

Coordinating Council on Developing and Advancing
the Belarus National Business Platform
Working Group

BELARUS NATIONAL BUSINESS PLATFORM – 2014

**FREE ENTERPRISE –
PROSPEROUS COUNTRY**

Minsk
2014

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**The Belarus National
Business Platform is:**

- *A set of comprehensive proposals from the Belarusian business community to improve the business climate in the country,*
- *The current agenda for promoting free enterprise in the country,*
- *A foundation of public-private dialog and partnership,*
- *A path toward a barrier-free business environment and balanced development of the government,*
- *A path toward sustainable development of government and society.*

Foreword

The 2014 Belarus National Business Platform (hereinafter the “Platform” or the “BNBP”) has special significance. Belarus has reached the next critically important threshold. The country is joining the Eurasian Economic Union. We cannot ignore the standards and rules of the WTO. Regional competition has become much more intense. Against this background, the Belarusian business community is very concerned about the economic trends within the country.

The declining quality of public administration makes this even more alarming. The structure of government, ministries and departments falls far short of recognizing the seriousness of the situation. Instead of an open, active dialog on creating a favorable business climate in Belarus, we see passivity, formalism, and inertia in government action.

During 2013, the financial condition of most businesses dramatically deteriorated. Small and medium-size enterprises (SME) were hit especially hard. Payment discipline worsened. The risks of hostile takeovers increased. Corruption increased significantly. Legal barriers in the path of monopolists were weakened. For the fourth straight year, Belarusian business is operating in an extremely unsustainable and unfavorable macroeconomic environment. Tens of thousands of businesses have nearly depleted their resources.

The 2014 Belarus National Business Platform is necessary in order to reset the dialog between business and government. We hope to use it to communicate our responsible and constructive positions. The platform is a tool for representing and defending the interests of business. We need it to persuade the authorities to adopt the necessary decisions on business development issues. Taking these steps will enhance the competitiveness of the entire country and allow the Republic of Belarus to take its rightful place on the economic map of Europe and the world.

1. Introduction

The year 2013 was one of the most difficult periods for the Belarusian business community in the 21st century. Despite the stimulation of domestic demand and the growth in earnings in the country as a whole, the financial condition of the majority of businesses significantly deteriorated. Net profit fell by nearly 40%, losses grew by 2.5 times against earnings growth of 10%, and production costs increased by 13% in 2013. These data all point to a decline in the overall condition of Belarusian business, which entered 2014 with a critically low level of long-term orders and working capital.

The country's entrepreneurs felt the full burden of macroeconomic instability and discrimination by the government sector. Their disappointment was exacerbated by the failure of government agencies to keep their promise to create institutions and mechanisms of public-private partnership. In 2013, competition became much less fair and open. Discrimination against SME increased. Corruption and the threat of hostile takeovers is increasing in government agencies themselves. These negative factors increase the risks that the country will see the creation of a *nomenklatura* [ruling class], clan economy, in which small business will have to get by on the “leftovers.”

In 2013, government agencies exacerbated the problem of the unequal playing field in business. Belarus is essentially divided into two economies. State-owned enterprises and private businesses that participated in the modernization program are in the first, privileged economy. They total about 3000 entities. The government has granted them easy access to credit resources, subsidies, privileges in foreign trade, and access to raw materials and the domestic market. They have unhindered opportunities to obtain land, win tenders, and significantly expedite administrative procedures. The businesses in this group have not faced budget cuts and have kept their tax benefits and their immunity from bankruptcy. In business disputes, administrative agencies and courts are on their side, including in cases when SME try to collect debts from them.

Small and medium-size private business is in the second part of the economy, which faces discrimination. The benefits and government support provided to the chosen companies have shifted the tax and administrative burden to SME. These businesses are forced to operate in conditions of extremely expensive loans, discrimination in access to raw materials, and outrageously high lease rates. The decisive factor in determining these costs is not the market, but government agencies.

Declarations of support for small and medium-size business in the country have been eviscerated by certain actions of government agencies. The problems of purchasing leased real estate owned by the state and transferring unused property to private business have not moved any closer to a solution. **The vast majority of government agencies continue to ignore the letter and spirit of Directive No. 4 of the President of the Republic of Belarus of December 31, 2010.** This document, which is of supreme importance to the Belarusian business community and the Republic of Belarus, expresses the will of the country's president, Alexander Lukashenko.

