups conducted by IPM Research Center before the beginning of the poll.

SMEs the most important issues are connected with finance, human resources, management system (internal factors) and also with demand characteristics, supply and competition (external factors). Let's consider them in more detail.

As for internal factors SMEs consider of big importance the following factors: long-term contacts with clients, individual treatment of clients, the availability of the "team", employees' high level of qualifications and skills, ability to effectively manage, the ability to find optimal relations product - market (Figure 4).

Customer orientation is considered to be the most important factor of success of many Belarusian SMEs. The nature of competition in the market and the speed of spreading information force enterprises to react quickly to requests of customers. To do that, they should be as close to customers as possible and to know their needs. It is worth noting that low costs and low prices of goods and services turned to be in the lower part of the list of success factors (average indicators are 3.41 and 3.27 correspondingly. They are not shown in Figure 4). They do not play an important part in competition.

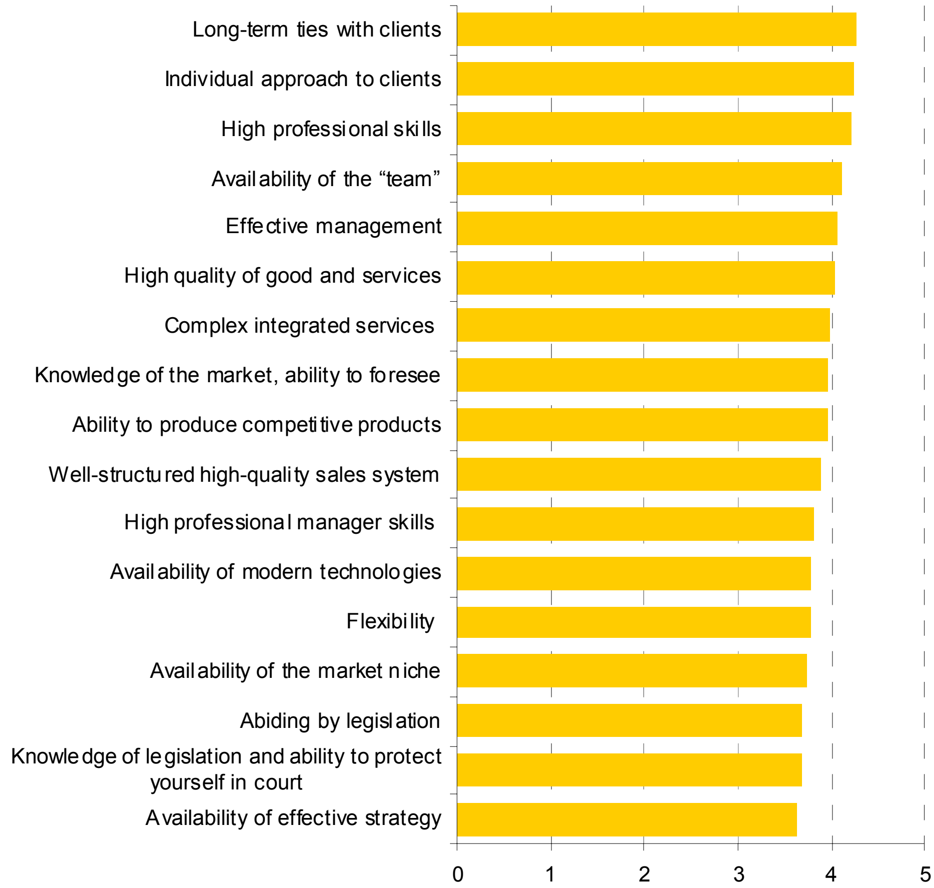
On the other hand, the factors that are connected with human resources and management are very important for success (see Figure 4). The availability of the "team", high professional skills of personnel and effective management of the enterprise together form the success factors that within internal success factors follow client-oriented approach. The third important component of success from the internal factors is deep knowledge of the market and the ability to build it one's project into the market or to adapt this product to it.

