Business Environment in Belarus 2013

SURVEY OF COMMERCIAL ENTERPRISES AND INDIVIDUAL ENTREPRENEURS
The contents of this report are protected by copyright.

Neither this report nor its parts may be reproduced, copied, or distributed in any form without reference to the IFC report “Business Environment in Belarus 2013. Survey of Commercial Enterprises and Individual Entrepreneurs”.

IFC encourages dissemination of this publication and hereby grants permission to the user of this work to copy portions of it for the user’s personal, noncommercial use, without any right to resell, redistribute, or create works derived from the contents or information contained herein. Any other copying or use of this work requires the express written permission of IFC.

The materials contained in this report are presented as an overview of results from a survey that was conducted in August-October 2012 among managers and owners of over 1,200 enterprises and individual entrepreneurs operating in Belarus. The information in this report is presented in good faith for general information purposes. IFC, the World Bank Group, the United States Agency for International Development (USAID), the Swedish International Development Cooperation Agency (Sida), and the Austrian Ministry of Finance shall not be held liable for any of the information contained herein.

This report does not claim to serve as an exhaustive presentation of the issues it discusses and should not be used as a basis for making commercial decisions. Please approach independent legal counsel for expert advice on all legal issues.

All information and materials used in preparing this report are the property of and archived by IFC.

© 2014 International Finance Corporation

The report is available in printed and electronic form at the following address:
Partizansky Prospekt 6A, 4th Floor
220033 Minsk, Belarus
www.ifc.org/belarus/ic
Contents

FOREWORD AND ACKNOWLEDGEMENTS ................................................................. 5
ACRONYMS ........................................................................................................... 8
EXECUTIVE SUMMARY ...................................................................................... 9
REVIEW OF THE BUSINESS ENVIRONMENT IN BELARUS .................................... 14
LICENSING .......................................................................................................... 21
PERMITS ............................................................................................................. 27
INSPECTIONS ..................................................................................................... 34
OTHER ASPECTS OF THE BUSINESS ENVIRONMENT ...................................... 41
ANNEX 1. METHODOLOGY .............................................................................. 50
Foreword and Acknowledgements

In this report IFC presents findings of its fifth survey of the business environment in Belarus. The survey was conducted in August-October 2012 as part of the IFC Belarus Regulatory Simplification and Investment Generation Project implemented in partnership with the United States Agency for International Development (USAID), the Swedish International Development Cooperation Agency (Sida), and the Austrian Ministry of Finance.

The survey asked managers and owners of 1,266 micro, small, and medium-sized enterprises and individual entrepreneurs operating in Belarus to provide a general assessment of the quality of the business environment in the country and of the respondents’ experiences of complying with certain administrative procedures applied to businesses by government authorities. Thus, the report does not cover all factors that shape and influence the existing business environment and mainly focuses on specific business administrative procedures. The report covers three groups of administrative procedures that the majority of micro, small, and medium-sized enterprises and individual entrepreneurs are subject to: (1) licensing; (2) permits; and (3) inspections.

A comparison of the findings from the present survey with data from previous business environment surveys conducted by IFC in Belarus made it possible to track some important changes in the implementation of the business administrative procedures. It also helped assess the quality of the policy reforms that had been implemented earlier, and formulate recommendations for further improvements.

The quantitative indicators presented in this report reflect the actual respondents’ experiences of complying with administrative procedure during the first half of 2011 through the second half of 2012. Most of the qualitative assessments of the respondents reflect the situation in the second half of 2012. The report also contains analysis of the relevant legislative changes enacted in 2010-2013.

The IFC Belarus Regulatory Simplification and Investment Generation Project would like to thank the Ministry of Economy of Belarus for their assistance in the development of this report.

Numerous individuals and organizations have contributed generously to the preliminary review of this report, including IFC staff in the Europe and Central Asia region: Serhiy Osavolyuk and Yuriy Kuzmyn of the Ukraine Investment Climate for Agribusiness Project, Heinz-Wilhelm Strubenhoff of the Regional Agribusiness Program, and Lisa Kaestner of the Investment Climate Advisory Services of the World Bank Group.
ABOUT IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. Working with private enterprises in more than 100 countries, we use our capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity. In fiscal 2013, our investments climbed to an all-time high of nearly $25 billion, leveraging the power of the private sector to create jobs and tackle the world’s most pressing development challenges. For more information, please visit www.ifc.org.

ABOUT THE INVESTMENT CLIMATE ADVISORY SERVICES OF THE WORLD BANK GROUP

The Investment Climate Advisory Services of the World Bank Group helps governments of developing and transition countries improve and simplify business regulations, attract and retain investments, helping clients foster growth and create jobs. It is funded by three World Bank Group members—the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the World Bank—and by several donor partners who collaborate with us through the multi-donor FIAS platform.

The findings, interpretations, and conclusions included in this report are those of the author and do not necessarily reflect the view of the Executive Directors of the World Bank Group or the governments they represent.

ABOUT THE IFC BELARUS REGULATORY SIMPLIFICATION AND INVESTMENT GENERATION PROJECT

The Project assists the Government of Belarus in improving the business and investment climate in the country, helping foster economic growth and job creation. The Project provides to the Government customized advice and support in implementing policy reforms in the following key areas: (a) **Regulatory simplification**: streamlining the existing regulations governing permits, inspections, and licenses to reduce administrative burden on businesses; (b) **Secured transactions and debt resolution reforms**: amending the legal framework for secured transactions and creating a modern and unified collateral registry of movable assets to improve access to finance for businesses; improving insolvency legislation; and (c) **Investment generation**: improving investment legislation, enhancing government’s capacity for investment generation, introducing public-private dialogue for streamlining industry-specific policies and practices to increase competitiveness and attract investments. For more information, please visit www.ifc.org/belarus/ic.
ABOUT THE DONOR PARTNERS

The United States Agency for International Development (USAID)

The United States Agency for International Development (USAID) supports Belarus’ efforts to promote transition to a market-based economy. USAID provides business training and informational support, helps business support organizations and works to facilitate regulatory reforms that spur the development of the private sector in Belarus. USAID programs encourage cooperation between civil society, local governments and the private sector and enable citizens to participate in the decision making, thus creating sustainable solutions to local development challenges. For more information, please visit http://www.usaid.gov/where-we-work/europe-and-eurasia/belarus.

The Swedish International Development Cooperation Agency (Sida)

The Swedish International Development Cooperation Agency is a government agency that reports to the Ministry for Foreign Affairs of Sweden. Sida is responsible for most contributions of Sweden to international development work with the goal to improve the standard of living of poor people and eradicate poverty. For more information, please visit www.sida.org.

Austrian Ministry of Finance (MOF), External Economic Program

MOF’s External Economic Program supports the development and transition process in Southeast and East Europe. The program aims at promoting sustainable investments to support economic growth, create jobs and improve the business environment. Supporting local and foreign investments helps to improve the livelihood of people and the progress towards a stable and prospering region. Our goal is to contribute to private sector growth through capacity building, SME support, facilitation of investments, and building business partnerships between Austrian and local investors. For more information, please visit http://english.bmf.gv.at/.
List of Acronyms

APs – administrative procedures
GDP – gross domestic product
EU – European Union
FIAS – Foreign Investment Advisory Service
IE – individual entrepreneur
IFC – International Finance Corporation
MIGA – Multilateral Investment Guarantee Agency
MSMEs – micro, small and medium enterprises
RIA – Regulatory Impact Assessment
Sida – Swedish International Development Cooperation Agency
SMEs – small and medium enterprises
USAID – United States Agency for International Development
Executive Summary

KEY FINDINGS OF THE SURVEY

Simplifying administrative procedures (APs) such as inspections,\(^1\) permits issuance, and licensing has been an important part of IFC’s advisory programs in Belarus in recent years. The data collected during the present survey indicate that over the last three years significant progress was achieved in streamlining these APs. The proportion of respondents who consider these administrative procedures an impediment to their business has significantly decreased (Table 1).

Of all the administrative procedures reviewed during the survey, inspections comprise the biggest impediment to business: 35 percent of respondents consider inspections as an obstacle. Permits issuance and licensing are viewed as a problem by 29.1 and 13.4 percent of the surveyed company representatives. The significance of the improvements can be evaluated by comparing these data with the findings from the IFC survey report “Business Environment in Belarus 2006” in which 72 percent of respondents reported that “existing mechanisms of administrative procedures” were an impediment to business development. Moreover, almost all quantitative indicators describing the coverage, frequency, cost, and duration of these procedures corroborate the qualitative assessments made by the respondents.

Table 1. Administrative procedures were not mentioned as often as impediments to doing business over the last three years as before

<table>
<thead>
<tr>
<th>Administrative procedures</th>
<th>Percent of MSMEs(^2) who consider administrative procedures as impediments for doing business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009(^3) (%)</td>
</tr>
<tr>
<td>Inspections</td>
<td>53</td>
</tr>
<tr>
<td>Tax administration</td>
<td>51.8</td>
</tr>
<tr>
<td>Obtaining permits</td>
<td>45.8</td>
</tr>
<tr>
<td>Price controls</td>
<td>41.8</td>
</tr>
<tr>
<td>Licensing</td>
<td>33.8</td>
</tr>
</tbody>
</table>

Source: IFC surveys

As a result of the recent business regulation reforms, administrative procedures were removed from the top of the list of the most problematic conditions for doing business (Table 2). At the same time, other factors, such as “inconsistency of legislation” and “access to finance” remained on the top of the list. During the present survey, 59 percent of the MSMEs indicated “inconsistency of legislation” as an impediment to their

---

1 For purposes of simplifying the discussion in this report, inspections of regulatory authorities are referred to as “administrative procedures” (though not so named according to relevant legislation).
2 Micro, small and medium enterprise or MSMEs.
3 Based on the findings published in the survey report “Business Environment in Belarus 2010” (including respondents who chose one of the following answers: “moderate impediment”, “significant impediment” or “very serious impediment”).
4 Based on the findings of the present survey; percentage of respondents who chose the answer “rather hinders” or “hinders the greatest” of the total number of respondents, excluding those who provided no answer.
activities, while for 35 percent of the respondents it was “access to finance”. These data are very similar to the findings presented in the IFC survey report “Business Environment in Belarus 2006”, where “legislation governing the activities of enterprises” was mentioned as an obstacle by 56 percent and “mobilization of additional financial resources” by 35 percent of the respondents.