While government agencies report nearly complete implementation of this document, the business community makes the exact opposite diagnosis. More and more often, Belarusian business is confronted with formalism, apathy, and red tape. In 2013, the number of opportunities for dialog between business and government (working groups, councils,

conferences) declined manyfold. The effectiveness of these meetings has fallen to a critically low level.

Updating the membership of the Business Development Council of the Republic of Belarus has failed to create real partnership between business and government. There is insufficient transparency and predictability in the actions of government agencies to create a favorable business climate and a clearly defined long-term development strategy for Belarus.

Business in Belarus is feeling the negative effects of obvious imbalances and gaps in the country's economic development strategy. The executive and legislative branches sometimes act as if SME are on the periphery of the country's economic development. The prevalence of monopolistic practices by state-owned enterprises and organizations, in an environment of inexcusably weak legal protections against monopolies, exacerbates the position of Belarusian business, especially in the retail and service sectors. **The country's laws do not meet the demands of the time. The ownership rights of minority shareholders have virtually no protection. Violations of the rights of minority shareholders increase investment risks in Belarus and strengthen the hand of unprincipled market players.**

A significant decline in payment discipline has had a negative effect on Belarusian business. Businesses' accounts payable have reached a dangerous level that threatens their very existence. According to the "domino principle," this negative trend in the economic situation could cause an avalanche of unfavorable social and economic events, including a worsening of government finances, capital flight, brain drain of entrepreneurial talent, and increases in unemployment and negative social effects.

At 50-70% per annum, loans in rubles are not accessible to Belarusian business. The national bank has restricted opportunities to obtain loans in foreign currency. It is extremely difficult for businesses to go to court to collect debts and compensation for losses from delayed payments.

For the third straight year, the country's business community is laboring under the pressure of poor macroeconomic policy. Inflation is still inexcusably high. The Belarusian authorities tried to neutralize the public's low level of trust in its economic policies in general and monetary policy in particular by setting very high rates on ruble deposits. This measure not only failed to stabilize the country's financial system, but it significantly exacerbated the position of Belarusian business. The government's monetary policy has placed thousands of businesses on the brink of survival.

In 2013, the negative impact of the monetary policy was exacerbated by the tax policy. Instead of a lighter tax burden, fewer taxes, and improvements in the quality of tax administration, the business community has faced the threat of increases in VAT, excises, and the tax on real estate and land.

The simultaneous imposition of a vehicle tax, not only on individuals but also on legal entities, along with the disposal fee on certain types of vehicles, has increased the already non-competitive production cost of goods and services for business. The government's tax policy has made the business climate more unpredictable and increased the risks of errors in production and investment. In this situation, it is very unwise to copy European tax practices, because the European Union's tax system is one of the causes of stagnation there.

The gap is widening between the growing demands of the external competitive environment and the level of professionalism of government employees, which exacerbates the problem of understanding between the business community and the government. Many government agencies focus more on gross indicators and fulfilling plans, the social and economic

benefit of which is highly doubtful in an environment in which the institutions of competitiveness, technology, and corporate governance are rapidly evolving.

The Belarusian government and business community were left unprepared to zealously defend the interests of business as competition intensified within the Customs Union. The government undertakes obligations, the performance of which threatens entire sectors of the economy. Problems with implementing the technical regulations of the Customs Union have been especially acute.

In 2013, the problem of access not only to highly qualified personnel, but also to ordinary workers, became much worse for Belarusian business. With open competition with the Russian labor market and artificially inflated salaries in the government sector, it became a real problem for businesses, particularly in outlying regions. Low morale, alcoholism, and poor discipline are all becoming more prevalent among employees. **Distortions in the labor market and the gap between the real sector of the economy and the education system increase the cost of doing business in Belarus, and this has an especially deleterious effect on starting new companies and business development in small cities and rural areas.**

The main challenges for government and business in 2014 are largely related to negative developments in the economy that have accumulated over previous years. Due to internal problems and higher costs, it is becoming harder for business to help the government create quality institutions of sustainable development and long-term economic growth.