Among internal obstacles, SMEs most frequently indicate the deficit of financing (for development and turnover capital), high costs and inefficient management of the company (Figure 5). Financial aspects are thought to be the most difficult for SMEs. As Belarusian business faces difficult access to loans and credits its potential for development is limited.

Ineffective management of the company, lack of good business ideas and also fear of making a wrong decision which could lead to losses emphasize once again the importance of the factors that are connected with human resources for the development of a company. After finance, they are next most important internal barriers for business development.

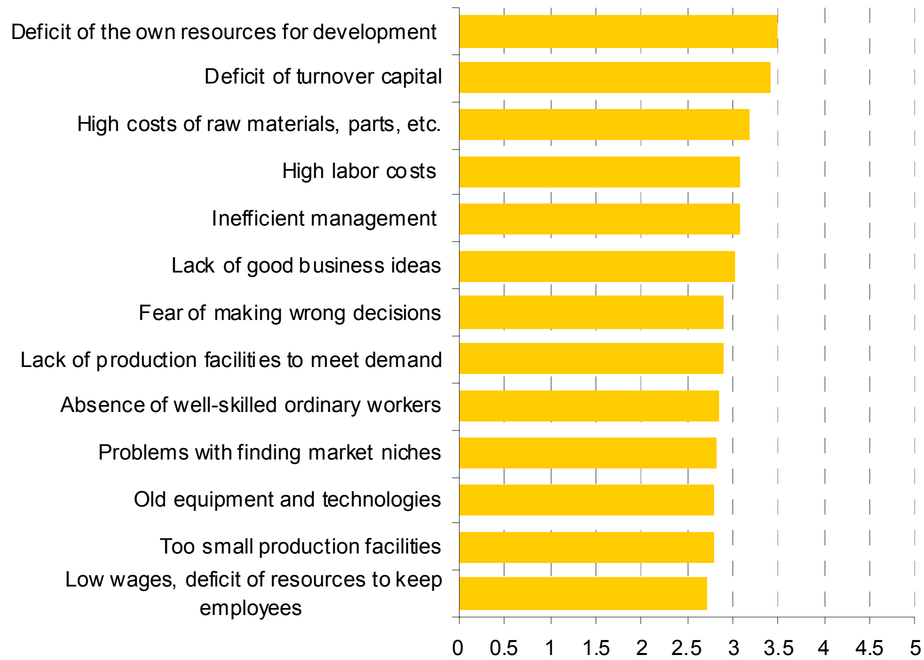
It should be noted that success factors are estimated by small and medium enterprises higher than obstacles. Consequently, entrepreneurs are more success oriented than barrier - perception oriented.

Figure 4: Main internal factors of SME success



Note. "1" – it does not matter, "5" – it helps a lot.

Figure 5: Main internal obstacles for SME development



Note. "1" – it does not matter, "5" – it is a very big obstacle.

Today one of the key external success factors for Belarusian business is the growth of real demand (average result is 3.92) and the availability of the unmet demand in the market (3.51). In fact, the latter is the consequence of the former (Figure 6). Economic growth that is due to export growth (primarily export increase of potash fertilizers and oil products) enables to increase investment and consumption activity both of the population and enterprises. SMEs get a part of this growing monetary flow and increase their sales. It is the real demand that enables SMEs to cushion the costs of regulatory environment and to expand their economic activities.