<table>
<thead>
<tr>
<th>Conditions for doing business or administrative procedures for businesses</th>
<th>Impede6 (%)</th>
<th>Do not impede7 (%)</th>
<th>No answer (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inconsistency of legislation</td>
<td>59</td>
<td>34.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Lack of skilled workforce</td>
<td>55.7</td>
<td>39.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Access to finance</td>
<td>35</td>
<td>39.6</td>
<td>25.1</td>
</tr>
<tr>
<td>Inspections</td>
<td>35</td>
<td>61</td>
<td>4.1</td>
</tr>
<tr>
<td>Tax administration</td>
<td>29.9</td>
<td>64.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Obtaining permits</td>
<td>29.1</td>
<td>55.5</td>
<td>15.5</td>
</tr>
<tr>
<td>Price controls</td>
<td>28.8</td>
<td>55.9</td>
<td>15.5</td>
</tr>
<tr>
<td>Access to land and other resources</td>
<td>20.2</td>
<td>34.1</td>
<td>45.6</td>
</tr>
<tr>
<td>Licensing</td>
<td>13.4</td>
<td>60.1</td>
<td>26.5</td>
</tr>
</tbody>
</table>

**Table 2. Administrative procedures have receded into the background and are now impeding businesses less than general conditions for doing business (% of MSMEs)**

**IFC-SUPPORTED POLICY REFORMS AFFECTING SPECIFIC ADMINISTRATIVE PROCEDURES**

**Licensing**

Presidential Decree No. 450, dated September 1, 2010, reduced the number of licensed activities from 53 to 37. This included cancelling the retail trade licenses, which accounted for over 30 percent of all licensing actions taken by enterprises, such as obtaining or extending a license. As would be expected, the survey results showed that the share of businesses required to obtain licenses dropped from 81 percent to only 41 percent, and among individual entrepreneurs from 75 percent to 14 percent.

The implementation of Presidential Decree No. 450 resulted in a series of improvements in required licensing actions, with decreases in the period of preparing necessary documents, waiting time for the licensing authority’s decision, and fees and expenses incurred during licensing. As a result, the proportion of respondents who complained about the duration of the procedure, the number of documents required, and their processing costs decreased. Moreover, more than half of the MSMEs who took licensing actions stated they “have never faced serious problems [in the process of obtaining a license]”.

**Permits**

In February 2012 Belarus adopted a Single List of Administrative Procedures for Businesses⁸, a reform that is expected to lead to improvements in the permits system similar to those achieved in licensing. Although, the respondents could not assess the impact of the Single List’s introduction at the time of

---

⁵ Hereinafter, unless otherwise stated, the data source is the IFC survey.
⁶ Percent of respondents who chose the answers “likely to impede” or “impedes most”.
⁷ Percent of respondents who chose the answer “unlikely to impede” or “does not impede at all”.
⁸ The Single List of Administrative Procedures Conducted by Public Authorities and Other Organizations in Respect of Legal Entities and Individual Entrepreneurs was approved by Resolution No. 156 of the Council of Ministers of Belarus on February 17, 2012, and came into force on March 27, 2012.
the present survey (the Single List was adopted only two months before the survey started), the survey findings indicate substantial improvements in the permits system that were enacted prior to the adoption of the Single List.

Compared to the findings published in the survey report “Business Environment in Belarus 2010”, the proportion of businesses that received at least one permit per year decreased from 39 to 18 percent for enterprises, and from 38.8 to 9 percent for individual entrepreneurs. Moreover, the average number of permits received per year decreased as well, and the average costs for enterprises associated with obtaining one permit were reduced in half.

Nevertheless, still regarded as problems by a sizable portion of respondents were the duration of permit issuance procedures, the complexity and multi-phased aspects of related procedures, the large number of required documents, and difficulties in obtaining adequate advice. The adoption of the Single List of Administrative Procedures is an important first step in solving these problems.

**Inspections**

The survey findings confirmed a downward trend in the “inspection burden” on businesses. According to the survey report “Business Environment in Belarus 2006”, 68.2 percent of MSMEs and 55.5 percent of individual entrepreneurs were inspected on an annual basis. However, the survey report “Business Environment in Belarus 2006” indicates that these figures were 49.6 percent and 35.5 percent respectively. MSMEs inspected at least once a year had on average 2.8 inspections (including only 0.7 unplanned inspections), while individual entrepreneurs had 2.1 inspections (including 0.5 unplanned inspections). If compared to the survey report “Business Environment in Belarus 2006”, this represents a substantial reduction for MSMEs and a slight drop for individual entrepreneurs. These changes could be largely attributed to the introduction of the risk-based approach to inspections planning.

Tax authorities remained the most active in inspecting businesses. Tax inspections comprise 21.8 percent of all inspections; fire and sanitary inspections – 19.4 and 17.7 percent respectively; State Labor Inspectorate – 7.9 percent; and the State Control Committee – 5.8 percent. Fines remain the main form of penalties that authorities apply based on the inspection results. More than 30 percent of all inspections resulted in fines. Financial inspections are the most repressive: the State Control Committee and Ministry of Taxes and Duties imposed penalties resulting from 60 percent of the inspections.

It is important to note that about 90 percent of the respondents reported that they had never faced illegal demands from inspectors during inspections. And more than 40 percent of the respondents did not face any serious problems in the process of inspections. Among the chief problems mentioned by the respondents were the lack of complete information about the requirements set by inspectors during the inspections (MSMEs – 22 percent, individual entrepreneurs – 30 percent); and overly strict, often unrealistic rules and regulations, e.g., sanitary, fire, etc. (MSMEs – 27 percent, individual entrepreneurs – 17 percent).

A wider use of standard checklists for inspections could help increase transparency of the inspection procedures and requirements for entrepreneurs, thus reducing the frequency of these complaints. In this context, it is important to note that 70 percent of the respondents favored the idea of using checklists for all types of inspections.
## SUMMARY OF RECOMMENDED POLICY REFORMS

<table>
<thead>
<tr>
<th>Aspects of business environment</th>
<th>IFC recommendations</th>
</tr>
</thead>
</table>
| **OVERALL QUALITY OF THE BUSINESS ENVIRONMENT FOR MSMEs** | • Review the criteria for assigning businesses to the MSME sector. Consider partial harmonization of the definition of the MSME sector with a similar definition used in European Union countries.  
• Strengthen the role of organizations of small and medium business support infrastructure.  
• Continue efforts to improve administrative procedures, eliminating unnecessary administrative barriers.  
• Ensure consistency of legislation.  
• Facilitate the development of market mechanisms of MSME financial support (microfinance organizations, specific banking products, etc.) as an alternative to benefits provided by the government. |
| **LICENSING** | • Reduce the number of activities subject to licensing as specified in Decree No. 450.  
• Reduce the scope of works/services of individual types of licensed activities.  
• Eliminate ambiguity in defining “grave violations” to reduce misinterpretation that can give grounds for terminating a license for a single violation.  
• Exclude from the list of required documents the individual documents submitted to obtain a license, such as copies of charter documents.  
• Exclude the requirement to issue a new license after the transformation or merger of legal entities.  
• Assign control over compliance with license terms and conditions to licensing authorities only.  
• Revoke licenses only by a court decision by request from the licensing authority. |
| **PERMITS** | • Continue to reduce the number of procedures.  
• Implement “one-stop shop” principle for legal entities undergoing administrative procedures.  
• Define clear criteria and a mechanism for introducing new administrative procedures. The most preferable option is to adopt a special legal act (Presidential Decree), similar to the one governing administrative procedures for citizens, which will have a constitutive effect, i.e., a procedure comes into effect only after it is included in the legal act.  
• Create an Internet resource based on the Single List of Administrative Procedures.  
• Put in place a procedure to determine fees for implementing procedures according to international best practices. |
| **INSPECTIONS** | • Continue to further reduce the number of inspection authorities and eliminate any overlap of their functions.  
• Introduce modern risk-based methods of planning and organizing control and preventive measures regarding inspection authorities’ activities to ensure a more rational and efficient use of financial and human resources.  
• Review the criteria for classifying businesses into risk groups for planning inspections.  
• Broaden the use of checklists for technical inspections and the use of qualitative methods of risk assessment in developing checklists.  
• Create a database with aggregated information across the country on the results of inspections and violation records.  
• Strengthen the preventive role of inspections and the use of preventive measures.  
• Eliminate departmental control as a form of control that overlaps with that of other specialized agencies in order to reduce public expenditures.  
• Continue to review technical regulations in order to reduce and update their requirements. |
<table>
<thead>
<tr>
<th>Aspects of business environment</th>
<th>IFC recommendations</th>
</tr>
</thead>
</table>
| **EQUAL CONDITIONS FOR STATE-OWNED AND PRIVATE COMPANIES** | - Monitor all regulations concerning ownership rights and remove those that do not conform to the principles established in the Constitution.  
- Prevent adoption of new regulations that unnecessarily restrict owners’ rights. Take steps to establish an equal playing field for private and state-owned businesses.  
- Prevent adoption of regulations providing for the seizure of property for administrative offenses, except in case of illicit trade in such property.  
- Prohibit seizure of property from bona fide purchasers.  
- All actions aimed at terminating property rights of businesses, including undisputed debiting of funds from their accounts, should be taken by a court decision only.  
- Amend the antitrust and competition laws aimed at improving the status and strengthening the powers of antitrust enforcement authorities and at ensuring fair competition.  
- Prevent unreasonable interference by state and local authorities with activities of private businesses.  
- Consider adopting a special law regulating conditions and procedure for nationalization in Belarus. |
| **CONSISTENCY OF LEGISLATION** | - Introduce a regulatory impact assessment (RIA) for regulations that are being drafted.  
- Introduce provisional application of certain business regulations.  
- Prevent giving a retroactive effect to business regulations, except for those mitigating or abrogating the liability for offenses in business and other activities, or otherwise improving the conditions of such activities.  
- Introduce into practice of government agencies mandatory public discussions of important regulations while they are drafted.  
- Ensure that government agencies submit drafts of important business regulations for review and feedback to business associations.  
- Adopt the Law on Self-Regulatory Organizations to transfer to such organizations some of the regulatory functions of the public authorities.  
- Include business associations into the list of entities entitled to initiate the lawmaking process.  
- Include a provision in the law “On Regulations in the Republic of Belarus” stipulating that, in case of ambiguity of provisions in regulations, decisions should be made in favor of the business.  
- Improve access for businesses to information about current business legislation, including establishing electronic databases. |
| **ACCESS TO FINANCE** | - Develop a mechanism that would encourage creation and implementation of new market-based financial tools instead of providing benefits and resources by the state on a non-repayable basis.  
- Establish a Collateral Registry of Movable Assets and encourage its wide usage by businesses.  
- Encourage the creation of non-bank financial institutions (microfinance institutions, investment funds). |
ASSESSMENT OF THE OVERALL CHANGES

In the business environment surveys for Belarus, IFC seeks to complement the quantitative indicators with subjective assessments of business owners and entrepreneurs. This time the respondents were asked to evaluate changes in the “conditions for doing business” taking place in Belarus “over the last three years.” The responses differed: legal entities, albeit by a small margin, predominantly gave positive assessments (38 percent), while individual entrepreneurs mostly negative (44 percent).

As described in introduction (Table 1), individual entrepreneurs and MSMEs both noted the improvements in administrative procedures. However, the ease of undergoing these procedures is just one of the aspects of the “business environment.” Some business conditions may improve while others worsen, resulting in a negative assessment of overall changes in the business environment. In this case, what kind of business conditions worsened? And why did they have a greater impact on individual entrepreneurs?

In search of an answer, let’s review again the assessments of individual business conditions and administrative procedures as shown in Table 2, but this time divide respondents into groups by size. The result of this grouping in Figure 1 shows the difference between individual entrepreneur and MSME assessments of business conditions. Almost all of these conditions, except for “licensing” and “administration of taxation”, are seen as impediments to business by a smaller proportion of individual entrepreneurs (compared to responses of MSMEs).

We can also note the following trend: the proportion of those who mention impediments associated with “price controls”, “inconsistency of legislation”, and “lack of external financing” increases together with the size of the group of enterprises.