In the context of dangerous concentration of negative developments in the economy, the creation of the Eurasian Economic Union, stagnation in the economy of the European Union, and increased competitiveness of manufacturers in developing Asian countries, **the primary challenges facing the Belarusian government in 2014 are:**

- To manage the risks associated with the triple deficit (in the balance of payments, the trade balance, and the government budget);
- To balance government revenues and expenditures without a deterioration in the debt position or an increase in the costs of servicing government debt;
- To stabilize prices and the monetary situation, while respecting the property rights of depositors and complying with international banking and financial standards;
- To implement structural reforms while taking into account social factors and regional differences;
- To level the business playing field for all businesses, while creating an effective system to counteract monopolistic practices;
- To conduct audits of government investment programs and state-owned enterprises in order to eliminate inefficient and dead-end commercial projects, and expand the private sector of the economy;
- To establish a competitive regulatory environment and tax laws within the Eurasian Economic Union;
- To eliminate distortions in the labor market and restore the connections between the educational system, academia, and the labor market;
- To provide government agencies with professional, highly qualified employees with the training to create high-quality institutions of a market economy, fair competition, and free trade.

The primary challenges for business in Belarus in 2014 are:

- To obtain access to loan capital and investments;

- To end discriminatory practices by monopolists and commercial entities that have preferential access to the market and capital;
- To create a real system to counteract hostile takeovers and corruption;
- To reduce administrative costs and the tax burden in an environment of open competition within the Eurasian Economic Union;
- To enhance financial discipline and improve the performance of contractual obligations, primarily by state-owned businesses;
- To provide effective protection of the rights of minority shareholders in the privatization process;
- To modernize the platforms for dialog between business and government in order to develop not only tactics to improve the business climate, but also strategies for the long-term development of Belarus;
- To develop the infrastructure to support SME, including a fully functioning commercial real estate market;
- To end cross-subsidies of the costs of electricity, heat, utilities, and rent.

Acting alone, neither the government nor the business community is capable of reversing these alarming, negative trends.

Today, as in the most difficult periods in Belarusian history, we need solidarity, partnership, and team spirit among the three main sectors – government, business, and civil society. This is not the time to blame each other. This is not the time to look for scapegoats. **The business community calls for 2014 to be the year when real, honest, and equal dialog finally begins between business and government. We cannot afford another year of imitation and inaction.**

2. Vision for the future of Belarus.

What kind of country do we want to live and work in?

The Belarus National Business Platform is a part of the systemic measures being proposed to create the Belarus of the future – a sovereign, prosperous, European country.

The Belarus of the future is a country in which people can safely walk along clean streets, have children and raise them without worry, fully realize their entrepreneurial potential, help those in need with an open heart, and enjoy a dignified and comfortable retirement.

It is a country where people have leisure time and can easily start a business, where a hard-working, responsible, sober person can easily find a job. Its culture and social norms do not tolerate drunkenness, fraud, or slipshod work.

In our country of the future, everyone will have access to high-quality education and health care. We take pride in our civil solidarity, and we support active involvement in humanitarian projects and spiritual development. It is beneficial and prestigious for businesses to support projects in the areas of culture, education, sports, tourism, and assistance to children and the elderly.

We see Belarus as a country of law and order, justice and solidarity, partnership and responsibility. In this country, human rights are respected, reliable institutions protect private property, the courts are independent and competent, and law-enforcement agencies operate with professionalism and have earned the public's trust.

The Belarus of the future is a country with a mature financial system, modern payment systems, stable prices, and open competition among banks, insurance companies, pension, investment, venture and other funds, distribution networks, and retail stores. In this country, the main engines of economic growth are cooperation between large and small businesses, industrial subcontracting, well-developed clusters, public-private partnership, and dialog between business and government. Large companies do not discriminate against small ones, but entrust them with orders to fill. Foreign investors do business on the market on the same terms as domestic investors, without benefits or privileges based on country of origin.