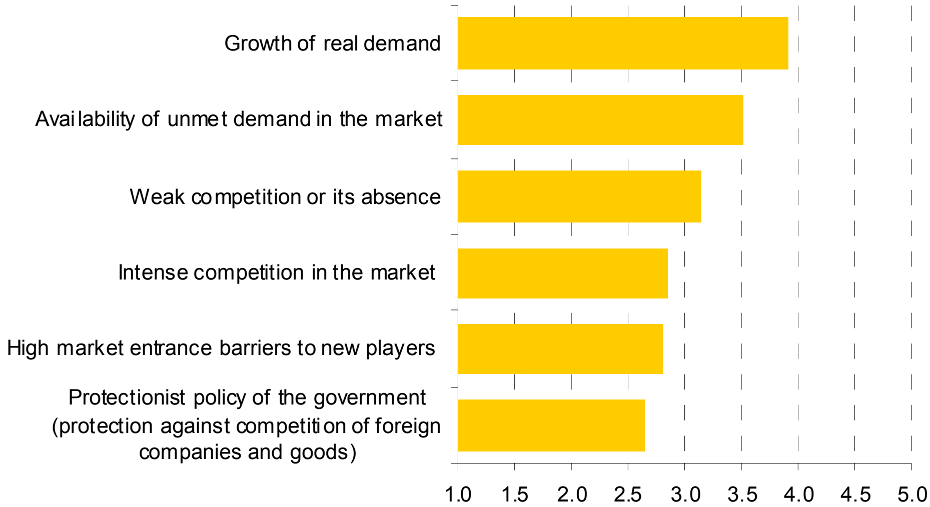
Weak competition or its absence in the market are also important factors that help to develop business (average result is 3.15). The reason of weak competition in Belarus can be protectionist policies aimed at supporting domestic manufacturers and sectoral strategies of some Belarusian SMEs. Vice versa, intense competition which forces enterprises to move forward and to change strategies, to develop business contributes to the development of a different group of enterprises.

In general, most of respondents in the poll indicated high level of competition in their main market segment. Only 1% of respondents work in the environment without competitors, 7% – with one or two competitors, 32% – with three – ten competitors, 23% – with eleven – 20 competitors and 37% of SMEs have more than 20 competitors. High intensity of competition is typical for all sectors of the economy. However, SMEs which work in industry, construction, transport and telecommunication face relatively less competition than SMEs that work in trade, catering and household services. In trade a considerable threat is the development of the network of hypermarkets which reduces the operational field for small enterprises.

External obstacles that hampers SME activities are diverse and numerous. The most problematic factors for SMEs were traditionally tax system (average indicator 3.97), administrative barriers (3.92), inspections and fines, institutional barriers (deficit of property rights protection and interests of private business) (Figure 7).

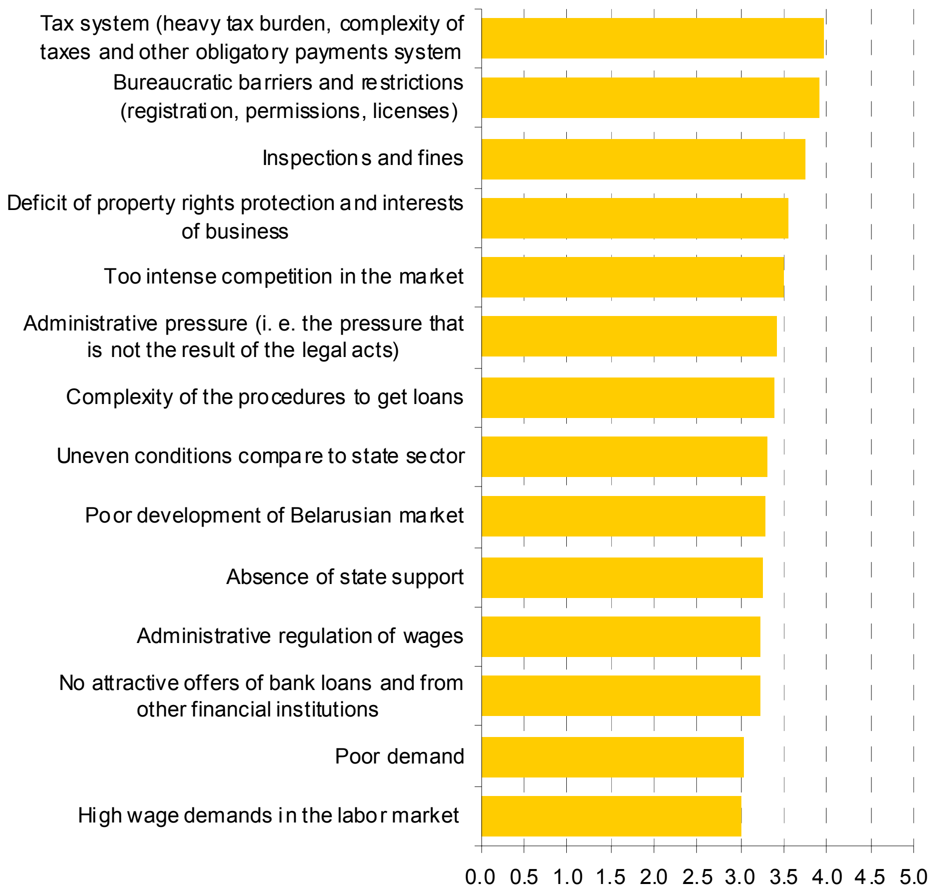
Compared to the evaluation of external factors of success the average indicators of external barriers are a little higher. In this case, the reason can be a really strong negative impact of the external environment and primarily its regulatory component on Belarusian business. The factors that refer to the internal environment of the organization got the highest indictors out of all factors (Table 3). They are primarily relations with clients and the factors related to human resources and