Clearly, the deterioration in the overall quality of the business environment over the past three years, which was reported by almost half of the surveyed individual entrepreneurs, should be attributed to other factors not yet considered.

For example, the conditions for doing business listed in Figure 1 do not include competition. However, the survey data show an increasing influence of this factor: from 60 to 70 percent of the respondents (depending on the size of the enterprise and market segment they operate in) noted increased competition in their primary market over the last three years.

Thus, increased competition could be one of the factors leading to respondents’ negative assessments of changes in the business environment. This statistical relationship was observed, at least, among individual entrepreneurs (Figure 2). The proportion of individual entrepreneurs declaring that certain deterioration

---

9 From the time of the previous survey, i.e., 2-nd half of 2009 to the 2-nd half of 2012.
10 Percent of respondents who responded: “more likely improved” or “improved” and percent of respondents who responded: “more likely worsened” or “worsened.”
existed in the business environment was substantially higher among those facing increased competition in their primary market (52.7 percent against 26.5 percent of individual entrepreneurs who observed the same level of competition).

Thus, not all negative assessments provided by businesses of changes in the business environment should be understood as such. After all, the interests of one company or individual entrepreneur do not always coincide with public interest. Assessments of changes in the business environment may be different from the perspective of business interests, and increased competition is indeed a good example of that.

Despite the overall positive role that competition can and should play in the development of some sectors in Belarus, it is highly desirable in some cases to support innovative startup companies. As each business has its own life cycle and many medium and large enterprises begin their existence as microenterprises, small businesses in a number of countries are provided support at the government level. In this regard, Belarus is no exception.

---

12 Of the respondents who provided answers.
THE DYNAMICS OF MICRO, SMALL AND MEDIUM ENTERPRISES

To promote developing the micro, small and medium enterprise (MSME) sector, Belarus has adopted and is now implementing its Program of Government Support for Small and Medium Enterprises in the Republic of Belarus for 2013-2015. One of its introductory chapters states that

“entrepreneurship in the Republic of Belarus is a developing sector of the economy with high potential, gradually increasing its contribution to overall economic growth.”

Indeed, a brief view of the dynamics of the total number of MSMEs in the past few years, or the changes in the contribution of MSMEs to gross domestic product and exports, shows the rapid growth of this sector in relation to the economy as a whole. However, a more detailed analysis of these data calls into question both the quality of the observed growth and the accuracy of its assessment.

First, the 12.2 percent increase in the total number of active MSMEs in 2010 to 2011 (Figure 3) was mainly due to the increase in the number of microenterprises. Over the same period, the number of small and medium enterprises decreased by 4.1 percent and 6.1 percent, respectively. Employment growth at potentially productive enterprises and, as a consequence, their transition into a larger enterprise category is usually a sign of a sound MSME sector. Unfortunately, there was a simultaneous reduction in both small and medium enterprises. The transition from one classification group to another can lead to a decrease in the number of businesses in a particular size group. Nevertheless, this kind of natural loss cannot explain the simultaneous reduction in the number of both small and medium enterprises.
Unfortunately, these particular changes in the structure of the MSME sector took place in Belarus in 2009 to 2012. There is a high possibility that the observed dynamics reveals “structural” reasons in the background, making the small size of an enterprise one of the ways to adapt to existing conditions (and to use preferential treatment of economic activities for individual entrepreneurs and small businesses).

**Figure 3. Steady growth in number is observed only for microenterprises**

Second, the dynamics of the MSME sector in terms of key macroeconomic indicators do not appear so definite. Figure 4 shows the change in the contribution of different size groups of enterprises to GDP, employment and exports. The change in the share of MSMEs in employment is well correlated with the data on changes in the number of enterprises of different sizes: the growth occurs due to the increase in the number of microenterprises, while the overall share of small and medium enterprises in employment is decreasing. However, the picture becomes more complicated in terms of MSME contribution to GDP and exports. In 2011, a threefold increase in the share of medium enterprises in exports occurred simultaneously with a reduction of their share in GDP; the share of small enterprises in GDP grew, while their share in employment decreased.

These anomalies indicate not so much the actual changes in the position of the MSME sector, as the imperfection of its definition as used in national statistics. For example, the data from the National Statistics Committee show that exports of mineral products of small enterprises in 2011 almost doubled compared to the previous year’s, amounting to $11,757 million or 84 percent of the total exports of small businesses. In addition, Minsk-based small enterprises accounted for $6,312 million, while businesses from Minsk Oblast – for another $2,402 million. The Netherlands was the main importing country of products from small enterprises in Belarus for a total of $5,975 million. Therefore, we can conclude that these seemingly chaotic changes in the MSME sector in recent years are based on activities of a small number of exporters of oil products and potash fertilizers.

---

15 Only enterprises doing business or active enterprises during the reported period.
There are good reasons not to include enterprises with extremely large volumes of sales in the MSME sector: (a) their annual turnover is higher than that of many enterprises classified as large; and (b) as a rule, these are subsidiaries of other businesses that have full control. To eliminate these distorted statistics in the MSME sector, Belarus could draw on the experience of EU countries.

For example, a uniform definition of the MSME sector used by the EU is based not only on the criterion of the number of employees (Figure 5). To be recognized as micro, small or medium, an enterprise must meet these three criteria altogether: number of employees (staff headcount); economic importance (either by annual turnover or balance sheet); and autonomy. If a different enterprise has an excessively large share in the ownership structure of the business, these enterprises are seen as one. In practice, this means that their combined annual turnover, balance sheet, and number of employees are compared against the thresholds of the criteria.

---

**Figure 4. Unsteady dynamics of the MSME contribution to major macroeconomic indicators (%)**

<table>
<thead>
<tr>
<th></th>
<th>2009 (GDP)</th>
<th>2010 (GDP)</th>
<th>2011 (GDP)</th>
<th>2009 (employment)</th>
<th>2010 (employment)</th>
<th>2011 (employment)</th>
<th>2009 (export)</th>
<th>2010 (export)</th>
<th>2011 (export)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>81.2%</td>
<td>80.2%</td>
<td>77.1%</td>
<td>72.4%</td>
<td>73.1%</td>
<td>73.7%</td>
<td>62.1%</td>
<td>57.1%</td>
<td>53.9%</td>
</tr>
<tr>
<td>Small</td>
<td>7.4%</td>
<td>7.5%</td>
<td>7.2%</td>
<td>10.6%</td>
<td>10.4%</td>
<td>9.6%</td>
<td>3.6%</td>
<td>4%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Micro</td>
<td>4.9%</td>
<td>4.3%</td>
<td>5.4%</td>
<td>6.5%</td>
<td>6.9%</td>
<td>7.1%</td>
<td>1.9%</td>
<td>2.5%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: National Statistics Committee

---

Figure 5. Differences in using the staff headcount criterion for determining the size of the enterprise in Belarus and the EU

For more information, please refer to the official definition published by the European Commission at [http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf](http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf)
In addition to preventing the artificial overestimation and chaotically changing contribution of MSMEs to the most important gross indicators of the national economy, a partial harmonization of the official MSME definition with the EU’s definition may provide other benefits.

First, the use of similar definitions allows for easily comparing the values of the indicators characterizing the development of small businesses in Belarus with similar data from the EU-27. Given the significant difference in levels of overall development and structure of economies of EU countries, the harmonization of MSME definitions provides a good basis of comparison to solve many analytical problems. Not least of all with this reasoning, the harmonization relates to formulating public policy to support the MSME sector and to assessing the policy’s implementation.

Second, this definition will help to implement more active measures to provide “targeted support” including financial support to growing microenterprises. In this case, the new definition will fulfill the role of a “need-based criteria”:

“\[
\text{The new definition is more suited to the different categories of SMEs and takes better account of the various types of relationships between enterprises. It helps to promote innovation and foster partnerships, while ensuring that only those enterprises which genuinely require support are targeted by public schemes."
\]

(from the “New SME Definition”, User Guide and Model Declaration, European Commission)

Unfortunately, the financial support measures of the Program of Government Support for Small and Medium Enterprises in the Republic of Belarus for 2013-2015 are not sufficiently detailed and will be implemented mainly by local authorities and financed from local budgets (86 percent of total costs of the government program equivalent to $30 million at current exchange rate).

Other important provisions of the government program also need further elaboration on the implementation procedure. For example, “the implementation of measures to encourage the transfer of certain production functions by the enterprise to another enterprise that specializes in the field” (Section 24) or the “development of a network of centers of industrial cooperation (subcontracting) accumulating information about the demand for products, existing production capabilities ... production cooperation of small and large enterprises” (Section 26).

The importance of measures like this are easily illustrated based on international comparisons. Figure 6 shows that the density of all categories of MSMEs in Belarus, even after inclusion of individual entrepreneurs in the microenterprise category, was significantly below the EU average, while the density of large enterprises was twice as high. The development of subcontracting could be an important step toward developing the MSME sector and improving the competitiveness of primarily large industrial enterprises.
RECOMMENDATIONS

1. Review the criteria for assigning businesses to the MSME sector. Add the criteria of economic importance and autonomy to the existing staff headcount criterion. Consider partial harmonization of the definition of the MSME sector with a similar definition used in EU countries.


3. Strengthen the role of organizations of small and medium business support infrastructure.

4. Continue efforts to improve administrative procedures, eliminating some unnecessary administrative barriers.

5. Ensure consistency of legislation.

6. Facilitate developing market mechanisms of MSME financial support (microfinance organizations, specific banking products, etc.) as an alternative to government benefits.

---

18 Using the definition of the MSME sector applicable in Belarus and adding individual entrepreneurs to the number of microenterprises in line with the EU rule that an “undertaking is any entity engaged in an economic activity, regardless of its legal status and the way in which it is financed” (including self-employed and family businesses).
Licensing

Before September 1, 2010, according to Presidential Decree “On Licensing Certain Types of Activities” (Decree No. 17, dated July 14, 3003), 53 activity types in Belarus were subject to licensing, 35 of which included 331 components of works/services. The total number of licenses issued was about 230,000, including 72,000 licenses issued to enterprises; 155,000 to individual entrepreneurs (mainly for retail trade); and 1,700 to individual citizens, with 1,650 issued to practice law and 50 for private notaries.19

As a result of adopting Presidential Decree No. 450, dated September 1, 2010, the number of licensed activities was reduced to 37, 29 of which include 207 components of works/services.

SURVEY FINDINGS

Reducing the number of licensed activities by 30 percent and the number of components of works/services by 37 percent, as a result of adopting Decree No. 450, led to a manifold increase in the number of business entities not required to obtain licenses for ongoing activities: their share among enterprises rose from 19 to 59 percent,20 and among individual entrepreneurs from 25 to 86 percent.

Cancellation of the retail trade license played a significant role in reducing the coverage of businesses by licensing: 81 percent21 of all licensing actions of individual entrepreneurs and 32 percent of licensing actions22 taken by businesses accounted for retail trade (including the sale of alcoholic beverages and tobacco products). After Decree No. 450 entered into force, licensing covered the retail sale of alcoholic beverages and tobacco only. Now licenses of this kind have twice as much a smaller proportion (17.6 percent) in the total number of licensing actions taken by companies, and this is despite three times as much reduction in the total number of licensing actions taken within a year (Figure 7).