The government concentrates its efforts on drafting good laws and ensuring that everyone follows them faithfully. Selecting commercial projects, identifying paths of innovative development, business planning, finding sources of financing, making decisions on production and sales issues – all of this is the prerogative of the business community. **The role of the government is to protect property rights, including the rights of minority shareholders, to counteract the formation of monopolies, to prevent discrimination against small business, and to provide for timely resolution of disputes in court and the prompt, faithful enforcement of court decisions.**

The Belarus of the future is a country of millions of private owners of land, shares of stock, real estate, retirement savings, and other forms of capital. Land is freely bought and sold on the market, in commercial circulation and subject to strict compliance with environment rules and standards. Agricultural goods are produced both by large agro-industrial holding companies and by small farms. Cooperation between them leads to successful competition on domestic and foreign markets.

The property rights of minority shareholders are protected from unlawful actions by both controlling shareholders and hired executives. They take part in making decisions that are important for the growth of the company, including payment of dividends. An effective legal

system counteracts bureaucratic greed, illegal hostile takeovers, and discriminatory practices by big business.

The Belarus of the future is a country in which large factories and plants, our traditional sources of economic growth, have been modernized. They operate with modern equipment, produce goods that meet the most exacting international standards, and finance their business on market terms. **Maintaining the best aspects of our industrial legacy requires an honest, open privatization process that respects the interests of Belarusian citizens and small business.**

The Belarus of the future is a country in which people have the opportunity to build a house or apartment appropriate for their taste and income level. A mature real estate market, modern architecture, consumer-oriented project approval procedures, diversity in sources of financing, and open competition among construction companies and building material suppliers – all of this makes it possible to resolve housing issues in optimal time frames and at minimal cost.

The Belarus of the future is a country with modern infrastructure. This is the result of true public-private partnership. High-quality roads, transportation hubs, world standards in railroad and river transportation, full integration of Belarus into international aviation traffic, construction of modern airports, expanding domestic air travel – all of this is absolutely necessary in order to take advantage of our country's favorable geographical location in the center of Europe.

The Belarus of the future has a mature energy market. Consumers have a choice of providers, and the mechanisms that ensure energy security function smoothly. We take full advantage of our transit potential and logistical infrastructure, using fuel and energy resources from Russia and other countries.

The Belarus of the future uses advanced information and telecommunications technologies. Free high-speed internet in all schools, universities, and libraries and unhindered access to the world's best databases are integral parts of our education, business, and communication systems. Electronic government significantly improves the quality of services to individuals and businesses, optimizes business processes, and provides transparency in government procurement.

The Belarus of the future is in the Top 30 countries of the world in quality of the business climate, on the economic freedom index, in development of human potential, and on the prosperity index. It walks in step with the civilized world. It is actively involved in the work of leading international organizations. It has a proper place in the system of division of labor. Belarus takes pride in its national heritage and enriches it with a culture of modernity. **The state and society value the daily work of the country's entrepreneurs, and individual business initiative is encouraged and incentivized.**

This is our vision for the future of Belarus. Implementing the Belarus National Business Platform will only address some of the challenges facing us. **Belarusian business is ready for full partnership with the government and civil society in building the Belarus of the future, the country of our dreams.**

3. Results of the implementation of the 2013 Belarus National Business Platform

The business community welcomes the adoption of Resolution No. 241 of the Council of Ministers, dated March 30, 2013, approving a set of measures to achieve small and medium-size business development targets in the regions and in Minsk for 2013-2015, but this Resolution has not yet helped bring about the practical implementation of the business-friendly provisions of Directive No. 4 of the President of the Republic of Belarus, dated December 31, 2010.

The adoption of the Joint Action Plan for structural reform and enhancing the competitiveness of the country's economy was favorable to Belarusian business in a formal sense. This document was adopted by Joint Resolution No. 895/15 of the Government and the National Bank on October 10, 2013. Once again, the Belarusian authorities emphasized the importance of macroeconomic stabilization, a mature financial market, and ending discrimination against SME. **However, these positive declarations in 2013 were not backed up with specific practical actions by all branches of government.**

One positive development was the adoption of Executive Order No. 358 of the President of the Republic of Belarus on August 15, 2013. This document allowed insurance companies to include insurance premiums for an entire range of voluntary insurance other than life insurance in the cost of producing and selling products and goods (or work and services) for purposes of taxation.

