

Improving the Business Environment

Belarus

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This report presents an evaluation of the current economic situation of the productive sector of Belarus. It begins by focusing on the emerging twin problems of decreasing competitiveness and profitability. The report then highlights the current structure of the productive sectors, with emphasis on the scarcity of small and medium enterprises and its link with competitiveness. Given the small and weak private sector in Belarus, the report takes an in-depth look at the business environment in the country. Recent agreements with Russia regarding economic management are reviewed. These agreements are likely to be of paramount importance in guiding future economic developments in Belarus. The report closes by pointing out that solving the problems of competitiveness and profitability will require the Belarus authorities to revise the rules for doing business and economic organization, which includes creating a more predictable and less onerous environment for the development of private small and medium enterprises.

The report presents some recommendations for gradual reform. It is directed towards the businesses and NGOs working on improving the business environment in Belarus, as well as towards Government officials engaged in economic reform.

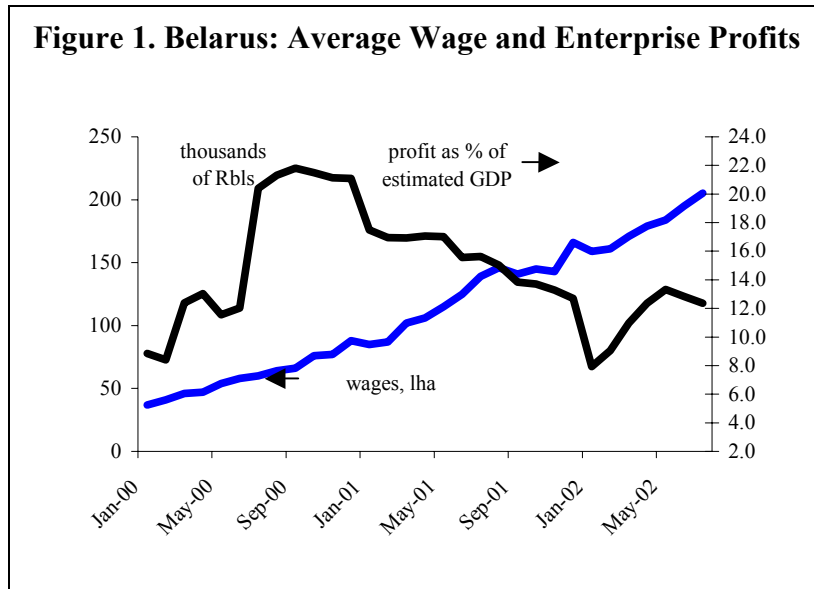
Introduction

The Government of Belarus proudly points out that it has continuously expanded its output since 1996. Its approach to economic management has meant keeping the bulk of productive resources under the control of the state. As a consequence, the country has retained a strong administrative system encompassing all levels of the Government and the management of many enterprises. Such highly controlled governance structure allowed Belarus to slow down the spread of corruption present in many other transition economies. Also, the tight control of the economy prevented the disintegration of the intra- and inter-industry links, especially with suppliers and consumers in Russia.

However, the economic policies as undertaken by Government have had negative side effects: mainly, over-regulation of business activity and frequent changes in the rules of the game. **Over-regulation** became a necessity to be able to exercise control over productive assets and transactions in the economy; thus, complex and expensive systems of inspections and controls emerged for enterprises of all types of property. **Frequent changes of the rules of the game** (laws, decrees, regulations) followed the authorities' efforts to tackle the immediate problems of the enterprises and thus deal with the conflicts between a changing external environment and unreformed domestic economy. Continued attention to short-term challenges has precluded the development of a clear

medium- and long-term economic strategy and added to the feeling of uncertainty prevailing in domestic business circles and among international investors.

The information available on the enterprise sector shows that the Belarus economy is facing a crisis of competitiveness: profits are down, inventories are piling up, overdue debt is increasing and barter is on the rise in the domestic market. While agreements with Russia regarding economic integration introduced a modicum of confidence as to the future of the macroeconomic environment, this by itself is not sufficient to address the emerging problems that have reduced the competitiveness of the enterprise sector. De-regulation of economic activity and credible assurance of a more predictable regulatory environment are needed to encourage the growth of private business and to facilitate the much needed streamlining, restructuring and modernization of the large state enterprises. There is certain urgency to initiate these tasks as soon as possible to avoid drastic adjustments in the future as has been the case in other transition economies. The fact that Belarus has remained a relatively corruption-free environment



provides an excellent background to advance reforms.

Section 1: The profitability crisis and competitiveness

A crisis of profitability has gradually been emerging in the productive sectors. This crisis is related to the

loss of competitiveness in the domestic and external markets. The profitability crisis has already had a negative impact on the fiscal position of Government. Several factors seem to explain the drop in profitability: (a) the blanket increase in real wages (see Figure 1); (b) outdated technologies because of low investments; (c) growing inventories because of falling demand; (d) growing inter-enterprise arrears and barter as a form of payment in the domestic market; and, (e) the appreciation of the exchange rate in 2001.

Profitability: Overall Trends. Profitability of industrial enterprises dropped from 17 percent in 1999 to 15.7 percent in 2000, and further to 11.9 percent for 2001 (see Table A 4). Profitability stands now at around ten percent. Moreover, the share of loss-making industrial enterprises increased from 8.8 percent of the total number of industrial enterprises in 1999 to 18.4 percent in 2000 to 29.7 percent in 2001 to a record 44.6 percent in January-February 2002 to 36.7 percent for the first half of 2002. Thus, in 2002 more than one third of industrial enterprises have operated at a loss. The Government has been deeply concerned with the problems of profitability and has made efforts to address the problem. Indeed, profitability has increased from a low point in February 2002, but

still the downward trend over the long haul persists. The big question is whether the Government can address the profitability problems in a sustainable fashion with the current tools at hand.

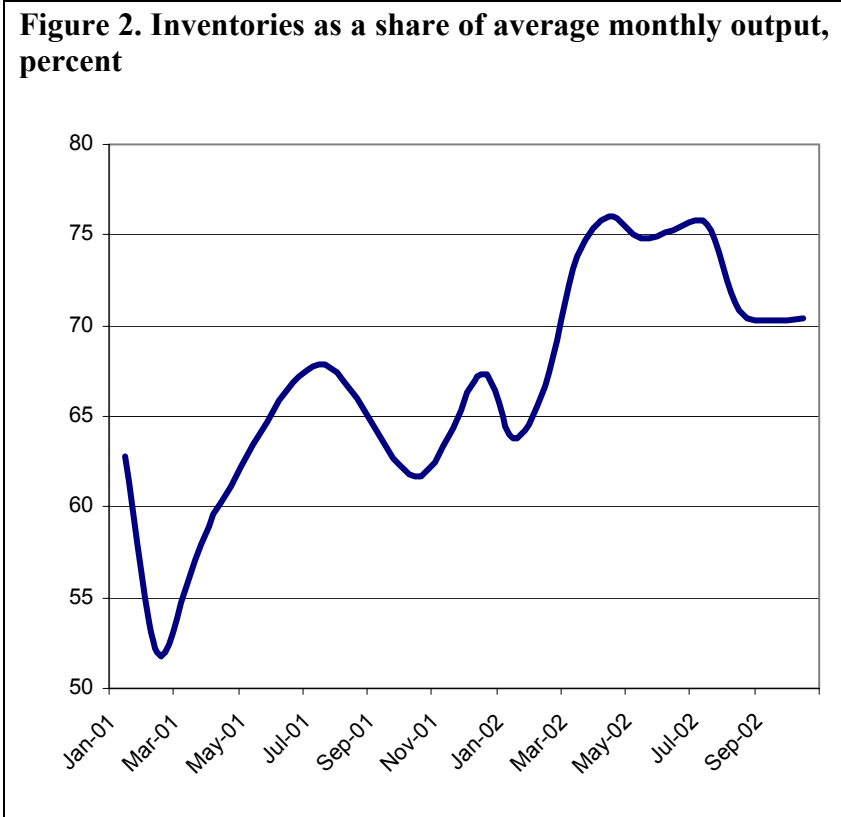
Profitability: Sector Behaviour. The industrial sectors experienced varying levels of profitability decline. Comparing the average levels of profitability for the last three years, the Belarusian economy as a whole lost about 29 percent during the period 2000-2002, while industry lost 31.6 percent. The strongest decline happened in light industry (69.8 percent), chemical and petrochemical (61.9 percent), ferrous metallurgy (50.8 percent) and food industry (44.8 percent). In absolute terms, two of these industries – light and food – reached the record low levels of profitability by October 1, 2002: 4.6 and 4.8 percent, respectively. These two industries differ from others in that they are primarily oriented at the final consumer, consist mainly of small and medium-sized producers and are very sensitive to domestic and external competition. The share of inventories to average output in these industries rose by record 64 and 43 percent, respectively, over the period of 2000-2002 reaching for food industry 49 percent as of 1 November 2002. The share of wages in costs of production for these industries increased over the same period by 24 and 44 percent.