Figure 7. Following the reduction in the number of types of activities subject to licensing, the number of microenterprises that did not require a license more than doubled

---

19 From the Note of the Ministry of Economy to draft Presidential Decree No. 450, dated September 1, 2010, “On Licensing Certain Types of Activities”.
20 According to the survey data obtained for this study (2012 Survey) and “Business Environment in Belarus 2010” (Survey-2010).
22 Application for a new license, renewal of an existing license, and relicensing.
However, the positive impact of Presidential Decree No. 450 on licensing cannot be narrowed down to eliminating specific activities and components of works/services only. Figure 8 shows that improvements were made in licensing actions as well: the period of preparing necessary documents, waiting time for the licensing authority’s decision, and fees and expenses incurred during licensing decreased.

Notably, eliminating the retail trade license alone could not cause the observed changes, as this license was among the least problematic.\textsuperscript{23} For example, a small business would spend on average 12.5 days to prepare the necessary documents and an additional 18.3 workdays waiting for the licensing authority’s decision, while the average time for all types of licenses for small businesses accounted for 25.1 and 23.9 workdays, respectively.

*Figure 8. Improvements in the area of licensing resulted in the reduction in the number of procedures, coverage of businesses, direct costs, time needed to prepare the documents, and waiting for the licensing authority’s decisions*

<table>
<thead>
<tr>
<th>Metric</th>
<th>2012 Survey</th>
<th>Changes compared to the 2009 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of required licenses</td>
<td>2.34</td>
<td>0.16</td>
</tr>
<tr>
<td>Period of waiting for the decision</td>
<td>18.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Official fees and expenses ($)</td>
<td>175.7</td>
<td>93.3</td>
</tr>
<tr>
<td>Time to prepare documents for one license</td>
<td>12.2</td>
<td>12.9</td>
</tr>
<tr>
<td>Percentage of enterprises requiring at least one license</td>
<td>40.8</td>
<td>39.9</td>
</tr>
<tr>
<td>Percentage of enterprises that underwent licensing</td>
<td>11.3</td>
<td>23</td>
</tr>
</tbody>
</table>

Figure 9 provides data collected during the survey of the most frequently issued types of licenses. At the same time, Table 3 provides information on costs associated with obtaining these licenses. As seen, the time and financial costs for various types of licenses differ. For example, “security protection by a company of its own facilities (property)” is among the least expensive licenses, while obtaining a license for “fire prevention activities” would require an average of 48 workdays and involve costs in an amount equivalent to nearly $554.

\textsuperscript{23} According to the IFC Survey in 2009. However, it was rather expensive: an average amount of official payments and expenses associated with obtaining one license by a small enterprise was $222 and $194 for an individual entrepreneur.
Figure 9. Share of individual types of licensed activities in the total licensing actions taken by legal entities within a year

![Pie chart showing distribution of licensed activities.]

Table 3. Average costs associated with most common licensed activities

<table>
<thead>
<tr>
<th>Licensed activity/component of works/services</th>
<th>Preparing documents (workdays)</th>
<th>Employees (persons)</th>
<th>Waiting time (workdays)</th>
<th>Amount of official payments and expenses ($)</th>
<th>Compliance inspection (%)</th>
<th>Share of applications for a new license in the total number of license activities (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>International road cargo transportation</td>
<td>11.2</td>
<td>1.8</td>
<td>13.6</td>
<td>81</td>
<td>22</td>
<td>28</td>
</tr>
<tr>
<td>Operations related to hazardous production facilities</td>
<td>11.8</td>
<td>2.3</td>
<td>31.4</td>
<td>351</td>
<td>67</td>
<td>19</td>
</tr>
<tr>
<td>Fire prevention</td>
<td>22.5</td>
<td>3.4</td>
<td>25.1</td>
<td>554</td>
<td>47</td>
<td>14</td>
</tr>
<tr>
<td>Retail trade of alcohol</td>
<td>24.2</td>
<td>2.2</td>
<td>32.1</td>
<td>60</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Retail trade of tobacco</td>
<td>8.3</td>
<td>2.2</td>
<td>30.6</td>
<td>53</td>
<td>38</td>
<td>14</td>
</tr>
<tr>
<td>Works and services related to healthcare</td>
<td>5.7</td>
<td>1.9</td>
<td>6.8</td>
<td>41</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Security protection by a company of its own facilities</td>
<td>5.5</td>
<td>1.8</td>
<td>6.1</td>
<td>39</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>Works and services related to the sale of medicines</td>
<td>23</td>
<td>1.5</td>
<td>18</td>
<td>38</td>
<td>50</td>
<td>17</td>
</tr>
<tr>
<td>Average for all types of licenses</td>
<td><strong>12.2</strong></td>
<td><strong>2.19</strong></td>
<td><strong>18.7</strong></td>
<td><strong>175.7</strong></td>
<td><strong>38</strong></td>
<td><strong>19</strong></td>
</tr>
</tbody>
</table>

*24 Data for the period of mid-2011 to mid 2012.
25 Data for enterprises for the period of mid 2011 to mid 2012.*
This difference in time and financial costs for licenses of various types is primarily connected to whether or not companies (or their employees) were checked for compliance with license conditions and requirements. The data in Table 3 support this conclusion: average costs reported by respondents increase together with the number of cases when issuing a specific type of license included such checks.26

In addition, the procedure for obtaining a license may or should be different for first-time license applicants, and those who apply to renew the previously issued license. Figure 10 draws a comparison between first-time and repeated license applications.27 As expected, the time costs required for license renewal are lower than the costs for obtaining a new license. Also interesting to note is that only 25.5 percent of the respondents (company or its employees) were checked for compliance with license conditions and requirements when they applied for the license the first time, while in the case of repeated applications this figure was 43.5 percent.

Figure 10. License renewal is associated with less time costs than obtaining a new license

<table>
<thead>
<tr>
<th>Waiting time (workdays)</th>
<th>Renewal</th>
<th>First-time application</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15.7</td>
<td>31.1</td>
</tr>
<tr>
<td>Employees involved</td>
<td>2.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Time needed to prepare the documents (workdays)</td>
<td>10.5</td>
<td>16.2</td>
</tr>
</tbody>
</table>

In light of these results, not surprisingly, more than a half of the MSMEs who took licensing actions state they “never faced serious problems [in the process of licensing]” (Table 4). Moreover, the proportion of respondents who considered the duration of the procedure, the number of documents required, and the cost of their processing a “serious problem” decreased. These were among the most pressing problems in the past [2009 IFC Survey].

Table 4. The results of the surveys show that problems associated with most complaints in the area of licensing in the past became less pressing 28

<table>
<thead>
<tr>
<th>Problem</th>
<th>2009 Survey (%)</th>
<th>2012 Survey (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never faced serious problems</td>
<td>-</td>
<td>55.8</td>
</tr>
<tr>
<td>A large number of required documents</td>
<td>48.5</td>
<td>32.1</td>
</tr>
<tr>
<td>Long period of license issuance</td>
<td>40.8</td>
<td>19</td>
</tr>
<tr>
<td>A high cost of document preparation</td>
<td>17.4</td>
<td>10.4</td>
</tr>
</tbody>
</table>

26 The correlation coefficient between the corresponding columns of the table is 0.52.
27 Unfortunately, the data collected are not enough to carry out such an analysis for each of the types of the most frequently obtained licenses.
28 As proportion of enterprises taking licensing actions from mid 2011 to mid 2012.
29 All the problems mentioned by at least 7 percent of the respondents.
REVIEW OF LEGISLATIVE CHANGES

At present, licensing is regulated by Presidential Decree No. 450 (dated September 1, 2011) “On Licensing Certain Types of Activities”.

Prior to the decree’s adoption, each activity was detailed by a decision of the Council of Ministers according to the requirements of Presidential Decree No. 17 (dated July 14, 2003). There were also many regulations, including technical ones, whose provisions were to be observed by license applicants and later by licensees. Decree No. 450 regulates in detail the conditions and procedures for licensing. The decree is a single codified act in this area which establishes a uniform regulation, eliminates the multiplicity of regulations, significantly limits the ability of departmental rulemaking, and reduces administrative risks and costs.

The main positive changes in licensing legislation associated with adopting Decree No. 450, compared to the previous legislation, include the following:

- Introduction of a single regulatory act in licensing (according to Item 13 of the Regulation approved by Decree No. 450, regulations that do not govern licensing in general, as a rule, should not contain rules governing licensing procedures and conditions);

- Reduction of the number of types of activities subject to licensing by 30 percent;

- Establishment of a uniform procedure for issuing licenses;

- More clearly defined licensing requirements and conditions;

- Reduction of the time for considering a license application (30 to 15 days);

- Reduction of the time for considering a licensee’s eligibility (15 to 10 days) and issuance of duplicate licenses and provision of information from the register of licenses (5 to 3 days);

- Establishment of the licensing authority to make a decision about issuing a license based on a participatory approach, which eliminates the administrative appeal of license denial and leaves the option of filing a complaint with the court only;

- Separation of cases of termination and revocation of licenses and elimination of ambiguous interpretation of the legislation;

- Increased license duration for 16 types of activities from 5 to 10 years;

- Reduced list of serious violations for some particular types of activities, when a single violation leads to termination of the license.

However, the licensing legislation needs to be further improved. It is also necessary to cut back even further on the number of listed licensed activities, as some of them do not meet the licensing criteria defined by Decree No. 450 and should not be attributed to licensed activities in light of their nature and potential threat to national interests. Moreover, it is necessary to further simplify the procedure for issuing licenses, reducing the number of documents to be submitted to obtain licenses and the number of license terms and conditions, as well as improving the procedure for license termination.
RECOMMENDATIONS

To further improve licensing procedures, undertaking the following is recommended:

1. Reduce the number of licensed activities subject to the criteria for licensing specified in Decree No. 450. The list should include only those types that may have a negative impact on national security, public order, protection of rights and freedoms, morality, public health and environmental protection. In particular, the following activities can be excluded from the list: advocacy, procurement/purchase of scrap and waste of ferrous and non-ferrous metals, activities related to precious metals and precious stones, publishing, etc. Moreover, in respect of certain types of activities, licensing may be replaced by other forms of regulation (accreditation, certification, etc.).

2. Reduce the number of components of work/services of individual types of activities.

3. Eliminate a number of unnecessary and burdensome licensing requirements and conditions. In particular, availability of premises or other property; compliance with license terms and conditions, as well as the requirements of regulations governing relevant activities; for individual types, the performance of licensed works or services by workers meeting relevant conditions set out in applicable paragraphs of the regulation on licensing (in theory, this work may be performed by other workers led by specially trained workers). Some of them have a direct impact on the operating results, and can be controlled through competition mechanisms, for example, by setting requirements for the quality of works/services.

4. Exclude some of the violations listed as “grave” as they allow for a too broad interpretation and discretion and, most important, give grounds to terminate a license for a single violation. For instance, violations of all license terms and conditions are stipulated as “gross” in relation to procuring/purchasing scrap and waste of ferrous and non-ferrous metals (Item 173 of the regulation approved by Decree No. 450).

5. Exclude individual documents to be submitted to obtain a license, such as copies of charter documents, from the list of the required documents.

6. Exclude the requirement to issue a new license after the transformation or merger of legal entities.

7. Assign control over compliance with license terms and conditions to licensing authorities only. As for other controlling authorities, they may have the right to check only the availability of licenses.