Figure 6: Main external success factors for SMEs



Note. “1” – it does not matter, “5” – it helps a lot.

Figure 7: Main external obstacles to SME development



Note. “1” – it does not matter, “5” – it is a very big obstacle.

management. The tax system as a factor of external regulatory environment also to a big extent has a negative impact on business development.

3.3. Economic condition of SMEs and personnel training

Respondents indicated the level of professional skills and knowledge both among the factors that contribute to the success of SMEs and that hamper their development. At the same time, training both of ordinary employees and top managers is still not typical of the majority of Belarusian SMEs. The explanation could be that directors of SMEs themselves do not understand the importance of business education. Only 10% of SMEs have employees with an MBA degree. Most of them are in Minsk.

The study showed that accountants and sales managers need training most of all. It is due to the peculiarity of their work in Belarus. Complicated and contradictory legislation forces accountants to get regular training and the real market demand urges sales people to improve their abilities to sell (Table 4).

It is worth noting that among SMEs that employ people with MBA degrees training of employees is considered to be more important than for SMEs that do not have such employees. The necessity of top managers training among SMEs with MBA were estimated at 4 and 5 points in 64% of cases vs. 36% among SMEs without MBA. Training of mid-layer managers – 64% and 34% correspondingly; marketing department specialists – 70% and 37%; purchasing and procurement department – 44% and 25%. At the same time, there is no such difference in training accountants and sales managers.

On average 45% of SMEs organize additional training of their ordinary workers and employees. The main forms of training are courses, seminars and trainings (27%), training inside the company (20%) and self-training (17%). At the same time, 40% of SMEs indicated the training of mid-layer and top managers. The most popular forms of additional training of managers are courses, seminars and trainings (33%), self-training (16%) and training inside the company (14%).

In the whole study in 2006 21% of top managers, 19% of mid-layer managers and 25% of ordinary workers and employees got trained. Region-wise the leaders are Grodno region and Minsk. Sector-wise SMEs from transport, telecommunication, auditing and consulting services got trained oftener. Older and bigger companies also got more training than new and small ones.

The analysis shows the relation between training and the change of economic situation for the last two yeas and also the relation between training at course (seminars, trainings) and the forecast of the economic situation of the company for the next two years (Table 5). Hence, training of employees in the past and present is directly connected with the economic success of SMEs.