*Current assets and liquidity structure.*¹ The liquidity of the enterprise sector has deteriorated. The deteriorating liquidity is linked to the drop in profitability. Although current assets for the entire industry have on average been around 40-50 percent of GDP over the period 1996-2001, both the share of accounts receivable and inventories has been rising from 1996 and reached 20 percent and 12.2 percent, respectively, in the first nine months of 2001 indicating diminishing liquidity of current assets. This is linked to the emergence in inter-enterprise arrears. (See below.) In a sector breakdown, the share of inventories in current assets is highest for the sectors of textiles, apparel, leather, fur and shoes, machine building and metal processing and the medical industry (see Table A6).

¹ Analysis presented in this section utilizes the data made available by the Ministry of Statistics And Analysis and National Bank of Belarus, which conducts monthly monitoring of the enterprise sector in Belarus.

Piling-up inventories. A pile-up of inventories is likewise linked to the profitability crisis. The increase in inventories derives from weak demand for industrial goods in foreign and domestic markets. Even when the increase of inventories is associated with production

Figure 2. Inventories as a share of average monthly output, percent



for large contracts, the level that has been reached in some industries appears high. A report by Ministry of Statistics and Analysis estimates the share of inventories in average monthly output for industry and finds that this ratio has increased from 61 percent on average for 2000 to 64 percent for 2001. Inventories peaked in 2002 when they took up 76.6 percent of average monthly output by industrial enterprises as of April 1, 2002 (see Figure 2). Inventories are particularly high in

machine building and metal processing, the light industry and timber, pulp and paper sectors.²

Growing indebtedness and inter-enterprise arrears. Belarus industry is net external borrower; the ratio of payables to receivables changed from 1.22 to 1.85 during 1996-2001. Growing overdue obligations and inter-enterprise arrears have been contributing to the profitability crisis. Overdue debts (estimated at over 21.5 percent of GDP in 2001) are higher in industry compared to transport, construction and housing and utilities. Furthermore, the share of overdue industrial indebtedness has been on the increase. Overdue indebtedness for the whole industry increased in real terms in 1998 by 71 percent and again in 2000 by 35 percent. Among industrial sectors the highest rates of growth of overdue indebtedness were registered in the microbiological, flour, milling and grain and total light industry (in the range of 100 to 300 percent). In 2000 about 47 percent of total payables (debts) in the whole industry were overdue and about 48.4 percent for 2001. By March 1, 2002 this share reached 50 percent sharp. The highest

² Thus, as of April 1, 2002, inventories amount to 130% of average monthly output in the machine building and metal processing industry, and to 134% of average monthly output in the light industry. By commodity types, we see shares of inventories in monthly output of over 200% (377.4% for metal press machines, 474.4% for motorcycles, 218.9% for metal-cutting machines, 232.5% for tractors, 369.7% for woolen fabrics, 247.5% for linen fabrics, etc).

share of overdue payables is in electric power generation, where overdue debts are about 88 percent of total debts in 2000 and 87 percent as of March 1, 2002. Regarding the duration composition of overdue payables, for the entire industry almost three quarters of the total stock of overdue debts (73.3 percent) are overdue for a period exceeding 3 months. Thus, long-term indebtedness is pervasive. Based on analysis of ratio of payables and receivables it appears that only fuel industry, ferrous metallurgy, transport, construction and utilities were net lenders over the period of 1996-2000. Other industries were borrowing either from other sectors or from the rest of the world.

The growing inter-enterprise arrears and worsening financial condition of industrial enterprises are also confirmed in the Real Sector Monitoring Survey by the National Bank of Belarus. Thus, 41 percent of industrial enterprises report growing overdue payables in January 2002 compared to December 2001, while 33.5 percent report no change and 13.4 percent report their decrease. A similar picture emerges for overdue receivables.³

Barter. The unification of the exchange rates and elimination of the black market premium have led to a drop in barter in international transactions. However, for the whole industry barter has been generally stable fluctuating between 26.4 and 31 percent of revenue during 1998-2002 (see Table A 8). This means that there has been a significant increase in domestic barter operations. The experience in other transition economies suggests that barter emerges as a way to secure transactions among enterprises when the financial sectors are weak and it becomes difficult to enforce contract discipline. This is a situation that could well be emerging in Belarus.

Emerging soft-budget constraints. Official state subsidies as given by official sources are very low and are well below one percent of industrial output. However, various instruments for preferential treatment exist, whereby loss-making enterprises are subsidized at the expense of profitable ones, thereby further distorting economic incentives. A study of industrial enterprises conducted in June-July 2000 by the Institute of Privatization and Management (IPM) in Minsk found that in 1998 and 1999 32.1 percent of surveyed enterprises received preferential credits, 17.4 percent received preferential treatment in tax payment, and 20.2 percent received some form of subsidy. In sector breakdown, 67 percent of enterprises in the fuel industry, 58 percent of those in the construction materials industry and 47 percent of those in machine building and metal processing received subsidies in one form or another. Thus, on average about half of all surveyed enterprises operate under soft budget constraints. This means a preferential treatment for the SOEs, compared to the private sector.

Tax Arrears. In several transition economies, tax arrears have emerged as a special form of soft-budget constrain. This pattern seems to be emerging in Belarus. The size of the tax arrears has consistently increased during past few years (see table XXXX) to reach 2.9 percent of consolidated budget revenues by January 1, 2002. There has not been a consistent government policy towards tax arrears. In a good number of cases the government has either forgiven or reprogrammed them. For example, on March 3, 1998

³ This data is obtained from the National Bank of Belarus which regularly conducts polls of enterprises' managers.

the President freed insolvent agricultural enterprises from land and property taxes, fines accrued on overdue bank credits and tax arrears. On March 3, 2000 a similar decision was taken, passing preferential tax arrears' treatment for agricultural producers and recommending commercial banks to prolong the credits to them on favorable terms. Selected industrial enterprises also enjoyed similar benefits, according to the Presidential decree No 379 of July 13, 2001 number of industrial enterprises received tax arrears' preferences and were freed from fines. Some of the arrears are allowed to be carried over and increased in the following fiscal year, some are given a tax credit treatment according to the directives of the authorities, some are taken to the bankruptcy courts. See Annex Tables 11 and 12.

Losing Competitiveness. Belarus industry is losing competitiveness. The data on unit labor costs show clear signs of loss of competitiveness, most importantly, with respect to the main trade partner – Russia (see Table A 10). Unit labor costs have been affected by the government's expansionary economic policy and, recently, by the Government policy to increase salaries to 100 US dollars/month. This trend will likely result in Belarus losing market share in foreign countries and even at home. The preliminary results of foreign trade activity of Belarus for the first six months of 2002 indicate that export to Russia has declined by 4.7 percent. Among the individual export items decline was registered in mineral products, chemicals, plastics, textile, metals and vehicles. Consumers often seem to favor imported goods as they appear more attractive and cheap for them. This triggered the government to introduce some protective measures to limit the inflow of the import or to force consumers to use the state retail outlets.

The Productive Structure

To better understand the means that can be used deal with the crisis of profitability, it helps to take a look at the productive structure of the economy. As shown below, Belarus lacks a sizeable small and medium enterprises sector, in contrast with developed and other transition economies. Cross-country analysis has shown that the small and medium enterprise sector plays a very important role in improving the competitiveness of the large industrial enterprises. The small and medium enterprises in a market economy operate both as suppliers of inputs and processed goods to the large industrial enterprises and also as distributors. This structural arrangement, which has developed naturally, reduces production costs and introduces flexibility to deal with shocks to the economy.

Employment, number and size of enterprises. Belarusian industry is dominated by large firms with 433 employees per enterprise on average in 2001. Since 1996 no significant changes have occurred in the structure of employment across industrial sectors. The majority of those employed in industry work in the heavy industry sector (see Table A 3). Machine building and metal processing account for around 40 percent of total industrial employment, light industry – for approximately 15 percent, and chemical and petrochemical, wood and pulp and food processing – for 9-10 percent each.

Correspondingly, machine building has the highest number of enterprises (ranging from 26 percent to 29-30 percent of the total number of enterprises towards the end of the period reviewed).

SMEs. The level of development of private businesses in Belarus today considerably lags behind all neighboring countries. Belarus with approximately 2.8 small and medium-sized enterprises (SMEs)⁴ per 1000 population has the smallest number of SMEs in comparison with its Former Soviet Union neighbors⁵, and is the only transitional economy in which the number of private SMEs decreased in 2000, 2001 and 2002⁶ (see Table 1). The number of small-sized enterprises dropped sharply in 1997 as a result of the first wave of re-registration. After a brief upward spell, the overall number of SMEs as well as SME employment started falling in 1999 due to a second re-registration and a generally worsening business environment for the private sector.

Various sources estimate the share of output produced by SMEs in the range of 6 to 10 percent of GDP, and place the employment in SMEs sector in the same range – at 6 to 8-9 percent of total economy-wide employment. Comparing Belarus to some CIS, Baltic and Central European countries for the period 1997-1999 reveals that the share of SMEs in total GDP was almost 40 percent in the Czech Republic (1999) and over 50 percent in Poland (1997). Belarus is clearly way below these countries. The share of industrial output produced by small enterprises provides an even gloomier picture (see Table A 2). While the total share has grown over the past five years, it is still very low at an almost insignificant 5-6 percent of industrial output.