8. Revoke licenses only on the basis of a court decision by request from the licensing authority, as it is often equal to termination of the business.
Permits

DEFINITION

A Permit means an approval by state agencies, organizations, institutions or local authorities of some actions or activities of enterprises and entrepreneurs. It may be issued as a separate document or noted via a stamp on the document. Examples of permits include endorsement, certificate, certificate of inspection, decision of a commission of experts, signature of approval on a document, etc.

REVIEW OF LEGISLATIVE CHANGES

Simplifying administrative procedures for business is one of the most important areas of efforts undertaken by the Belarus government to deregulate the economy.

Resolution No. 156 of the Council of Ministers (dated February 17, 2012) approved the Single List of Administrative Procedures applied by public authorities and other organizations to legal entities and individual entrepreneurs. The Single List came into force on March 27, 2012.

Approval of the Single List completed an important phase to improve administrative procedures for businesses, which began with establishing the Interdepartmental Working Group on simplification of administrative procedures for businesses created according to an order of the Prime Minister (dated November 30, 2006).

In the framework of the Working Group's efforts, all public authorities and organizations conducted an inventory of all administrative procedures for businesses.

Mostly within 2007, the Belarus government approved the lists of administrative procedures implemented by all public authorities and organizations with respect to businesses, completing the first phase of work to improve these procedures. Moreover, this inventorying process and further reduction in the number of procedures resulted in a decrease from 1,180 to 763 as of September 1, 2009.

After approval by the Belarus government of the lists of administrative procedures of all public authorities and other organizations, work on simplifying the administrative procedures was aimed at further optimizing and reducing the costs of the procedures, the number of documents submitted, and the time and costs to conduct procedures, ultimately eliminating unnecessary administrative barriers to doing business. This work was based on the requirements of the law “On the Basis of Administrative Procedures” (dated October 28, 2008).

30 The Single List of Administrative Procedures is, in fact, a list of permits according to the use of “permit” in this report.
SURVEY FINDINGS

Field work conducted for this study was carried out only a few months after Resolution No. 156 entered into force; therefore, its main provisions could not yet be fully implemented in practice. In that context, the year 2011 was chosen as a reference point for questions dealing with obtaining permits for the survey. Hence, all the conclusions in this section describe the situation that preceded the adoption of this important regulation.

A comparison of the survey with data from “Business Environment in Belarus 2010” survey report\textsuperscript{31} points to improvements similar to those that were achieved in licensing (Figure 11). First, the proportion of businesses that received at least one permit per year significantly decreased: from 39 to 18 percent for enterprises, and from 38.8 to 9 percent for individual entrepreneurs, which also contributed to reducing the average number of permits received per year. Second, the average costs associated with obtaining one permit by the enterprises was reduced in half. Over the same period, the increase in the same indicator for individual entrepreneurs was from $33 to $50 equivalent. Finally, the significant change in the structure of obtained permits led to a 25 percent increase in average time spent on preparing documents to obtain permits for enterprises.\textsuperscript{32}

Figure 11. There were significant improvements in permit issuance

These improvements affected both businesses of different sizes and individual entrepreneurs. For example, Figure 12 shows that there was an almost twofold reduction in the permit coverage observed in enterprises of all size groups.

Figure 13 shows the public authorities whose permit procedures were leading in 2011 by their coverage of businesses. For example, permits of local governments were obtained by 6.7 percent of the total number of enterprises and permits of state sanitary supervision authorities by almost 5 percent of enterprises. These authorities also issued the largest number of licenses to businesses.

\textsuperscript{31} Refers to data for 2008 and 2011.
\textsuperscript{32} Relatively less time-consuming permits prevailed among canceled permits (in terms of financial costs and time).
Figure 12. Permit coverage decreased for enterprises of all sizes

![Diagram showing permit coverage for enterprises of different sizes.]

- Large enterprises (over 250 employees): 10% (2009), 44% (2012)
- Medium enterprises (from 101 to 250 employees): 23% (2009), 44% (2012)
- Small enterprises (from 16 to 100 employees): 26% (2009), 50% (2012)
- Microenterprises (up to 15 employees): 16% (2009), 33% (2012)

Figure 13. Ten state authorities with the widest coverage of businesses with permit procedures

<table>
<thead>
<tr>
<th>Authority</th>
<th>2009 Survey</th>
<th>2012 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>State property registration authorities</td>
<td>1.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>State Construction Inspection</td>
<td>1.6%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Ministry of Architecture and Construction</td>
<td>1.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td>State Standardization Committee</td>
<td>2.1%</td>
<td>3%</td>
</tr>
<tr>
<td>Certification authorities</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Ministry of Natural Resources and Environment Protection</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Energy Inspection</td>
<td>3.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Fire Safety Inspection</td>
<td>3.5%</td>
<td>5%</td>
</tr>
<tr>
<td>Sanitary Inspection</td>
<td>5%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Local governments</td>
<td>6.7%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Important to note is that the procedures of nearly all state authorities leading by the number of permits issued cover not a few but all relevant sectors of the economy (Figure 14). On the one hand, these data indicate that economic activities in the proposed classification are not detailed enough. On the other hand, they show that service industries\(^{34}\) are experiencing some difficulty in finding premises suitable for their activities and are forced to engage in reconstruction or renovation. This is evidenced, for example, by their high share in the total number of enterprises applying for permits to the Ministry of Architecture and Construction or to the construction supervision authorities.

---

\(^{33}\) That is, coverage of enterprises over the year: in 2008 and 2011 calendar years, respectively.

\(^{34}\) Enterprise sectors refer to “trade, repairs, hotels and restaurants,” “finance, real estate, renting, other business services” and “education, healthcare, culture, sports and other individual services.”
Figure 14. Permit issuance procedures of each particular authority cover most of sectors in the study.

Which enterprise sector obtained permits with a particular public authority within a year?

Table 5 shows the average costs associated with obtaining a permit from any state authority, including costs of different enterprises broken down by sectors of the economy. For instance, the level of costs to obtain a permit for transport and communications enterprises, trade and business services was significantly above the average for MSMEs. At the same time, the permit issuance procedures of the State Standardization Committee and certification authorities were the most costly among all the state authorities issuing permits.

Table 5. Average costs associated with obtaining permits from different state agencies

<table>
<thead>
<tr>
<th>Enterprises and public authorities</th>
<th>Number of permits (one government authority)</th>
<th>Time to prepare documents for one permit (workdays)</th>
<th>Waiting for one permit, (workdays)</th>
<th>Amount of official fees and expenses per one permit by one authority ($)</th>
<th>Percentage of respondents denied paying unofficial fees to a particular public authority (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVERAGES FOR ENTERPRISES:</td>
<td>3.2</td>
<td>13</td>
<td>14.3</td>
<td>135</td>
<td>88</td>
</tr>
<tr>
<td><strong>BY SECTORS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.8</td>
<td>9.4</td>
<td>12.6</td>
<td>88</td>
<td>85</td>
</tr>
<tr>
<td>Construction</td>
<td>6.9</td>
<td>10.3</td>
<td>12.2</td>
<td>127</td>
<td>95</td>
</tr>
<tr>
<td>Trade, repairs, hotels and restaurants</td>
<td>2.3</td>
<td>13.9</td>
<td>15.7</td>
<td>234</td>
<td>85</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>3.3</td>
<td>18</td>
<td>23.6</td>
<td>224</td>
<td>90</td>
</tr>
<tr>
<td>Finance, real estate, renting, other business services</td>
<td>3</td>
<td>13.5</td>
<td>14.2</td>
<td>52</td>
<td>90</td>
</tr>
<tr>
<td>Education, health care, culture, sports and other individual services</td>
<td>2.6</td>
<td>23.5</td>
<td>9.6</td>
<td>55</td>
<td>87</td>
</tr>
</tbody>
</table>

35 Large enterprises did not respond to most of the questions in the relevant section of the questionnaire.
Table 5 (continued)

<table>
<thead>
<tr>
<th>Enterprises and public authorities</th>
<th>Number of permits (one government authority)</th>
<th>Time to prepare documents for one permit (workdays)</th>
<th>Waiting for one permit, (workdays)</th>
<th>Amount of official fees and expenses per one permit by one authority ($)</th>
<th>Percentage of respondents denied paying unofficial fees to a particular public authority (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local governments</td>
<td>3.3</td>
<td>8.8</td>
<td>14.7</td>
<td>17</td>
<td>82</td>
</tr>
<tr>
<td>Sanitary Inspection</td>
<td>2.1</td>
<td>10.4</td>
<td>14.1</td>
<td>82</td>
<td>86</td>
</tr>
<tr>
<td>Fire Safety Inspection</td>
<td>1.6</td>
<td>23.8</td>
<td>9.3</td>
<td>92</td>
<td>74</td>
</tr>
<tr>
<td>Energy Inspection</td>
<td>2.1</td>
<td>8.2</td>
<td>10.7</td>
<td>28</td>
<td>80</td>
</tr>
<tr>
<td>Ministry of Natural Resources and Environment Protection</td>
<td>1.7</td>
<td>10.2</td>
<td>13.4</td>
<td>72</td>
<td>97</td>
</tr>
<tr>
<td>Certification authorities</td>
<td>2.9</td>
<td>19.9</td>
<td>14</td>
<td>103</td>
<td>85</td>
</tr>
<tr>
<td>State Standardization Committee</td>
<td>2.5</td>
<td>17.2</td>
<td>15.4</td>
<td>153</td>
<td>69</td>
</tr>
<tr>
<td>Ministry of Architecture and Construction</td>
<td>4.7</td>
<td>7.7</td>
<td>15.1</td>
<td>12</td>
<td>84</td>
</tr>
<tr>
<td>State Construction Inspection</td>
<td>2.2</td>
<td>6.6</td>
<td>8</td>
<td>17</td>
<td>91</td>
</tr>
<tr>
<td>State property registration authorities</td>
<td>1.8</td>
<td>14.3</td>
<td>15.8</td>
<td>41</td>
<td>97</td>
</tr>
<tr>
<td>AVERAGES FOR INDIVIDUAL ENTREPRENEURS:</td>
<td>1.33</td>
<td>8.02</td>
<td>12.2</td>
<td>37.4</td>
<td>84</td>
</tr>
</tbody>
</table>

Notably, the main problems experienced by the respondents in 2011 were the duration of permit issuance procedures; the complexity and multi-phased aspects of related procedures; a large number of required documents; and difficulties in obtaining appropriate explanations (Figure 15 shows the data for the five most frequent complaints from MSMEs). Resolution No. 156 on adopting the Single List of Administrative Procedures was aimed at addressing these matters.

Figure 15. Most frequent problems mentioned by the respondents and connected with obtaining permits emphasize the need to establish a single list of administrative procedures

**Percentage of enterprises obtaining permits in 2011**

- Multi-phased procedures: 16.8%
- Lack of an exhaustive list of requirements to obtain a permit: 14.9%
- Difficulties in obtaining explanations and advice: 19.1%
- Lengthy procedures: 20.6%
- A large number of required documents: 32.2%
REVIEW OF THE KEY PROVISIONS OF RESOLUTION NO. 156

The main improvements brought about by Resolution No. 156 can be described as follows:

- Introduction of the first single systematic list of all administrative procedures performed with respect to legal entities and individual entrepreneurs, thus improving awareness of businesses and streamlining the list of authorities and organizations conducting these procedures;
- Reduction in the number of administrative procedures from 763 to 617;
- Defined uniform approaches to implementing procedures, including the “one-stop shop” principle;
- Defined exhaustive lists of documents to be submitted to conduct the procedures;
- Defined deadlines for issuance of documents and their duration;
- Specified fees for procedures;
- Assigned the coordination for implementing procedures to the Ministry of Economy, acting as a “filter” for newly introduced procedures.
- Established that the government’s draft regulations for administrative procedures should be agreed upon with the Ministry of Economy, which acts as a “filter” for introducing new procedures.