Table 3: Main factors that influence SME business, aggregate, average indicators in the whole poll

	Average
Long-term ties with clients	4.27
Individual approach to clients	4.23
High professional skills of personnel	4.20
Availability of the “team”	4.11
Effective management of the company	4.06
High quality of goods/services	4.04
Providing integrated complex services to clients	3.99
Tax system (heavy tax burden, complicated tax and other obligatory payments system)	3.97
Knowledge of the market, ability to foresee market demand	3.96
Ability to produce competitive goods	3.96
Increase of real demand	3.92
Bureaucratic barriers and restrictions (registration, licensing, accounting, a lot of paperwork etc.)	3.92
Well-managed and smoothly running sales system	3.88
High professional level of managers	3.81

Note: “1” – it does not matter, “5” – it has a very big impact.

Table 4: Distribution of answers to the question “To what extend do specialist of various department of your company need training?”, %

	1	2	3	4	5	Average
1. Accounting	19.6	13.3	23.8	23.8	19.6	3.10
2. sales department	20.4	14.4	20.8	23.4	21.1	3.11
3. Marketing	22.2	11.8	24.7	21.9	19.4	3.05
4. Purchasing and procurement	25.0	18.9	29.8	17.1	9.2	2.68
5. manufacturing	26.0	12.5	24.0	19.0	18.5	2.91
6. Mid-layer managers	20.5	14.9	28.4	22.4	13.7	2.94
7. Top managers	24.5	12.6	25.0	18.6	19.3	2.95

Note. “1” – employees of this department do not need training, “5” – employees of this department need training badly.
Source: own estimates.

Table 5: Personnel training and economic situation of SMEs

	How did the economic situation of your company change for the last 2 years?	Current economic situation of the company	How would the economic situation of your company change for the next 2 years?
Training at course, seminars and trainings	-0.009	0.042	0.160**
Training inside the company with its own resources	0.224**	0.175**	0.134
Stagiere	0.229**	0.246**	0.119
Training inside the company with the invitation of an outside expert	0.202**	0.234**	0.019
Self-training	0.064	0.154**	0.084

Note. Pirson coefficient. ** – coefficients are meaningful on the level of one percent meaning (0.01).
Source: own estimates.

4. SHORT SURVEY OF SWEET AND CANDY MARKET IN BELARUS[12]

Modern markets are characterized by growing intensity of competition. Hence, the role of marketing in the activities of Belarusian enterprises is growing. A director in order to make adequate decisions needs the information about the situation in the market, competitive environment, preferences of consumers and competent marketing strategy. Accuracy, authenticity and full scope of the information and professional marketing strategy predetermine the success of the company. To work out such strategy it is important to rely on high quality information about the main characteristics of the market where this company works. This article presents a short survey of sweet and candy market[13]. It is

[12] The survey was prepared by the consulting company INDECOM at the IPM Business School. INDECOM is a marketing consulting company that has been in the market since 2004. It specializes in providing marketing services. The company offers innovative solutions for competitive markets. You can get more information about the company and its services at +375 17 294 5655.

[13] The current state of sweets and candies market and the peculiarity of the consumer behavior were analyzed on the following kinds of confectioneries: chocolate goods, caramel, fruit drop, jelly sweets, toffee like sweets, dragee, candied roasted nuts, candies nuts (kozinaki), milk sweets, cream sweets, marmalade pastila sweets and chewable sweets.

based on primary information. It was collected during the survey of this market by the consulting company INDECOM at the IPM Business School.

The study of the market consisted of two stages: qualitative (focus groups) and quantitative (polling consumers). The focus groups study (they are discussions of respondents and a well-trained moderator on a certain topic) enabled to receive the information, which is very difficult or just impossible to get in any other way. The results were used to process the questionnaires that were worked out for the polling of sweet and candy consumers. The poll was held in 10 Belarusian cities with the population more than 100'000 people: in Minsk, regional cities (Brest, Vitebsk, Gomel, Grodno, Mogilyov) and in a few other big district centers (Baranovichi, Borisov, Bobruysk and Orsha). Here are some results that were received at each stage of the research.

Why do people buy sweets?