The small contribution of industrial SMEs and their continuing stagnation represent one of the major barriers to increased competitiveness of the Belarusian industrial sector. In Belarus, manufacturing industries play a major

Table 1. Small Enterprises in the Belarusian Economy

Indicator	1997	1998	1999	2000	2001	1H2002
Number of SMEs (1000)	22.3	24.1	26.8	25.7	25.4	24.6
Share of SMEs in GDP, percent	4.8	6.0	6.8	6.7	6.6 ¹	n.a.
Employment in SMEs (1000)	232.1	280.4	326.9	291.2	291.5	285.2
Employment in SMEs, Percent of total employment	5.3	6.4	7.4	6.6	6.6	7.9

Source: Ministry of Statistics And Analysis of Belarus

⁴ SMEs are defined in the law “On State Support of Small Entrepreneurship” as firms with less than 100 employees in manufacturing; below 50 employees in construction and below 60 employees in agriculture.

⁵ Ukraine 4, Russia 6, Poland 35. The figure for Belarus includes both state and non-state small-sized enterprises. If only non-state enterprises are considered, the figure would stand at 2.6 enterprises per 1000 population at the beginning of 2001.

⁶ T. Bykova in Natsionalnaya Ekonomicheskaya Gazeta of January 11, 2002, quotes a reduction of 6 percent (from 30.4 to 28.6 thousand) in the number of “commercial structures: companies with limited responsibility, companies with additional responsibility, and private companies”; a group that includes all private SMEs.

role in exports. The existence of a large number of industrial SMEs competing to supply parts and sub-components to big local exporters of consumer goods, agricultural machinery and industrial vehicles is essential if these larger enterprises are to, first sustain, and then start improving their competitiveness.

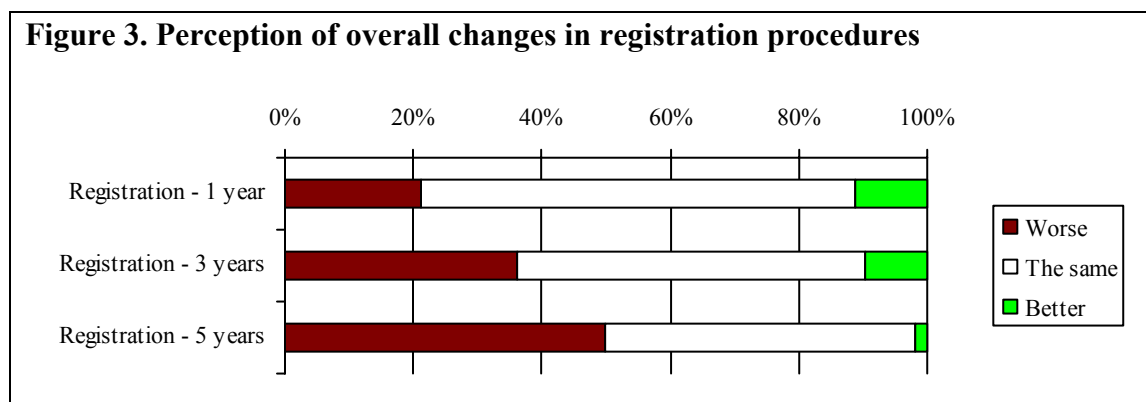
Foreign Investment. The inflow of FDI in Belarus is low, although in per capita terms it has surpassed flows to Russia or Ukraine. Belarus shares with these two countries an environment of unpredictability and unclear protection of property rights, which has kept foreign investors away. The few large investment projects were either cases of proliferation of networks of multinational companies (e.g. McDonald's, Coca-Cola Company) or assembling productions oriented towards promising Russian market (e.g. the Ford Motor Company). A large share of FDI during 1996-1999⁷ was associated with the construction of gas pipeline by the Russian Federation.

⁷ For example in 1996 the share of pipeline construction in total FDI for Belarus was 73.4 percent, in 1997 – 60.5 percent.

Section 2: Regulatory Cost Survey

A weak private SME sector accelerates the further crippling of the competitiveness of the Belarus economy. Experience of many other countries shows that a strong small and medium enterprises sector complements and strengthens the competitive position of large enterprises. Hence the importance to understand the specific characteristics of the business environment in Belarus and how it affects the emergence of a strong small and medium enterprise sector. In order to do this and to identify possible areas for reform, the International Finance Corporation's Belarus Small and Medium Business Development Project conducted a regulatory cost assessment survey of 625 businesses in December 2001.⁸ The findings confirm that the existing regulatory environment makes it difficult to create new business and to operate existing ones. The analysis also shows that corruption is less prevalent in Belarus than in other CIS countries.

Registration. The survey shows that entrepreneurs face significant problems beginning



with business registration. Current legislation neither specifies an exhaustive list of documents needed for registration nor a bounded time frame. The end results are appalling. It takes an average of 59 days to register a business, more than twice as long as in neighboring Ukraine (26 days). Various payments for registration average \$223 in Belarus, which is more than three times higher than in Ukraine (\$66). Even more worrying, entrepreneurs see deterioration in the business registration process as compared to one year ago, three years ago, and five years ago (see Figure 3). Recent study of administrative barriers for small businesses in Russian Federation⁹ provides important comparison for the registration procedure in Belarus. Thus, Russian start-ups spent on average 25.7 days for registration in second half of 2001 and 27.1 days in first half of

⁸ Similar studies were conducted in other countries of the region, namely Ukraine (in 1987; 1988; 1999), Georgia (in 2000), and Armenia (in 2001).

⁹ Monitoring of Administrative Barriers to Small Business Development in Russia. CEFIR in collaboration with the World Bank. The results of the study are not completely comparable with the Cost of Doing Business survey presented in this paper. However some key indicators can be used to draw relationships between business climate in Russian Federation and Belarus. Monetary indicators of complying with administrative practices for Russia and other countries cited in the text should be treated with caution since CEFIR study does not specify whether amounts are paid officially or unofficially.

2002. In terms of cost of registration, Russian counterparts paid \$160 in 2001 and \$130 in 2002 to complete the registration route.

Besides the difficulties of registering a business, the Government undertook two re-registration campaigns. Re-registration reportedly has taken as much time and resources as the initial registration. Re-registration thus places a substantial additional burden. Moreover, any change in the composition of company owners (with the exception of open joint stock companies, consumer cooperatives, and associations and unions), location, size of charter capital, and other information required to be set forth in foundation documents, requires modification of registration documents. This entails initiation of a lengthy approval process.

Licensing. Business licenses are numerous and difficult to obtain. The realm of licensing is governed by over 20 legal acts. Currently 165 types of business activities are subject to licensing by 50 separate state agencies. Almost each of these bodies is empowered to develop its own licensing regulations. This translates into four to five times more licenses for an average business in Belarus than in other former Soviet countries, and to longer periods of time to receive the required licenses (see Table 3). Interestingly, however, the amount paid unofficially for one license is less in Belarus than in other countries in the region. Also, the combined, official and unofficial, cost per license is the lowest in Belarus. These advantages are lost, however, when the overall number of licenses is taken into account. These findings suggest, however, that the business environment in Belarus can benefit significantly from a reduction in the number of licenses required while reducing (but, not increasing) the unofficial payments.

Table 3. Licensing Regimes in Georgia, Ukraine, Moldova, Russia, and Belarus

	Georgia, 2001	Ukraine, 2001 est.	Moldova, 2002	Belarus, 2001	Russia, 2002⁹
Number of licenses per average business	0.9	1.6	3	5.5	n.a.
Time to get one license	12 days	11 days	28.6 days	30 days	32.6 days
Official fees for one license	\$167	\$63	\$389	\$135	\$253
Percent of those who paid unofficially	19	19	37.6	18.9	n.a.
Amount paid unofficially for one license	\$157	\$21	\$158	\$67	n.a.

Inspections. Businesses in Belarus are more rigorously inspected than elsewhere in the region. The frequency of tax, fire and sanitary inspections is comparable to that in

Ukraine and Russia. However, several other agencies have little or no presence in Ukraine and Russia, but present a significant regulatory burden in Belarus (see Table 5).

Table 5. Average number and duration of inspections in Ukraine, Russia and Belarus

	Belarus		Ukraine		Russia
	Number, 2001	Duration of each, days, 2001	Number, 2001	Duration of each, days, 1999	Number, 1 st half 2002 ⁹
Tax inspectorate	2.2	15.5	1.4	13.1	1.16
Fire fighting authority	2.2	2.0	1.3	2.7	1.36
Sanitary authority	4.0	2.7	1.1	3.5	1.18
Militia	4.7	3.0	insignificant	insignificant	0.84
State Control Committee	1.5	16.0	No agency	No agency	No agency
State security bodies	2.0	11.5	insignificant	insignificant	n.a.
Prosecutor's Office	1.2	5.0	insignificant	insignificant	n.a.
Price control authorities	2.0	7.0	insignificant	insignificant	n.a.
Standard control author.	1.9	5.0	0.5	3.1	0.26
Environm. protection	1.8	2.5	insignificant	insignificant	0.3
Licensing bodies	2.2	4.5	insignificant	insignificant	n.a.
Consumer protection	3.0	2.0	0.5	2.1	n.a.
Ministries & state bodies	1.6	11.0	insignificant	insignificant	n.a.

For example, Belarus is unique in the existence of a State Control Committee, which has the power and broad authority to control prices, contracts, or any other aspect of enterprise operations. Businesses that represent a bulk of new enterprises (limited liability companies, manufacturing cooperatives) are inspected with similar rigor as larger enterprises or businesses that operate with state orders (open joint stock companies, state unitary enterprises) (see Table 7).