However, efforts to improve administrative procedures should be continued primarily to reduce their number and clarify the mechanism for introducing new procedures; to streamline the processes of issuing permits; and to eliminate opportunities for creating artificial barriers to business development (Figure 16).

*Figure 16. Awareness of businesses about the current changes in legislation is still at a low level*

Do you know about the adoption of the Single List of Administrative Procedures for businesses? (% of respondents obtaining permits in 2011)

- Yes: 51.3%
- No: 48.7%

How will the Single List of Administrative Procedures for businesses affect the availability of information required to comply with them?

- The situation will improve: 61.8%
- The situation will worsen: 35.3%
- The situation will remain the same: 2.8%
RECOMMENDATIONS

To further improve administrative procedures for businesses, the following steps are necessary:

1. Continue further reducing the number of procedures and their optimization. Implement the “one-stop shop” principle for administrative procedures for businesses.

2. Define clear criteria and a mechanism for introducing new administrative procedures.

3. The most preferable option is to adopt a special regulation (a presidential decree), similar to the existing regulation for administrative procedures for individual citizens, which will have a constitutive effect, i.e. any procedure will come into effect only after inclusion in the regulation.

4. Create an Internet electronic resource based on the List of Administrative Procedures, which provides free access for all interested parties to relevant information on the administrative procedures in real time, and in the long-term help conduct administrative procedures online.

5. Implement a procedure to determine the fees for implementing procedures according to international best practices.
GENERAL INFORMATION: NUMBER AND DURATION OF INSPECTIONS

According to studies conducted by IFC, there has been a steady reduction in the “inspection burden” on businesses since 2006.36 As follows from “Business Environment in Belarus 2006” and “Business Environment in Belarus 2010” survey reports, the coverage of inspections, both planned and unplanned, fell by a third (Figure 17). Inspected were 49.6 percent of MSMEs and 35.5 percent of individual entrepreneurs in the second half of 2011 and the first half of 2012 (according to “Business Environment in Belarus 2010”, these figures were 68.2 percent and 55.5 percent, respectively).

Figure 17. The coverage of businesses by inspections continued to decrease

During the period of study, the average annual number of inspections of businesses also decreased. According to the 2012 Survey, MSMEs inspected at least once a year had on average 2.8 inspections.37 This number decreased by 1.8 times compared to 2008, with the number of planned inspections decreasing by 1.6 times, and unplanned by 2.5 times.

At the same time, a significant reduction in inspections of individual entrepreneurs did not occur. For instance, individual entrepreneurs who were inspected in the second half of 2011 to the first half of 2012 had on average 2.1 inspections (2.3 inspections in 2008), and the number of planned inspections increased from 1.3 to 1.6 or by 23 percent (Figure 18).

36 Presidential Decree No. 151 (dated March 15, 2006) provided for measures to ensure the coherence of inspection authorities and application of uniform requirements to procedures for planning and coordinating financial and economic activity. Presidential Decree No. 510 (dated October 16, 2009) “On Improvement of Control and Inspection Activities in the Republic of Belarus” radically changed the approach to planning and coordinating inspections of all inspection authorities (inspections of financial and economic activities and technical inspections); the frequency of planned inspections became dependent on the risk groups assigned to businesses (high, medium, low).

37 Each visit to the enterprise by one inspection authority, even as a part of joint inspection, is considered in this report as “one inspection”.

Figure 18. Average number of inspections decreased considerably for MSMEs and remained at the same level for individual entrepreneurs

Formal comparison of the data from the two latest surveys shows that the total duration of inspections carried out over the course of each year increased significantly. The average duration of all inspections of individual entrepreneurs increased by 3.5 times and totaled 39 hours (according to the 2009 Survey, 11 hours). The average duration of inspections of MSMEs increased from 77.5 to 107.4 hours. However, these data reflect a change in the approach to entering the start and end times of the inspection in the inspection registration book and not a change in the real situation. After the introduction of joint inspections, inspection start and end time is recorded in the book; thus, the duration of inspections no longer reflects the actual time spent onsite by each individual inspection authority (Table 6).

Table 6. Introducing joint inspections and a change in practice of entering start and end times of inspections in the inspection registration book resulted in incomparable data for different years

<table>
<thead>
<tr>
<th></th>
<th>Average duration of inspections (in hours) over a year from the perspective of inspected businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009 Survey</td>
</tr>
<tr>
<td>Legal entities</td>
<td>77.5</td>
</tr>
<tr>
<td>Individual entrepreneurs</td>
<td>11</td>
</tr>
</tbody>
</table>

INSPECTIONS BROKEN DOWN BY INSPECTION AUTHORITIES

Tax authorities (21.8 percent of the total number of inspections); fire and sanitary inspections (19.4 and 17.7 percent, respectively); State Labor Inspectorate (7.9 percent); and State Control Committee (5.8 percent) still hold the leading position in inspecting all businesses (Figure 19).
In addition, inspections conducted by the State Control Committee were the longest for an average duration of 90.6 hours; followed by inspections of tax authorities lasting 77.6 hours, moving from first to second place by duration in 2012, compared with the data from “Business Environment in Belarus 2010”; and inspections of the Ministry of the Interior (Directorate for Combating Economic Crimes) lasting 64.2 hours.

PROBLEMS FACED BY BUSINESSES DURING INSPECTIONS

Among the administrative procedures indicated by enterprises as an impediment to doing business, inspections stood first (Table 1, p. 9). However, about 90 percent of respondents noted they had never faced illegal demands from inspectors during inspections.

More than 40 percent of respondents did not face any serious problems in the process of inspections. However, the following problems still remain relevant: lack of complete information about the requirements that may be set by inspectors during inspections (individual entrepreneurs, 30 percent; MSMEs, 22 percent); and overly strict, often unrealistic rules and regulations, e.g., sanitary, fire, etc. (MSMEs 27 percent; individual entrepreneurs, 17 percent).

In this context, important to note is that 70 percent of respondents were in favor of the idea that checklists should be used for all types of inspections (e.g., both financial and technical inspections).\(^{38}\) Notably, the results of this survey reveal that about 40 percent of the MSME inspections were carried out with the use of checklists.\(^{39}\)

---

\(^{38}\) A checklist is a comprehensive list of requirements that may be presented to the inspected entity according to law and that should be checked by the respective control/inspection authority. The checklist is a support tool for inspections, and is used as a source of information on requirements for businesses.

\(^{39}\) The calculation is based only on those cases where an MSME was inspected by only one inspection authority in the last 12 months; this was also a one-time inspection.
RISK-BASED INSPECTIONS

In 2010, a systematic approach for planning inspections was introduced: all businesses on the basis of specific control/supervision criteria were classified into three risk groups: high, medium, low. The frequency of planned inspections directly correlated with the risk group assigned to the businesses.

Despite the fact that a number of criteria did not match the level of potential hazards of activities of specific entities, with possible negative impact on the lives and health of citizens, the environment and national security, and thus should be further reviewed, introducing the risk-based system of inspections planning led to a significant reduction in the number of inspections.

In addition, as shown by the survey results, the time spent on inspections by the inspectors and fines based on the results were in direct proportion to the risk group of the entity inspected. The average inspection duration of high risk businesses was 2.4 and 1.4 times longer than that of businesses in the low and medium risk groups, respectively (Figure 20).

*Figure 20. A risk group assigned to the enterprise largely determines the duration of inspections*

![Average duration (hours) of one risk-based inspection of a business](image)

Inspection fines of high-risk enterprises totaled an average $773, which is 7.2 and 3.6 times higher than the inspection fines of low- and medium-risk businesses, respectively.

RESULTS OF INSPECTIONS, PENALTIES AND FINES

Fines are still the main form of penalties, which control authorities apply based on the inspection results. For instance, fines were charged based on the results of every third inspection. The State Control Committee and Ministry of Taxes and Duties set penalties following about 60 percent of the inspections, and the Sanitary Inspection based on the results of every second inspection (Figure 21).
At the same time, compared with the data from “Business Environment in Belarus 2010” survey report, the average amount of fines paid by a company based on the results of one inspection conducted by one inspection authority within a year decreased more than twofold, totally $250 (for individual entrepreneurs fivefold, totaling $30).

However, the existing inspection system continues to be punitive rather than preventive. For example, only one in every 11 inspections ended with a warning without any penalties inflicted.

**LEGISLATIVE CHANGES**

Since 2010, all control and supervision in Belarus has been regulated by a single codified act: Presidential Decree No. 510 “On Improvement of Control and Inspection Activities in the Republic of Belarus” (dated, October 16, 2009), stipulating completely new principles and approaches to business inspections in the country:

- Introduction of a risk-based management system by classifying businesses into risk groups and conducting random inspections correlating with the risk group;
• Coordination of all control and inspection activities;

• Transparent and clear procedures for planning inspections;

• Single list of inspection authorities and areas of inspection;

• Planned inspections of one business entity with a joint inspection by all relevant inspection authorities;

• Use of checklists;

• Wide use of information databases to plan and conduct inspections;

• Presumption of good faith and innocence of the inspected entity.

Presidential Decree No. 332 “On Some Measures to Improve Control/Supervision Activities in the Republic of Belarus” (dated July 26, 2012) was amended by Decree No. 510 (dated October 1, 2012), with provisions aiming for the following:

• Further reduction in planned inspections; for instance, if during a planned inspection, no violations of the law are revealed, the next inspection of the entity will be held no earlier than in five years, regardless of the entity’s risk group;

• Strengthening the accountability of supervision/control officials for illegal interference in the activities of inspected entities; inspections must not disrupt the production and economic activities of inspected entities;

• Strengthening the preventive role of inspection authorities and the use of public awareness activities.

Decree No. 332 also included a number of requests to the Council of Ministers to further increase the efficiency of the control and supervision authorities in the country, as follows:

• To revise the list of control/supervision authorities and their functions in order to avoid their overlap and to reduce the number of these authorities;

• To approve the list of control/supervision authorities that will use checklists;

• To ensure completion of the existing systems and databases for planning inspections;

• To ensure, by January 1, 2014, the revision of technical regulations for each area of supervision in order to reduce the number of requirements and their updating.

• Resolution No. 1147 of the Council of Ministers of the Republic of Belarus (dated December 13, 2012) defined the general requirements for checklists and approved a list of 13 control/supervision authorities and areas of control/supervision where checklists will be used.
RECOMMENDATIONS

1. Continue further reducing the number of inspection authorities and eliminating overlap in their functions.

2. Introduce modern risk-based methods of planning and organization of control and prevention measures in the activities of inspection authorities to ensure a more rational and efficient use of financial and human resources.

3. Review the criteria for classifying businesses into risk groups to plan inspections. The criteria should be based on the activities of a business and, above all, the possibility of negative impact on the environment, national security, and the lives and health of citizens.