The overwhelming majority of the consumers buy sweets because they want something sweet. About one forth of respondents buys sweets to have at home with tea. A relatively small share of respondents indicated that they buy sweets as they visit their friends or make presents. There were respondents who said they bought sweets to boost their spirits.

Gender differences were established in consumer behavior: men are more often to choose sweets as a present or as a means to fight hunger while women are more often to buy sweets as a means to fight with stress, heavy emotional burden and as a means to boost their spirits.

What sweets Belarusians prefer?

Chocolate sweets ate the most preferred and most frequently bought out of all kinds of sweets. Many people consider chocolate the sweets that in fact are not chocolate for example candied roasted nuts covered with chocolate or chocolate covered waffle. Caramel and fruit-drops take the second position based on the volume of consumption. Candied roasted nuts and marmalade - like sweets are bought rarer. Cream sweets and dragee are the least bought kinds of sweets.

Chocolate sweets

Leaders of the segment of chocolate sweets are JSC "Spartak" and JSC 'Kommunarka". They make "Soviet" sweets under trade marks and old recipes. On the one hand, it is an advantage because their recipes consist of only natural ingredients (cocoa, cocoa butter). It gives these trade marks an advantage over "non-natural" analogues. On the other hand, enterprises face difficulties in the area of patent legislation and they are not flexible enough to adjust to the changes of consumer preferences.

Sweets with functional characteristics[14]

During the poll, the attitude of respondents to sweets with specific functional attributes was studied. The poll showed that they are bought by more than a half of respondents. Women make a little bit a bigger share of them. Besides, it is worth mentioning that young people are more inclined to buy such sweets. Demand for them declines with age.

People who buy "functional" sweets prefer the sweets that refresh one's breath and "cough" drops. Some functional qualities are demanded more by men (for example the sweets that refresh breathing) while women buy more sweets with medical characteristics.

Taste preferences of respondents in sweets are distributed in the following way. The absolute leader is chocolate taste. There is a wide gap between this one and others. Then comes a fruit and berry taste, a candied roasted nuts taste and a liqueur taste. Mint and exotic tastes are much less popular.

Peculiarity of perception of sweets advertisement

During the research, the issue of advertisement was also under studies. The experts wondered the advertisements of what producers catches more eyes and what consumers remember them for. As these questions had an open mode the subsequent processing of the answers with the help of the qualitative analysis was used. It is worth noting that the majority of respondents do not remember any advertisement. Others sometimes remember the brand but often do not know why they liked it. However we can conclude from all observations that the main aggregated ingredients of all advertisement success is the availability of a peculiar plot, a colorful clip and a bright easy to remember and unique slogan which tugs the man idea.

Main features of the Belarusian sweet market

Sweet market of Belarus is quite dynamic and constantly growing. The most popular place for buying sweets is a specialized section of a food store. Market places are the second most popular places.

The main peculiarities of sweet production in Belarus are:

- Wide assortment (big enterprises – Kommunarka and Spartak have more than 300 items, others – about 50 – 100 items[15]) of products which makes it impossible to clearly position leading Belarusian trade marks and consequently to carry out an adequate advertising campaign.
- not modernized fixed capital with depreciation of more than 50%.

Many specialists note that at present one of the important tendencies in sweet market development is that the goods are getting more complex. In perspective, the increase of the market volume will be ensured by a few main factors: the increase of real income of the population, introducing new high quality products to the market (primarily chocolate sweets), measures to brand products and an active advertising campaign of sweets' producers. However, we should acknowledge that the general level of recognizing brands among consumers is quite low. In most cases consumers do not know (or they do not bother to find out) the producer of the sweets they consume. It is an indirect indicator that the brand recognition of the majority of sweet manufacturers is not formed among Belarusian consumers.

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Consulting company INDECOM

[14] This complex definition hides fruit drops that easy cough and refresh breathing etc.

[15] http://www.priorbank.by/download/info/reviews/rb%20confectionery.pdf.