Table 7. Aggregate duration of inspections hosted by companies of different organizational forms

Organizational Form	Days
Individual entrepreneur	24
Non state unitary enterprise	68

State unitary enterprise	103
Limited liability company	55
Additional liability company	37
Closed joint stock company	107
Open joint stock company	89
Manufacturing cooperative	114
Other	119
In Belarus for an average enterprise	68
In Ukraine for an average enterprise	24

Certification and hygienic control. Certification requirements in areas such as technical regulations (standards, sanitary and building norms) are similar to those in neighboring countries. The list of goods and services subject to certification is maintained by the Committee for the Standardization, Metrology and Certification. The Committee charges fees for certification, and not surprisingly it is interested in expanding this list. From 1999 to 2001, 10 extensions to the original list for certification were made. As a result, even innocuous goods like bicycle locks must be certified.

Belarus also has a requirement for hygienic registration of goods. This list is maintained by the Chief State Sanitary Specialist. The list of goods subject to hygienic registration is expanding and the inclusion of some goods in the list is difficult to justify (electric door bells, for example). Certification and sanitary registration requirements very often overlap.

The combination of certification and hygienic registration represents a significant burden for businesses in Belarus. Table 6 compares the situation in Belarus with that of Georgia, Ukraine and Russia. The requirements of certification and hygienic registration in Belarus cover the largest percentage of goods in the three countries. This fact increases product costs and decreases competitiveness of the Belarusian economy (see Table 9).

Table 9. Comparison of Product Certification

	Georgia	Ukraine	Russia, 2002 ⁹	Belarus - certification	Belarus - Hygienic registration
Had to certify goods and services	46.6%	26.1%	n.a.	35%	27%
Time for receiving one certificate	3.4 days	15.3 days	28.7 days	24 days	15 days
Official costs for one certificate	\$989	\$120.7	\$230	\$146	\$45
Percent of who made unofficial payments	35.4	22.4	n.a.	10.5	10

Unofficial payments	\$73.8	\$223	n.a.	\$195	\$29
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Permanent Oversight. Private businesses in Belarus face a permanent oversight and undue meddling in their affairs. In fact, the state is involved in everyday dealings with private enterprises, including but not limited to control of contracts between companies, irrespective of their ownership form. This practice of state management is exercised by the line ministries. Table 11 shows how the degree of control increases with the size of the enterprises. Almost every third respondent (29 percent) from privately owned enterprises indicated that their contracts were monitored by the state agencies. Settlement terms of the contract are the most commonly controlled item with 67 percent of respondents reporting, followed by prices (54 percent), type of goods (35 percent) and contract size (28 percent).

Table 11. Do representatives of state agencies either formally or informally oversee the contracts signed by your company?

Response	Yes
Number of employees	(percent)
0	5.6
1-10	21.6
11-50	22.1
51-100	28.0
101-500	50.0
> 500	68.1

In addition to formal controls and monitoring, the central and local authorities often use informal pressure to regulate business. For private sector entrepreneurs it is often difficult to differentiate between the formal instructions and informal pressure – the messages are delivered by the same people from the same institutions. This is evident, for example, in the area of price controls. The survey revealed that 52.9 percent of the respondents are affected by price controls in varying degrees.¹⁰

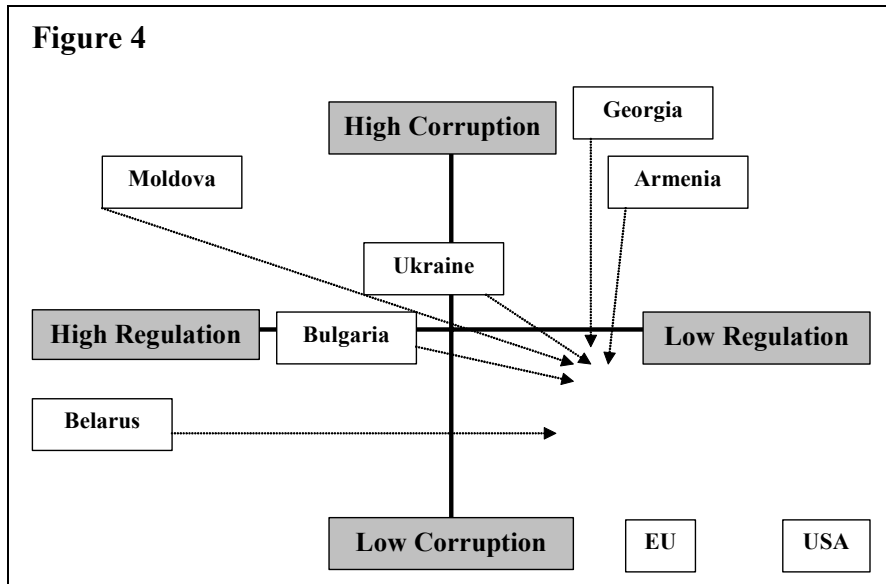
The survey demonstrated that prices are primarily controlled by specialized price control authorities in the Ministry of Economy (78.9 percent), in other ministries (24.1 percent), by the State Control Committee (39.1 percent) and local authorities (33 percent). The relatively low share of Consumer Protection authorities and Anti-Monopoly Committee (around 8 percent) suggests that price regulation is mostly a tool for state control.

State authorities also impose quotas for purchases from specific state companies. An example is the Council of Ministers’ Ordinance N1598 dated October 15, 1999 that stipulates that producers of milk and meat can sell the produce left after the fulfillment of state procurement orders only to companies listed in the Ordinance. Furthermore, the state restricts entry of new firms into certain sectors through selective application of licensing regime and permits. This forces private SMEs to use licensed state owned or well connected private intermediaries.

Summary

Regulatory cost surveys conducted in several FSU countries show how the business environment in Belarus differs quantitatively and qualitatively from that of other

¹⁰ Recent Government de-regulation decisions may have reduced this percentage.



countries. Clearly, the regulatory burden seems to be the largest in Belarus. Practices for registration/re-registration, licensing, inspection, certification and state involvement in day-to-day activity exceed that of other countries surveyed, with the partial exception of Moldova. Moreover, clear regulations do

not seem to be in place, making it difficult to know what are the effective requirements for registering, obtaining licenses and permits, etc. This leads to excessively long times to satisfy these requirements. On a positive side, Belarus has significantly lower corruption rates and a more uniform enforcement of rules. Side or informal payments are lower in Belarus than in the other countries. Figure 4 graphically presents an approximate distribution of the countries where study was conducted in the framework of corruption and the levels of regulatory control. It compares these countries to positions of USA and EU.

Figure 4 can be used to illustrate the reform paths available to transition economies in their path to becoming successful market economies. Indeed, reform experience suggests that de-regulation (horizontal movement to the right), when undertaken, is more efficient and can yield almost immediate positive results if countries are not situated too high on the vertical corruption scale. The reason for this is that the corruption scale correlates closely with administrative capacity of Government to implement and enforce rules. A country with a low level of corruption is likely to have high administrative capacity and thus be able to de-regulate effectively and provide an even level field environment for businesses to operate.

Movement down on the corruption scale is much more complicated, because it requires improving the administrative capacity of Government while corruption is eliminated, which is precisely what corrupt administrations have difficulty in doing. Consequently, de-regulation (horizontal movement to the right) without reducing corruption (vertical movement) does not result in the growth of local economy and investments. It means that such countries as Georgia and Armenia, while having undertaken significant reform efforts, may still fail in attracting significant investments. Moldova has the most complex reform opportunity and could well replicate the Georgian example.

This also means that Belarus, if it undertakes reforms, actually has probably the best chances to succeed, assuming it will not move up on the corruption scale in the

process of de-regulation. However, unlike other countries in the region, Belarus has retained extensive elements of state run economy. This fact sets Belarus apart from other countries in the region. Specifically, in Belarus the state is both a significant owner (large state enterprise sector) and a regulator. Therefore there is a risk that the state's regulatory activity may be biased as a result of protection of the interests of the state enterprises. This seems to be happening in Belarus, where restraints to private sector activity are seen as a way of enlarging the opportunities of the state enterprises. This narrow view, on the contrary, has harmful effects for the large enterprises, which fail to take advantages of the possibilities of specialization and division of labor provided by the SME sector. This approach is supported by strikingly negative attitudes to businesses among population and some media. The end results are unpredictable and difficult conditions for private sector development in Belarus.

Section 3: Economic Policy Harmonization with Russia

The Economic Policy Harmonization Agreement between Belarus and Russia has emerged as a key pillar of stability. Observers in Belarus and other countries follow the implementation of the agreement with attention as it is likely to determine the quality of the economic environment in Belarus. This agreement seeks to create conditions for establishing a single issuing currency center and on measures for creating conditions for introducing a monetary unit. Key aspects of this agreement are:

- Abolishment of Belarusian Ruble (BYB) multiple exchange rates in 2000.
- Lifting of all restrictions on transactions in the national currencies between Russian and Belarusian residents in current operations.
- Unification of exchange rate setting principles between BYB/RUR and foreign currencies.
- Creation of a NBB stabilization fund, financed mainly by a 4.5 billion RUR-loan from the Central Bank of Russia (CBR). Moreover, the Russian Government committed to extend a 100 million US dollars loan to the Belarusian Government for balancing mutual trade.
- Beginning from January 1, 2005, RUR will be a single monetary unit of the Union State.
- Beginning from January 1, 2008, a new single monetary unit of the Union State will be put into circulation.