4. Broaden the use of checklists for technical inspections and of qualitative methods of risk assessment in developing checklists. Expand application areas of checklists for technical inspections and use qualitative methods of risk assessment in developing checklists. Develop guidelines for inspectors on how to complete checklists as well as the option to apply self-monitoring based on the requirements of checklists, manuals and other information materials related to businesses.

5. Create a single database of information on inspection results and records of violations nationwide to identify economic sectors, businesses and regions with a high-risk level; monitor sector trends and allocate resources to carry out inspections based on the risk level of enterprises. This database can be based on databases of individual control and supervisory bodies and information contained in them.

6. Strengthen the preventive role of inspections and widespread use of preventive measures. Develop strategies to work with customers and businesses to inform them of the requirements of laws, regulations and rules.

7. Eliminate departmental control as a form of control that overlaps with the control of other specialized agencies in order to reduce public expenditures.

8. Further review technical regulations in order to reduce and update their requirements.

---

40 For example, supervision authorities of EU countries and the United States often plan inspections based on the ranking of businesses in a risk matrix, which may reflect the risk level of the business and the frequency and type of control and preventive action with respect to certain risk groups.

41 Technical Inspections are inspections carried out by agencies and services that perform oversight of compliance with legal requirements, technical standards, and rules aimed at preventing threats to life and health, the environment, emergency situations, as well as ensuring compliance with working conditions and other requirements not related to financial and economic activities of businesses.
Other Aspects of the Business Environment

UNEQUAL CONDITIONS FOR STATE-OWNED AND PRIVATE COMPANIES

One of the important questions to be answered to assess the quality of the business environment in Belarus is whether there are any differences between the conditions of doing business for state-owned and private enterprises? The IFC survey data show that respondents do perceive these differences. For instance, in response to the question “In what areas do businesses feel unequal conditions for doing business in comparison with the public sector?” 35.4% of the respondents chose the answer “no unequal conditions”. The proportion of those who do not experience any unequal conditions is notably higher among state-owned enterprises: 57.4% compared to 26.8% of private businesses.

The differences between state-owned and private enterprises are revealed in assessments of the business environment, both as a whole and as individual. In addition, there are differences in estimating the expected impact of legislative changes (Figure 22).

Figure 22. The majority of respondents giving highly positive assessments of changes in the business environment are from state-owned enterprises

How did the business environment change in the last three years (second half of 2009 - second half of 2012)?

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>State-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA/don’t know</td>
<td>3.9%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Significantly worsened</td>
<td>91.1%</td>
<td>85.1%</td>
</tr>
<tr>
<td>Somewhat worsened</td>
<td>85.1%</td>
<td>76.2%</td>
</tr>
<tr>
<td>Remained the same</td>
<td>85.1%</td>
<td>76.2%</td>
</tr>
<tr>
<td>Somewhat improved</td>
<td>76.2%</td>
<td>85.1%</td>
</tr>
<tr>
<td>Significantly improved</td>
<td>85.1%</td>
<td>91.1%</td>
</tr>
</tbody>
</table>

42 For the purpose of this study, the enterprise was classified as “state-owned” when “domestic or foreign individuals and companies” had less than 50 percent in authorized capital of the enterprise; otherwise, the business was classified as “private.” The proportion of respondents who disclosed the structure of enterprise ownership was 68 percent.

43 Percentage of the total number of respondents representing both state-owned and private enterprises, (i.e. excluding individual entrepreneurs).

44 The list included the following items: provision of government contracts (28 percent of companies), tax relief (26 percent), access to material resources (24 percent), provision of state support (22 percent), and access to allocated financial resources (22 percent).
Figure 22 shows that the proportion of respondents with neutral and mildly positive and mildly negative assessments of changes in the business environment in Belarus was nearly equal among state-owned and private enterprises. The picture changes in the case of more extreme views: while 15.6 percent of representatives of state-owned enterprises report “significant improvements,” only 5 percent of representatives from private enterprises share the same opinion.

Inconsistency of legislation is one of the possible causes for the differences in business environment assessments and any changes as seen by public and private enterprises. Inconsistency impedes the activities of private sector more. Indirectly, this conclusion is supported by data from assessing the positive impact of adopting or implementing legislative initiatives. Thus, according to Figure 23, the representatives of the private sector are more skeptical about the positive impact of Directive No. 445 on the business environment (28 percent) than the respondents from state-owned enterprises. Similar differences were observed when assessing the impact of the Single List of Administrative Procedures.

Figure 23. Inconsistency of legislation impedes the private sector more

How does inconsistency of legislation impede the business?

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>State-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impedes</td>
<td>37%</td>
<td>64%</td>
</tr>
<tr>
<td>Does not impede</td>
<td>31%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Has the adoption and implementation of Directive No. 4 significantly contributed to the improvement of business conditions?

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>State-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>52%</td>
<td>24%</td>
</tr>
<tr>
<td>Yes</td>
<td>28%</td>
<td>39%</td>
</tr>
</tbody>
</table>

How will the Single List of Administrative Procedures for businesses affect the availability of information required to comply with them?

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>State-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>The situation will improve</td>
<td>44%</td>
<td>69%</td>
</tr>
<tr>
<td>The situation will worsen</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>The situation will remain the same</td>
<td>26%</td>
<td>56%</td>
</tr>
</tbody>
</table>

In fact, despite the equal protection and equal conditions for developing all forms of ownership in Belarus, as set forth in Article 13 of the Constitution of the Republic of Belarus, state-owned enterprises have priority, while private enterprises are often subject to unreasonable restrictions. First of all, this concerns such areas as starting a business, access to material and financial resources, state procurement, conducting particular activities, administrative procedures, bankruptcy proceedings, taxation, etc.

For instance, Presidential Decree No. 1 (dated January 16, 2009), which regulates the registration of businesses, contains a number of registration prohibitions imposed primarily on private businesses (e.g., criminal history on record for crimes related to ownership and business conduct; absence of a non-enforced decision to foreclose on the property by one of the owners or founders of the property of a commercial entity; a citizen registered as an individual entrepreneur, etc.).

According to Presidential Decree No. 530 (dated August 25, 2006), “compulsory insurance shall be carried out by state insurance organizations and/or insurance organizations, the statutory funds of which have more than 50 percent of shares (common/ordinary or other voting shares) owned by the Republic of Belarus and/or its administrative-territorial units, unless otherwise established by the acts of the President of the Republic of Belarus.”

Licenses for certain types of activities (Presidential Decree No. 450, dated September 1, 2010) may be issued to state-owned enterprises only or to a limited number of businesses (procurement/purchase of scrap and waste of ferrous and non-ferrous metals; provision of a number of medical services; licenses are not required for the provision of real estate services by public realtor organizations).

Under the Law on Economic Insolvency/Bankruptcy, “when holding an auction/bidding process to sell state-owned property of the debtor, an independent appraisal of any such property intended to determine its initial value shall be conducted only by state entities and entities with the state ownership in the authorized capital equal or exceeding 50 percent, who conduct appraisal activities following the procedure prescribed by the legislation, and also by entities established by the Belarusian Chamber of Trade and Commerce, the list of which is determined by the President of the Republic of Belarus.”

In addition, private businesses are generally subjected to undue restrictions not based on the law, for instance, setting targets for them or requiring reporting not specified in legislation, etc.

As a result, private businesses often experience discrimination in the process of their activities and are unable to compete with state-owned enterprises, which usually receive unreasonable monopolistic advantages.
RECOMMENDATIONS

To ensure practical implementation of equal protection and a level playing field for the developing businesses of all forms of ownership, as set forth in the Constitution of the Republic of Belarus, undertaking the following is recommended:

- Monitor all regulations concerning ownership rights and repeal those that do not conform to the principles established in the Constitution.

- Prevent adoption of new regulations that unnecessarily restrict owners’ rights, including the rights to carry out different types of activities and to dispose of property they own. Take steps to establish a level playing field for businesses of public and private ownership.

- Prevent adoption of regulations providing for the seizure of property for administrative offenses, except in the case of illicit trade in such property.

- Prohibit seizure of property from bona fide purchasers.

- All actions aimed at terminating property rights of businesses, including undisputed debiting of funds from their accounts, should be taken on the basis of a court decision.

- Make changes and additions to the antitrust and competition laws aimed at improving the status and strengthening the powers of antitrust enforcement authorities and ensuring fair competition. Prevent the adoption of regulations providing for unfair advantage to state-owned businesses.

- Prevent unreasonable interference by the state and local governments with activities of private businesses, including communicating to them targets and requesting information which is not specified in the legislation.

- Consider adopting a special law regulating the conditions and procedures for nationalization in Belarus, including the payment of full and timely compensation for nationalized property and other losses incurred by expropriation of the property.

CONSISTENCY OF LEGISLATION

In all recent studies of the business environment, and in this survey as well, inconsistency of legislation regulating business is reported as one of the major impediments to the successful business development. However, respondents give a negative view not only about the negative changes in legislation, but also about positive changes if they occur too often. In practice, too frequent changes in applicable laws result in significant time and money costs; the need to constantly adapt to changing business conditions; the inability to predict the future development of legislation; and, ultimately, the desire to receive momentary gains.

Together with a lack of awareness, a low level of legal culture and law-abiding behavior, and a high level of bureaucracy, too frequent changes in the “rules of the game” account for many businesses often operating on the verge of breaking the rules, becoming “troublemakers” subjected to severe penalties, which eventually leads to their closure. This situation also adds greatly to discretionary powers of officials and corruption.

The need to provide a clear legal regulation and consistency of legislation was stated in Section 9 of Presidential Directive No. 4 (dated December 31, 2010). However, as practice shows, this is far from being implemented in all cases of rulemaking and enforcement.
RECOMMENDATIONS

To improve the consistency of the legislation regulating business activities and to ensure a single approach to rulemaking and enforcement, undertaking the following is recommended:

- Introduce a regulatory impact assessment (RIA) for regulations that are being drafted.
- Introduce provisional application of certain business regulations.
- Prevent giving a retroactive effect to business regulations, except for those mitigating or abrogating the liability for offenses in business and other activities, or otherwise improving the conditions of such activities.
- Introduce into practice of government agencies mandatory public discussions of important regulations while they are drafted.
- Ensure that government agencies submit drafts of important business regulations for review and feedback to business associations.
- Adopt the Law on Self-Regulatory Organizations to transfer to such organizations some of the regulatory functions of the public authorities.
- Include business associations into the list of entities entitled to the lawmaking initiative66.
- Include a provision in the law “On Regulations in the Republic of Belarus” stipulating that, in case of ambiguity of provisions in regulations, decisions should be made in favor of the business.
- Improve access for businesses to information about current business legislation, including establishing electronic databases.

---

66 A “lawmaking initiative is a formal submission by the lawmaking initiator to the lawmaking authority (official) of a draft regulatory act or a reasoned proposal on the need for adoption/issuance, modification, addition, interpretation, suspension, or repealing a regulatory act or a part thereof” (Article 1 of the Law “On Regulations in the Republic of Belarus”).
ACCESS TO FINANCE

The questions related to the availability of external financing, in particular, bank financing, for businesses were also included in the questionnaire used in the present survey. Primarily, this is due to the fact that, according to the studies conducted by the Belarus Ministry of Economy, investments in developing businesses (in fixed capital) have increased in recent years. This means that businesses in Belarus have a need for external resources as the main instrument of growth and business development.