Moreover, according to the Action Plan, approved on March 30, 2001 on creating conditions in 2002-2005 for introducing a monetary unit of the Union State, the following arrangements were agreed upon:

- Tightening of Belarus' monetary policy. Ministry of Finance of Belarus has to develop a budget for 2004, precluding loans from the NBB. Simultaneously, the NBB has to stop lending to Belarusian companies and other organizations directly and extend credit to banks only on market terms.
- BYB will be pegged to RUR with monthly devaluation rate of 2.2 percent-3.1 percent in 2001, 1 percent-2 percent in 2002 and 0.5 percent-1.5 percent in 2003. Beginning from 2004, there will be BYB strong fixing rate against RUR.

- A mechanism of establishing single gold reserves and other high-liquidity banking assets for providing a single monetary unit stability will be introduced in 2004.
- A uniform procedure of opening accounts in foreign currencies in credit institutions of Belarus and Russia by the residents will be developed in 2002-2004.
- By 2005, a uniform control and supervision procedure for commercial organizations and banks performance would be established.

On April 12, 2002 Belarus and Russia signed an Agreement on the creation of equal conditions in the area of price policy. According to the agreement both sides would apply Russia's internal tariff for export and import in railway cargo shipments; starting May 1, 2002 Russia would export natural gas to Belarus at border price equal to the price of Russian consumers in the fifth price region bordering Belarus. Belarus committed not to re-export natural gas received at lower price to third countries, to remove all the individual tax privileges granted in the past to Belarusian enterprises and to abstain from granting such preference in the future.

Since the end of 2000, exchange rate and financial integration between Belarus and Russia has proceeded in accordance with the agreement signed by the two governments and their respective central banks. After the abolishment of the multiple exchange rate system, progress towards harmonization has continued:

- As of January 1, 2002 the corporate profit tax rate in Belarus was lowered from 30 percent to 24 percent to match the tax rate on Russian companies;
- A draft law on business registration is being prepared and it takes into account the recent reforms in Russia;
- A draft law on simplified taxation of small enterprises is prepared – Russia announced changes as of January 2003; and,
- Belarus is moving towards removing all tax privileges and exemptions, in line with recent Russian legislation.

Moreover, significant progress has been achieved in the area of customs regulations and harmonization of the tariff policy. In the first quarter of 2002 the Belarusian Government introduced Russia's 10-digit goods classification and further reduced the number of tariff lines for which tariffs differed leaving about 10-20 Belarusian tariff groups under stronger protection (e.g. microchips, TV sets, trucks, furniture, etc.). The unification of trade regime with Russia is also seen by Belarus authorities as a vehicle for acceleration of accession to the WTO.

Clearly, harmonization of economic policy with Russia has increasingly served as a driving force for reform in Belarus. The significant strides that the Putin Government has taken in the last year to reduce the burden on business activity in Russia could well end-up having beneficial effects on the Belarus economy.

The path towards unification is not likely to be easy, though, as recent events have shown. Clearly, the precise details of the currency and, even more, national unification will have to be further worked out. Policy changes in Russia will have significant impact

on Belarus. For instance, the decision of Gazprom to gradually increase the price of energy products within Russia will imply parallel increases in Belarus and thus an end to inexpensive energy. This will have serious implications for the capacity of Belarus products to compete in third markets. Russia's desire to join the WTO as soon as possible and adopt the necessary changes to qualify as a member will also have deep implications for Belarus. A decision by Russia to require cash payments for energy would have complicated macroeconomic effects, given the limited liquidity position of the government and the country. These emerging issues will require additional study. For the moment, however, it is expected that the relationship with Russia will continue to frame economic policy in Belarus and contribute to improving the macroeconomic environment. But, this by itself will not be enough to assure the competitiveness of the Belarus products in Russia's markets and abroad, under the current circumstances. Indeed, if the ability to compete continues to deteriorate, Belarus will face a stark choice: (a) introduce reforms to facilitate the streamlining of the productive sector and the emergence of private businesses, or (b) revise the agreements with Russia and adopt more isolationist and protective measures.

Section 4: Facing-up to new Challenges

Belarus' approach to economic policy is being severely tested today. Mainly, the competitiveness of its enterprise sector has decreased and with it its profitability. Arrears are on the increase, so are debts, inventories, and domestic barter. The Government has responded to this crisis by looking for measures to prop up profitability, including reduction in taxation and costs. While, these approaches can yield short-term results and alleviate problems of profitability (as indeed has been the case from February 2002 to August 2002), long-term solutions will require (a) improving the macroeconomic and the regulatory environment; (b) initiating the streamlining, restructuring and modernization of the state enterprise sector, and (c) increased competition on the local market by creating conditions for emergence of a strong private sector, in particular SMEs.

The recently ratified agreements over economic unification with Russia work in favor of a good macro-economic environment. However, they by themselves cannot solve the problems of competitiveness, resource allocations, investment, innovation, etc. The danger is that past experience in sorting out similar problems gives the government a false sense of security, which may end up slowing down adoption of policies to increase efficiency and increase the presence of Belarusian goods in foreign markets. To begin, there will have to be profound changes in the governance of the public enterprises so as to provide managers with the needed flexibility to streamline and modernize operations. This would have to be accompanied with hard budget constraints and mechanisms to allow 'exit'—be it closure or breaking up of enterprises. The governance system has to allow greater autonomy on decisions about production, technology and employment.

But, these modernization efforts will require a thriving and complementary private sector and more competitive internal markets. An emerging private sector will

also provide employment opportunities to the young and those that may be displaced from enterprises that would be streamlined. To create conditions for the emergence of the private sector, the Belarus Government will have to address squarely two problems that have been identified in this paper:

- The unpredictability of state interventions, so as to extend the planning horizon of enterprises; and,
- The pervasiveness of interventions, so as to reduce the cost of registering and operating businesses. Top managers report up to 40 percent of their time tied with interaction with Government officials (compare to 11 percent in Poland, and to 15 percent in Lithuania or 5-8 percent in Central American countries).

Addressing these two issues will do much to increase the competition in the domestic market and prevent economic agents from moving production to neighboring countries with friendlier business environment. If Belarus does not face these issues now, the country faces the risk of stagnation or even economic decline. Stagnation would be characterized by slow growth, without major deterioration in the external position or the fiscal and monetary indicators. Decline may well come about through a continued decline to compete in traditional foreign markets. Lack of competition on domestic market has already resulted in loss of markets for light industry products in Russia, where domestic producers, faced with external competition, have been increasingly improving quality, design, and productivity over the last few years. Also, there is qualitative evidence that SMEs are shifting some of their operations to neighboring regions in Russia due to a much friendlier business environment across the border. Such a situation would continue to strain profitability. Eventually, profitability problems could spill over to the balance of payments and the fiscal position of Government. Should this happen, the stability of the agreements with Russia could come into questions as well.

If, on the other hand, the authorities are ready to introduce reforms and change administrative practices, after an initial transition period the competitiveness of Belarusian produce in many industries can be revived, though some production lines would be closed as the country specializes in the context of the larger global economy. Such a transition period would be characterized by increased imports of mostly capital goods.

Section 5: Way Forward: Improving the Regulatory Environment

Provided there is commitment of authorities to introduce reforms in the enterprise sector and create an economic system favoring growth and employment through market incentives, the first, and easiest task, is to reform the regulatory and administrative environment for enterprises. This can be achieved through relatively low-cost efforts and actions, but will require the decision on the part of authorities to decentralize assets ownership and decision-making.

Short-term Strategy. In the short-term Belarus can follow a two-pronged strategy to improve the business environment and create conditions for an improved operation of the private sector:

- reduce arbitrariness of interventions, and

- reduce cash and time costs of interventions.

The reduction in the arbitrariness of interventions amounts basically to transforming the business environment from “unpredictably unfriendly” to “predictably unfriendly.” The pragmatic assumption is that the majority of unjustified interventions would remain in place but at least the authorities would not change them arbitrarily and/or unpredictably. It would be necessary to reduce drastically the absolute volume of the regulatory burden, both in terms of time and cash costs, while maintaining a strict policy of restriction of side-payments.¹¹ As part of abandoning the practice of managing private business affairs a review should be undertaken to identify legal acts as well as orders and ordinances of executive bodies that permit or prescribe monitoring of contracts, set lists of companies to trade, establish quotas. These acts should not only be abolished but specific legislation banning such practices by executive bodies should be adopted. This move will illustrate the commitment to create stable and consistent rules for Belarus business environment and would lay ground to economic integration with Russia. Substantial advances in price liberalization would, of course, be an important part of this strategy.

A program of de-regulation requires separating the regulatory policies of Government and its implementation from the interests of Government as an owner and producer. For this reason, some countries have introduced specialized administrative bodies in charge of implementing de-regulation programs. Governments have done so by institutionalizing a transparent consultation process for rule making with private businesses. These programs are often top-down efforts, but require the critical support of sub-national (i.e. oblast and rayon¹²) authorities. Box 1 summarizes the recent experience in Mexico with de-regulation. It must be mentioned that Ukraine has followed a similar approach to de-regulation.

Belarus should move beyond sporadic and limited consultations with private business and design institutional and permanent mechanism of public-private dialogue for review of proposed and existing regulations. Such mechanisms should include publication and public discussion period for all draft acts of state that can affect businesses. In addition to soliciting inputs from entrepreneurs such an approach will significantly increase predictability of regulatory environment in Belarus. For existing regulations it might create a forum for rational discussions and decisions on the utility of these rules for public good.

This strategy would have to be complemented with actions to improve the governance of the state enterprise sector by introducing greater flexibility in the management of enterprises (output mix, technology, employment, etc.). The government would also have to preclude the emergence of soft-budget constraints (tax/credit arrears, non-payment of inputs, inter-enterprise arrears, etc.) Experience of other countries shows

¹¹ In terms of Figure 6, this strategy corresponds to a movement to the right (less regulation), while keeping the country down on the vertical axis (low corruption.)

¹² Belarus has two upper sub-national administrative levels. Its divided into six oblasts and city of Minsk. Six oblasts contain 118 rayons and 110 cities which are further divided into smaller administrative units.

that soft-budget constraints often provide the main source and opportunity for corruption. These issues would have to be developed in greater detail and a strategy designed for implementation.

Box 1. Deregulation as Entry Point: Mexico's Deregulation Czar

In 1988, the president of Mexico appointed a "deregulation czar." Each month this official reported directly to the president and his economic council of ministers. Every business in Mexico, large or small, was promised equal access to the czar's office to complain about burdens associated with Government rules and regulations. When the deregulation office received a complaint, it was obliged to find out why the rule existed, how it interacted with other regulations, and whether it should continue in effect. The office operated under a strict timetable: if it did not act to maintain, revise, or abolish the disputed rule within forty-five days, the rule was made void automatically.

The work of the deregulation czar over the first four years of his tenure is widely credited with greatly accelerating Mexico's reform program. It provided struggling private business-people with an effective, responsive champion at the highest level of Government. The factors behind this success included:

- Unequivocal presidential support, signaling to both bureaucrats and citizens the need to comply with the czar's decisions.
- The fact that his decisions could be overruled only at the highest level of Government.
- The setting of tough penalties for officials who failed to implement the rulings.
- The time limit, which ensured quick and visible results.
- The staff were skilled in the economic consequences of regulations, in understanding complicated interactions within the regulatory field and their administrative requirements.

Finally, it was critical that the czar won credibility with both officials and the public by giving a fair hearing to the powerless and the influential alike, and setting a consistent record of impartiality.

Source: World Development Report 1997, p. 73.

Medium-term strategy. Belarus could easily implement a strategy of gradual deregulation over the medium term. A first step could be the selection of at least a couple of rayons -- preferably oblasts -- and making them *de facto* (yet not *de jure*) experimental deregulation zones. The first practical action would be to curb interventions by *rayon* and *oblast* administrations and in this way create some breathing space for spin-offs, start-ups and existing enterprises to grow. Local communities would receive the benefits of growth through increased tax revenues. Once evaluated, the regional experiments can be discontinued, expanded in scope in the same localities, or rolled out to other localities.

The experience of other transition economies shows that market liberalization can be risky and has in some cases involved costly mistakes. The challenge for a country like Belarus is to advance gradually and incrementally and learn from its own past experience and that of other countries. This is a central pragmatic question the Belarusian policy makers are asking. If China's experience is any indication (see Box 2), a modest liberalization can produce quite a significant growth effect. The current discussion of gradual strategy can learn from the experience in China.

Box 2. Private sector growth in China

Chinese town-village enterprises (TVE) are a remarkable institutional innovation which has produced highly competitive firms. Almost half of China's industrial employment is now in TVEs, with the industrial output of TVEs growing at an average rate of 38.2 percent during 1982-88, compared with a 9.8 percent rate for China's state-owned enterprises. TVEs outpaced state-owned enterprises in growth of total factor productivity during the 1980s, surpassing them in the absolute level of TFP by the end of the 1990s. State-owned enterprises are centrally controlled by the national Government or by a provincial Government. These governments stand ready to rescue financially distressed companies due to political considerations and therefore have no credible commitments to discipline the incompetence and moral hazard behavior of management or a low level effort by workers. On the other hand, township and village governments, which act as de facto holding companies of TVEs under their jurisdiction are subject to hard budget constraints.

The emergence of township and village governments as de facto holding companies of TVEs displays a degree of spontaneity. Although TVEs are 'descendants' of enterprises formerly owned by communes and brigades in the 1960's and 1970's, it was a shift to a more competitive, market-mediated economic environment that has released a pent-up entrepreneurial potential. For the governments the transition was from a sleepy bureaucracy to local administrators financing and facilitating development. Instead of directing or just utilizing the cheap labor, the local administrators and entrepreneurs link the new productive potential of the rural sector with the advanced industrial sector and urban markets by creating new economic activities in the rural sector while relying on traditional community ties and networks as a means of mitigating contract enforcement costs. Since institutions of market and property rights are not fully developed, such costs could be prohibitively high otherwise.

This example suggests broader lessons for the role of Government in economic development and transformation of post-socialist economy. Reform or transition need not be directed by a centralized, national Government. Decentralization serves as a better mechanism for creating appropriate incentives for productive private experiments that foster economic prosperity.

The Chinese experience of agro-industrial transformation is not completely relevant for industrialized economies like Belarus, and may be more relevant for rural economies catching up with industrialization. However, the key lesson from the Chinese experience is one of institutional innovation -- new ways of enterprises and private agents cooperating with each other. These new ways of cooperation permitted China to unleash dormant and constrained private dynamism. Needless to say, such a perspective is highly relevant for Belarus.

Changes in the business environment take time. They may never take-off if institutions are too weak to make the country attractive for entrepreneurial activity. Examples of demonstrated strategic restructuring – TVEs in China and ARIA in Moldova (see Box 3) – reveal a principle of economizing on institution-building by first inducing change among few pilot enterprises and subsequently diffusing the change to the rest of the economy by creating constituency for reform. These examples also suggest that one needs to be creative in the institutional design of a restructuring process.

Box 3. Enterprise Restructuring in Moldova

The Agency for Restructuring and Enterprise Assistance (ARIA) was created in 1995 with the principal objective of accelerating adjustment of newly privatized enterprises to market conditions. It was supported by two Private Sector Development loans of the World Bank. Analysis on a firm-level database provided by the Moldavian Department of Statistics indicates that the agency had significant impact. Specifically, in 1995 the firms that entered ARIA's program were on average worse off than firms that did not seek ARIA's assistance, both in terms of productivity and profitability. By the end of 1999, ARIA-assisted firms were more productive than their unassisted counterparts, exported more in relative terms, and paid more in taxes per worker.

Among the firms ARIA assisted, the "ARIA effect" is strongest among the companies that were the *least profitable* in 1995, with the benefits of ARIA's assistance diminishing as the 1995 level of profit/employee increased. The ARIA program was successful because it had found an efficient solution to politically charged issues of liquidation and restructuring by working with existing capital and human resources. The key to success is ARIA's ability to have managers to cooperate, or if they are not cooperating, to replace managers. The ARIA does not have formal authority to do so. However, its "reputation authority" is such that it is often, but not always, able to get results. The "reputation authority" derives from ARIA's unique position as an autonomous Government agency with a strong and committed leadership and dedicated and skilled staff.

Lastly, over the medium term, the government is advised to strengthen its monitoring system for changes in the business environment and effectiveness of the reform efforts. Such a monitoring system should be based on an impartial and independent assessment of indicators that characterize the business environment. Their methodologically consistent measurement will provide all interested parties with data on possible improvements and effectiveness of undertaken reforms. A regulatory cost assessment survey of a representative sample of Belarusian businesses can become a basis for such a system if it is repeated on an annual basis. Experience of neighboring countries show that in the initial phases of de-regulation, independent agencies such as the State Committee for Entrepreneurship Development in Ukraine can play a critical role in accelerating and coordinating de-regulation efforts.

Table A 1. Trade in services, January – September 2002.

Overall surplus in services trade is 373.6 million US dollars.					
Services with surplus in trade			Services with deficit in trade		
Name	Balance, million US dollars	Jan-Sep 2002 on Jan-Sep 2001, percent	Name	Balance, million US dollars	Jan-Sep 2001 on Jan-Sep 2000, percent
Transport	400.2	109.4	Travel	-158,5	120,3
Business services	104.3	248,9	Insurance	-6,7	106,3
Construction	18,2	79,1			
Other	21	155,6	Other	-4,9	108,9
TOTAL	543,7	122,4	TOTAL	170,1	119,4

Source: National Bank of Belarus, Balance of payments data for 2002. Other services with surplus in trade include: communication services, computer and information services, government services, n.i.e. Other services with deficit in trade include: financial services other than insurance, royalties and license fees, personal, cultural and recreational services.

Table A 2. Share of Output Produced by Small Industrial Enterprises in Industrial Output, percent.