At the time of the survey, the most urgent task for the majority of the companies surveyed (67 percent) was “business development.” Moreover, this was a priority for all considered groups of companies broken down by ownership form, size, or sector (Figure 24).

Figure 24. Business development is a top priority for the majority of respondents

![Bar chart showing business development as the top priority at 67%, maintaining the level reached at 30%, selling the business at 1%, and termination of the business at 2%]

The analysis of the main impediments to doing business shows that the respondents mentioned “lack of external financing” as one of the major obstacles (Table 2, p. 10). Notably, however, 70 percent of businesses and 88 percent of individual entrepreneurs did not resort to borrowed funds over the past 12 months. Given the need, this situation may ultimately imply the unavailability of external financing, whatever the reason may be.

The use of borrowed funds varies between types of economic activity (Figure 25).

---

Figure 25. The largest proportion of enterprises resorting to external financing is in manufacturing

Proportion of the enterprises that had to use borrowed funds over the last 12 months

- Education, healthcare, culture, sports and others: 10%
- Finance, real estate, renting, other business services: 22%
- Construction: 26%
- All sectors: 28%
- Transport and communications: 31%
- Trade, repairs, hotels and restaurants: 31%
- Manufacturing: 36%

The survey also revealed the correlation between raising external finance and the business size (Figure 26).

Figure 26. The bigger the business size, the more complicated it is to avoid external financing

Did you have to use borrowed funds, or resort to bank financing over the last 12 months?

- Individual entrepreneurs: 11.5%
- Microenterprises (up to 15 employees): 23.5%
- Small enterprises (from 16 to 100 employees): 41.4%
- Medium enterprises (from 101 to 250 employees): 58.6%
- Large enterprises (over 250 employees): 76.2%
- No answer: 0%
As seen from these figures, the main borrowers are businesses that are more attractive for banks in terms of loan amounts and availability of liquid properties, usually real estate, which may secure the loan (medium and large enterprises in manufacturing, trade and transport). At the same time, microenterprises and individual entrepreneurs almost never use borrowed funds.

At the same time, 24 percent of enterprises that applied for bank loans faced the refusal of banks to accept movable property/property rights as security for the loans. This may be explained by existing imperfect conditions in Belarus for registering encumbrances of movable property, which significantly increases the risk to lenders and, therefore, affects the cost and availability of resources. Thus, given the lack of registration mechanisms for movable property specified in legislation, the lender has no actual way to determine whether the movable property proposed as collateral is encumbered by a third party or whether the debtor has the right to dispose of it with no restrictions.

At the same time, international experience, including that of neighboring countries, suggests that putting movable property, property rights with monetary value, and accounts receivable in the circulation is one of the effective ways to increase the availability of financial resources for small and medium businesses.

There is a long-felt need to improve the mechanisms for putting movable property and property rights in the circulation, which is supported by the responses of businesses. For instance, 45 percent of respondents believe that improving the mechanisms of registering encumbrances of movable property will facilitate access to credit resources. Moreover, 53 percent of medium and large enterprises (main borrowers) have a positive view of improving the conditions by using accounts receivable as security for loans.

One of the ways to possibly improve mechanisms for access to loans in international practices is to create a collateral registry of movable property. This registry is an online resource in which each lender can enter information on the encumbrances of movable property of the debtor with some liability rights. In this case, each subsequent creditor, based on the data of such a registry, can obtain information about the encumbrances of property proposed to it as pledge or other security.

The results of the survey on the need to create a collateral registry of encumbered property show that this idea is positively perceived by 30 percent of businesses.
RECOMMENDATIONS

Given the fact that financial support is specified as one of the main tasks to be addressed in order to achieve the objectives of the Program of State Support for Small and Medium Enterprises in the Republic of Belarus for 2013-2015, it is necessary to focus more closely on issues of creating conditions for developing a financial support system for MSMEs.

The program is based on principles of providing government funding to business operators, reflected in data on sources of financial support for businesses. However, the possibility of developing and implementing new banking products under the program is not considered.

Based on the above, undertaking the following is recommended as part of the work carried out by the government:

- Develop a mechanism to stimulate creating and implementing new market-based financial tools instead of providing public benefits and resources on a non-repayable basis;
- Develop a set of measures to improve the financial literacy of businesses;
- Establish a Collateral Registry of Movable Property and take measures to encourage the use of this registry by as many financial market participants as possible;
- Stimulate creating non-bank financial institutions (microfinance institutions, investment funds).
Annex 1. Methodology

GOAL OF THE SURVEY

The goal is to assess the quality of the Belarusian business environment and to recommend improvements based on the survey data and actual business practices of enterprises and individual entrepreneurs. These recommendations are primarily based on their present-day experience with administrative procedures.

OBJECTIVES OF THE SURVEY

a. Identify and describe in qualitative and quantitative terms the degree of burden imposed by a group of or individual administrative procedures on the business activities of an average enterprise and individual entrepreneur;

b. Assess changes in the processes and practices of certain administrative procedures by comparing them to data from a previous 2009 survey;

c. Determine the impact of administrative procedures on businesses as compared with the influence of other factors in the business environment;

d. Determine whether there are significant differences in the administrative burden for enterprises of differing forms of ownership or size, belonging to different sectors; and

e. Make recommendations to improve the challenges identified.

PRIMARY RESEARCH TOOL

A representative nationwide sociological survey of individual entrepreneurs and managers of commercial enterprises (irrespective of their ownership type).

DATA COLLECTION METHOD

The data collection method included standardized face-to-face interviews with respondents conducted at his or her workplace arranged by telephone. Population units were represented by heads of enterprises or their deputies, as well as individual entrepreneurs. For purposes of the survey, other company employees were interviewed to cover particular issues within their competency (for example, a chief accountant on financial issues).

The survey was conducted by the Center for Sociological and Political Research at Belarusian State University during August-October 2012.
SAMPLING METHODOLOGY

The survey’s target population included individual entrepreneurs and commercial companies of all size groups (micro, small, medium, and large), irrespective of ownership structure, involved in all types of economic activities, excluding agriculture, forestry, and banking.

The sample framework for MSMEs was based on their prevalence and distribution nationwide. MSMEs included active micro, small and medium enterprises covering all sectors of the economy (except agriculture, forestry, and banking). The stratification of MSMEs was as follows:

1. Type of economic activity;
2. Size of enterprise, defined by the average number of employees per year; and
3. Region where the enterprise is registered (includes the city of Minsk and six Oblasts).

The sample framework for large commercial enterprises was based on their prevalence and distribution nationwide. The stratification of large commercial enterprises was based on registration by region.

The sample framework for individual entrepreneurs was based on their prevalence and distribution nationwide. The stratification of individual entrepreneurs was based on registration by region.

SELECTION PROCEDURE

The electronic version of the “Register Belarus 2012” catalogue (by Komlev-Info) was used to produce listings of micro, small and medium commercial companies containing such attributes as size, type of economic activity, and place of registration.

This data source had some advantages over other alternatives, including the possibility to order and select enterprises using “economic activity” or “place of registration” attributes within a single file. Disadvantages included the fact that an enterprise could be involved in several types of economic activities. In some cases, the database did not refer to their major activity, meaning the one generating the largest revenue stream.

The listings for micro, small and medium enterprises, as well as large commercial companies and individual entrepreneurs, were formed. The selection was performed by applying to the listings the probability-based random sampling with a fixed-step procedure. Detailed structure of the sample is presented in Table 7.

---

48 Types of economic activity:
- Manufacturing: heavy industry (mechanical engineering, and machine-tool industry, etc.); light industry: clothes and shoemaking, etc.; food industry: dairy industry, baking, and meat processing, etc.;
- Construction: building and construction, and repairs, etc.;
- Trade, repair, hotels and restaurants, catering: wholesale and retail trade enterprises, public catering (restaurants, cafes, and bars, etc.);
- Transport and communications: railway, motor vehicles, public transport, forwarding, etc. and mail, telephone, and other means of communications;
- Financial activities, real estate, renting and business services; and
- Education, health care, culture, sports, and other individual services.
### Table 7. Detailed structure of samples collected for MSMEs, large enterprises, and individual entrepreneurs

<table>
<thead>
<tr>
<th>Type of economic activity</th>
<th>Brest Oblast</th>
<th>Viciebsk Oblast</th>
<th>Homel Oblast</th>
<th>Hrodna Oblast</th>
<th>City of Minsk</th>
<th>Minsk Oblast</th>
<th>Mahiliou Oblast</th>
<th>All Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro (up to 15)</strong></td>
<td>15</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>204</td>
</tr>
<tr>
<td><strong>Small (16 to 100)</strong></td>
<td>9</td>
<td>10</td>
<td>6</td>
<td>8</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>136</td>
</tr>
<tr>
<td><strong>Medium (101 to 250)</strong></td>
<td>11</td>
<td>11</td>
<td>7</td>
<td>12</td>
<td>11</td>
<td>14</td>
<td>17</td>
<td>272</td>
</tr>
<tr>
<td><strong>Large enterprises (more than 250 employees)</strong></td>
<td>7</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>16</td>
<td>7</td>
<td>6</td>
<td>142</td>
</tr>
<tr>
<td><strong>Individual entrepreneurs</strong></td>
<td>34</td>
<td>30</td>
<td>30</td>
<td>25</td>
<td>41</td>
<td>32</td>
<td>25</td>
<td>217</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Type of economic activity</strong></th>
<th>Brest Oblast</th>
<th>Viciebsk Oblast</th>
<th>Homel Oblast</th>
<th>Hrodna Oblast</th>
<th>City of Minsk</th>
<th>Minsk Oblast</th>
<th>Mahiliou Oblast</th>
<th>All Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td>15</td>
<td>16</td>
<td>10</td>
<td>12</td>
<td>11</td>
<td>13</td>
<td>10</td>
<td>142</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>7</td>
<td>8</td>
<td>4</td>
<td>3</td>
<td>9</td>
<td>11</td>
<td>7</td>
<td>136</td>
</tr>
<tr>
<td><strong>Trade, repair, hotels and restaurants, catering</strong></td>
<td>18</td>
<td>9</td>
<td>11</td>
<td>9</td>
<td>15</td>
<td>13</td>
<td>17</td>
<td>272</td>
</tr>
<tr>
<td><strong>Transport and communications</strong></td>
<td>12</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>11</td>
<td>17</td>
<td>12</td>
<td>140</td>
</tr>
<tr>
<td><strong>Financial activities, real estate, renting and business services</strong></td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>11</td>
<td>21</td>
<td>11</td>
<td>103</td>
</tr>
<tr>
<td><strong>Education, health care, culture, sports, and other individual services</strong></td>
<td>3</td>
<td>2</td>
<td>9</td>
<td>8</td>
<td>5</td>
<td>13</td>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>

| **All types of economic activity**                                | 62           | 64              | 36           | 36            | 61            | 61           | 61             | 997         |

| **Large enterprises (more than 250 employees)**                  | 7            | 5               | 7            | 4             | 16            | 7            | 6              | 52          |
| **Individual entrepreneurs**                                     | 34           | 30              | 30           | 25            | 41            | 32           | 25             | 217         |