Industrial Sector	1996	1997	1998	1999	2000	2001
Total industry	1.9	2.5	4	4.5	5.8	5.3
Fuel ¹³	0.02	0.01	0.02	0.1	0.1	0.1
Ferrous metals	0.6	1.8	2.4	2.2	1.1	2.3
Non-ferrous metals	56.5	1.7	36.1	34.4	18.8	22.3
Chemical	1.1	2.8	3.5	4.1	6.5	7.7
Petrochemical	1.3	1.8	2.3	3.4	17.5	3.5
Machine building and metal processing	2.4	3.5	5.4	5.7	6.9	6.4
Machine building	1.3	2.5	3.7	4.2	5.1	5.2
Timber, wood processing, pulp and paper	3.9	5	7.6	9.9	17	13.6
Construction materials	0.9	1	1.3	1.6	3.3	3.5
Glass and porcelain	1	1.4	2.8	1.9	1.1	2.1
Light industry	2.4	3.2	3.7	4.2	4.3	5.5
Textiles	0.9	1.3	1.6	2.3	2.7	3.8
Apparel	8.5	10.5	9.8	10	10.8	10.6
Leather, fur and shoes	0.7	0.9	2.2	2.4	2	4.6
Food processing	2.7	2.6	4	4.2	4.8	4.2
Microbiological	0	0.8	0.1	0.5	1.8	2.2
Flour, milling and grain	0	0.3	0.7	0.9	1.2	2.3
Medical	3.2	10.6	22.2	16.9	22	17.2
Printing	9.7	20.6	27.2	28.8	31.9	37.7
Others	5.6	5.7	14.6	15	22.9	15.1

Source: Ministry of Statistics and Analysis of Belarus and author's compilations

¹³ In sectoral output.

Table A 3. Employment by Industrial Sector¹⁴, percent

Industrial Sector	1996	1997	1998	1999	2000	2001	Jan.-Sept. 2002
Total industry	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Electric power generation	4.3	4.2	4.5	4.3	4.1	4.6	5.0
Fuel	1.6	1.6	1.7	1.6	1.5	1.7	1.7
Ferrous metals	1.3	1.4	1.6	1.6	1.5	1.7	1.9
Non-ferrous metals	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Chemical	6.8	6.9	7.3	7.4	7.0	7.6	8.1
Petrochemical	1.6	1.6	1.7	1.7	1.6	1.7	1.8
Machine building and metal processing	40.2	38.9	37.6	36.5	37.8	36.5	37.5
Machine building	34.5	32.9	33.3	32.4	29.9	32.7	32.8
Timber, wood processing, pulp and paper	8.5	9.0	9.0	9.4	9.8	9.2	9.3
Construction materials	6.1	6.1	5.1	5.0	5.4	4.5	4.1
Glass and porcelain	1.3	1.4	1.6	1.6	1.5	1.6	1.6
Light industry	14.8	14.9	15.2	15.8	14.3	15.1	13.4
Textiles	6.7	6.7	7.1	7.2	6.4	6.9	6.7
Apparel	5.6	5.7	5.7	5.7	5.1	5.3	4.1
Leather, fur and shoes	2.5	2.4	2.4	2.9	2.7	2.9	2.6
Food processing	9.3	9.8	10.5	10.9	11.1	11.2	11.7
Microbiological	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Flour, milling and grain	1.1	1.2	1.2	1.2	1.4	1.2	1.2
Medical	0.4	0.4	0.4	0.6	0.5	0.6	0.7
Printing	0.6	0.6	0.6	0.7	0.6	0.7	0.7
Others	1.8	1.8	1.6	1.5	1.6	1.8	0.9

Source: Ministry of Statistics and Analysis of Belarus and author's compilations

¹⁴ Employment by enterprises in every sector excluding employment by small enterprises and other types of auxiliary enterprises not directly involved in core sectoral production activities

Table A 4. Profitability (ratio of value added and production costs), percent.

	1996	1997	1998	1999	2000	2001	Jan.-Sept. 2002
Total industry	10.6	13.1	14.5	17.1	15.7	10.8	10.7
Electric power generation	2.7	4.0	2.8	3.9	2.1	6.0	3.7
Fuel	39.4	33.0	26.1	46.3	64.4	34.1	36.3
Ferrous metals	12.0	14.2	16.9	13.5	22.6	5.7	15.1
Non-ferrous metals	20.0	23.5	28.9	41.5	25.9	17.4	18.0
Chemical	10.3	14.6	20.9	27.1	26.3	12.7	13.9
Petrochemical	9.4	10.7	8.8	10.0	0.2	4.0	-1.1
Machine building and metal processing	9.6	15.3	15.6	17.9	14.4	12.0	11.7
Timber, wood processing, pulp and paper	13.2	17.1	21.3	17.7	9.9	7.8	9.7
Construction materials	6.4	9.3	6.4	8.1	5.0	5.0	7.2
Glass and porcelain	9.3	13.7	14.1	11.0	9.3	5.1	2.7
Light industry	11.2	14.3	20.7	22.6	14.3	6.0	4.6
Textiles	8.4	11.2	13.6	17.2	9.3	0.8	0.9
Apparel	15.0	16.5	27.7	25.6	20.1	11.1	7.8
Leather, fur and shoes	16.3	21.4	31.1	32.3	21.1	13.4	9.5
Food processing	12.2	11.9	12.9	13.4	9.0	8.1	4.8
Microbiological	15.4	24.9	11.3	12.0	10.4	6.6	1.1
Flour, milling and grain	4.0	4.0	4.0	5.2	8.4	0.6	-0.6
Medical	33.3	41.4	36.3	34.9	38.6	27.7	23.9
Printing	22.0	21.3	19.7	20.5	19.8	15.5	13.0
Others	9.2	9.2	14.2	18.5	14.4	7.4	13.1
Transport	15.9	9.9	13.1	19.9	23.4	14.9	17.9
Construction	8.3	9.4	8.3	11.9	12.4	8.2	9.4
Housing and utilities	-0.9	-5.1	-10.8	-6.4	-11.4	-8.9	-9.5

Table A 5. Structure of Current Assets, percent.

	1996	1997	1998	1999	2000	2001	Jan.-Sept. 2002
Current assets, <i>of which</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cash	3.2	3.6	4.1	5.6	4.8	3.7	3.3
Inventories	11.2	10.5	12.0	13.5	10.6	12.8	12.2
Goods in transit	25.7	22.6	14.3	16.4	15.8	16.9	17.4
Accounts receivable	13.9	16.5	17.7	14.3	15.6	18.9	21.0
Balance	46.0	46.9	51.9	50.2	53.2	47.7	46.1

Source: Ministry of Statistics and Analysis of Belarus and author's compilations

Table A 6. Share of Firm Inventories in Current Assets by Sector, percent.

	1996	1997	1998	1999	2000	2001	Jan.-Sept. 2002
Total industry	11.2	10.5	12.0	13.5	10.6	12.8	12.2
Electric power generation	28.9	44.6	0.0	0.3	0.2	0.1	0.0
Fuel	3.1	4.2	4.1	12.0	4.0	5.9	3.7
Ferrous metals	3.2	4.8	4.5	5.7	4.8	3.6	2.2
Non-ferrous metals	14.8	12.5	21.2	28.3	8.8	12.6	16.5
Chemical	13.8	9.9	8.4	15.7	11.6	16.9	11.4
Petrochemical	5.5	13.0	7.7	11.2	13.2	9.9	17.6
Machine building and metal processing	15.9	14.4	18.8	17.7	13.9	18.1	18.1
Timber, wood processing, pulp and paper	14.1	10.8	11.2	18.3	15.5	18.0	14.3
Construction materials	17.6	15.7	14.4	17.2	18.4	17.7	10.3
Glass and porcelain	10.5	15.9	11.8	11.1	14.8	21.7	19.7
Textiles	13.1	10.7	8.4	16.9	22.2	26.9	24.6
Apparel	17.6	17.7	20.1	30.4	23.0	27.1	26.3
Leather, fur and shoes	14.2	16.5	13.4	23.0	26.1	28.2	27.1
Food processing	11.2	9.1	10.1	13.3	11.4	12.2	15.3
Microbiological	6.1	8.7	5.3	17.9	10.8	12.9	22.5
Flour, milling and grain	5.6	7.8	5.5	12.5	11.8	7.5	7.5
Medical	10.7	12.7	9.8	17.3	12.9	17.3	13.8
Printing	10.5	9.1	7.6	15.8	9.1	10.4	8.9
Others	15.2	10.9	9.6	14.2	14.9	17.3	21.5

Source: Ministry of Statistics and Analysis of Belarus and author's compilations

Table A 7. Ratio of overdue payables (indebtedness) and overdue receivables, per cent.

	1996	1997	1998	1999	2000	2001	Jan.-Sept. 2002
Total industry	129.9	126.5	184.7	156.2	142.1	120.5	145.6
Electric power generation	114.2	119.9	154.5	140.0	124.0	102.5	120.4
Fuel	28.8	23.3	118.2	103.8	39.1	48.1	57.1
Ferrous metals	116.5	38.9	659.9	81.6	192.4	281.7	431.4
Non-ferrous metals	148.7	167.9	69.5	13.3	34.2	135.8	159.2
Chemical	89.8	130.6	317.9	315.8	215.4	220.2	175.0
Petrochemical	95.0	147.3	922.3	1034.0	756.2	256.2	346.4
Machine building and metal processing	174.0	143.3	166.3	176.8	169.6	162.6	204.4
Timber, wood processing, pulp and paper	130.0	152.4	262.4	316.8	317.1	332.2	300.1
Construction materials	255.1	253.6	240.8	382.6	466.3	435.2	587.4
Glass and porcelain	338.7	397.0	713.5	986.1	480.6	393.7	274.1
Light industry	103.2	66.8	138.4	139.2	182.6	215.6	296.9
Textiles	92.2	54.3	109.4	94.2	159.9	243.9	318.0
Apparel	270.2	170.7	225.0	378.2	379.8	273.7	491.7
Leather, fur and shoes	67.7	60.2	286.5	162.9	138.3	138.0	185.8
Food processing	92.4	114.7	278.1	416.5	247.4	166.3	177.0
Microbiological	295.0	229.5	189.5	320.3	142.6	230.7	61.8
Flour, milling and grain	61.6	112.0	158.3	85.4	254.6	77.7	71.8
Medical	109.0	192.8	161.6	222.1	211.1	118.7	152.5
Printing	35.5	78.6	478.4	209.2	40.8	39.8	43.4
Others	231.7	155.4	103.7	130.3	191.6	104.7	130.9

Source: Ministry of Statistics and Analysis of Belarus and author's compilations

Table A 8. Share of Barter in Sales Revenue, percent.

	1997	1998	1999	2000	2001	Jan.- Sept. 2002
Total industry	34.5	30.0	26.4	29.4	30.7	28.3
Electric power generation	51.5	42.8	30.5	39.1	44.4	41.8
Fuel	28.8	26.9	14.5	9.4	14.6	16.9
Ferrous metals	34.6	30.6	27.2	37.8	32.2	24.5
Non-ferrous metals	13.6	24.4	30.9	8.4	13.6	13.0
Chemical	29.5	24.8	24.5	27.7	29.0	23.8
Petrochemical	75.3	59.9	51.0	50.2	48.1	55.6
Machine building and metal processing	51.0	46.9	42.7	45.9	39.4	34.0
Timber, wood processing, pulp and paper	32.4	27.4	26.9	33.9	36.6	35.0
Construction materials	33.6	29.2	28.2	37.8	37.9	27.3
Glass and porcelain	50.2	30.6	33.1	31.0	47.5	40.7
Light industry	21.4	17.5	17.1	21.9	26.4	26.2
Textiles	22.0	17.4	17.0	24.3	30.3	30.0
Apparel	14.0	13.3	12.1	12.3	12.1	13.7
Leather, fur and shoes	26.0	20.5	20.8	23.8	29.3	29.2
Food processing	10.3	11.1	10.4	13.1	15.7	18.2
Microbiological	15.9	12.6	10.1	20.3	25.2	22.3
Flour, milling and grain	22.0	24.6	17.6	18.0	39.1	42.3
Medical	27.1	14.3	15.1	12.3	27.2	32.8
Printing	6.1	6.4	5.4	4.3	4.2	5.2
Others	18.8	12.4	13.5	13.8	13.3	12.5

Table A 9. Structure of merchandise trade with Russia

Group	2001				January-September 2002			
	Export to Russia		Import from Russia		Export to Russia		Import from Russia	
	Growth, percent	Share in total	Growth, percent	Share in total	Growth, percent	Share in total	Growth, percent	Share in total
TOTAL	6.1	100	-5.5	100	-0.8	100	6.2	100
Live animals and products of animals origin	60.9	6.22	31.7	1.39	-12.1	6.12	64.1	1.70
Products of vegetable origin	-16.9	1.14	-49.0	1.04	-18.0	1.03	92.5	1.79
Fats and oils	-10.4	0.23	147.5	1.29	21.2	0.27	167.5	1.94
Finished food products	-10.5	4.24	42.7	3.16	47.5	5.76	28.7	5.28
Mineral products	-20	1.59	-15.8	41.78	-37.2	1.15	-6.3	37.46
Produce of chemical and related industries	-13.6	4.09	-10.6	6.35	-15.5	4.52	3.5	6.13
Plastics and plastic goods	3.9	6.98	11.4	4.61	-10.1	6.31	8.7	4.69
Leather, fur and goods	-18.8	0.76	57.7	1.01	14.4	0.78	83.6	1.41
Wood and goods	15.6	1.26	-0.2	0.5	12.3	1.38	37.7	0.71
Pulp and paper	0	2.87	0.4	3.02	66.6	4.87	7.2	3.14
Textile	0.2	11.37	12.8	2.97	-7.4	10.55	3.7	2.79
Footwear and head-dress	-2.5	2.27	63.3	0.71	21.5	2.64	23.8	0.75
Goods made of stone, cement, ceramics	20.5	4.01	26	1.42	11.0	4.55	7.2	1.43
Non-precious metals	23.4	7.92	-2.5	14.34	-10.0	7.31	8.0	14.67
Machines, equipment, parts, electronics	14.8	18.52	18.2	10.24	5.7	19.36	19.9	11.18
Land, air and water vehicles	4.4	19.61	-4.5	3.15	-7.4	17.34	-1.5	2.91
Optical, photo and measuring equipment	15.8	1.56	-0.8	0.97	21.4	1.71	14.5	1.02
Other industrial products	9.7	3.96	19.9	0.55	5.6	4.01	9.0	0.53
Objects of art	396.6	0	-95.6	0	-40.1	0	118.9	0.01

Source: Ministry of Statistics And Analysis of Belarus.

Table A 10. Belarus: Unit Labor Cost, 1993-2001

(Index numbers; unless otherwise indicated)

	1995	1996	1997	1998	1999	2000	2001 ¹
Belarus	0.33	0.34	0.33	0.37	0.34	0.37	...
percentage change	7.0	1.8	-3.2	13.4	-8.8	9.9	19.8
Russia	0.26	0.30	0.30	0.37	0.25	0.25	...
percentage change	-16.9	16.2	1.2	23.3	-31.8	-2.4	-19.9
Germany	0.20	0.20	0.19	0.19	0.19	0.20	...
percentage change	-0.3	-1.0	-2.6	-0.4	1.1	2.3	-1.0
Ukraine	0.52	0.49	0.52	0.43	0.36	0.37	...
percentage change	48.6	-4.6	6.3	-17.0	-17.7	3.9	6.8
Poland	0.44	0.46	0.47	0.46	0.46	0.45	...
percentage change	-1.8	2.9	2.3	-0.9	-0.7	-2.9	-1.2
Latvia	0.07	0.08	0.08	0.09	0.09	0.09	...
percentage change	30.2	7.2	6.6	8.4	5.5	0.8	71.3
Lithuania	0.39	0.39	0.41	0.43	0.46	0.43	...
percentage change	1.9	-1.0	4.3	5.8	6.4	-5.9	11.5
Turkey	0.63	0.57	0.60	0.66	0.90	0.89	...
percentage change	-11.8	-9.1	4.9	10.4	35.6	-0.6	25.3

Source: Republic of Belarus: Selected Issues, Country Report No. 02/22, IMF 2002.

Notes: 1/ Percentage change for 2001 over 1994.

Table A 11. Tax Arrears, 1999-2002, million of rubles

	1999	2000	2001	2002
Revenues of the consolidated budget	339467.7	878556	2578862.888	4672585.964
GDP	702161.1	3026064	9133800	16912590
Budget and state targeted budget funds payments arrears, beginning of the period, stock	329.8	9185.6	42300.8	134222
as a share of revenues	0.1%	1.0%	1.6%	2.9%
as a share of GDP	0.05%	0.30%	0.46%	0.79%

Source: Ministry of Taxes And Collections, authors' calculations.

Table A 12. Tax arrears by type of taxpayer, thousand of rubles, January 1, 2002.

Type of taxpayer	stock of arrears	share of arrears, percent	
		in the tax bill per type of payer	in the total amount of arrears
Public sector			
Organizations with 100% public property	55249914	29.1	41.2
Associations (concernes, unions, associations)	13790034.7	53.4	10.3
Joint-stock companies	33268724.9	35	24.8
Establishments	895738.7	37.6	0.7
State farms	6845431.1	34.9	5.1
State collective farms	16681965.2	51.6	12.4
Consumers' co-operatives	686185.8	12.5	0.5
Other public enterprises	4173921.7	24.6	3.1
Total for public sector	131591916.1	33.9	98
Private sector			
Banks	1312.7	2.9	
Insurance companies	358.6	1	
Enterprises with foreign investments	276584.1	11.4	0.2
Foreign legal entities	39292.8	47.4	
Farms	24976.3	38.1	
Other commercial and non-commercial organizations	1828235.3	15.9	1.4
Public and religious organizations (associations), funds etc	181102.9	31	0.1
Individual entrepreneurs	90415.9	6.4	0.1
Natural persons	8763.4	12.2	
Landlords	8592.1	15.5	
Leasers	16.2		
Other natural persons	155.1	1	
Other natural persons who submit declarations	74587.7	29.6	0.1
Total for private sector	2525629.7	15.3	1.9
Total for private sector enterprises	2351862.7	16	1.8
Total for individual entrepreneurs, natural persons receiving revenues with or without state registration	173767	10	0.1
Total for legal entities	133943778.8	33.3	99.8
Natural persons paying land and property taxes	104415.9	5.1	0.1
TOTAL	134221961.7	33	100
Memo, indebtedness of taxpayers subject to liquidation	49509505	118.8	36.9

Source: Ministry of Taxes And Collections, authors' calculations.