Resolution No. 30 of the Ministry of Economy, dated 05/07/2013, which eliminates minimum prices on certain exported goods, is implementing the 2013 Platform. We welcome the liberalization of prices as an extremely important element in economic deregulation and expanding the market economy. Resolution No. 80 of the Ministry of Economy, dated November 5, 2013, "Amending Resolution No. 934 of the Council of Ministers of October 25, 2013," also serves this goal by removing certain goods from the list of socially significant goods.

The business community supports the Law of the Republic of Belarus, dated May 21, 2013, "Amending the Law of the Republic of Belarus on Official Registration of Real Property and Rights to and Transactions with Real Property." This document eliminates unnecessary paperwork and reduces the number of documents that must be submitted in order to register real property.

The business community welcomed the adoption of Executive Order No. 168 of the President of the Republic of Belarus, dated April 12, 2013, "On certain measures to optimize the system of government agencies and other government organizations and the number of employees in them." Unfortunately, a formal reduction in the number of government employees without reducing the functions and limiting the authority of government agencies has failed to improve the quality of public administration in terms of creating a favorable business climate.

The spirit and letter of an entire range of documents supposedly adopted in support of free enterprise have been eviscerated in the process of having them approved by numerous government bodies. These documents have failed to solve the problems outlined in the 2013 Platform. Moreover, many of the documents have made things worse for business. For example, changes in the registration procedure in 2013 made it more difficult to register commercial organizations.

Land is an important issue for business development. Unfortunately, the amendments to the Land Code of the Republic of Belarus that were enacted in 2013 failed to establish the institution of private land ownership. **Land still does not circulate freely in commerce.**

Law No. 53-3 of the Republic of Belarus, dated July 12, 2013, “On investments,” also failed to make the changes to the legal landscape that are necessary to promote investment. Belarusian SME find that investments are dangerously skewed toward foreign investors, for which the Belarusian authorities often create special, favorable terms for operating on the Belarusian market (tax benefits, preferences in importing equipment and materials, lease rates, government financing of infrastructure, etc.). Moreover, Decree No. 5 of the President of the Republic of Belarus, dated September 11, 2013, which eliminated the tax benefits granted by Decree No. 6 of the President of the Republic of Belarus, dated May 7m 2012, “On stimulating entrepreneurial activity in medium-size and small towns and rural areas,” deprives SME of opportunities to become more competitive.

The provisions of the Law of the Republic of Belarus “On accounting and reporting,” enacted on July 12, 2013, have not reduced accounting costs for Belarusian business. IFRS rules were introduced only for open joint stock companies. The enactment of this law has not created more transparency in Belarusian business. Moreover, the new accounting rules impose new requirements that will increase costs.

On January 8, 2014, Law No. 128-Z of the Republic of Belarus “On government regulation of retail and restaurant businesses in the Republic of Belarus” was enacted. It includes provisions, important to SME, that create equal conditions for small retail stores and large retail chains.

The business community welcomed the enactment of Law No. 94-Z of the Republic of Belarus, dated 12/12/2013, “On counteracting monopolistic activity and promoting competition,” and hopes that it will be applied in a meaningful way.

A whole series of documents adopted in 2013 made the situation significantly worse for Belarusian business. The National Bank and the Council of Ministers failed to achieve macroeconomic stabilization and make credit resources available. With high interest rates on ruble loans, the prohibitions and restrictions on foreign-currency loans imposed by the National Bank (for example, Letter No. 04-21/313 of the National Bank, dated June 28, 2013, which tightened short-term foreign-currency lending to businesses by restricting the purposes for which such loans may be used) have significantly curtailed opportunities for SME to finance their business activity.

The monetary policy of the National Bank and the Council of Ministers has largely been directed toward exempting a whole range of state-owned commercial organizations from the general rules of the market. Favorable lending terms for state-owned enterprises, primarily through Belarusbank OJSC and Development Bank OJSC, have shifted the burden of paying interest onto small and medium-size businesses. Moreover, rather than improve the tools and mechanisms of financing SME, the Belarusian authorities have adopted decisions to redistribute resources toward financing government programs and expenditures. One such decision was Resolution No. 426 of the Board of the National Bank, dated July 12, 2013, which added foreign-currency bonds issued by the Ministry of Finance on the domestic market to the Lombard list of securities received in pledge by the National Bank in the refinancing of banks. Resolution No. 524 of the National Bank, dated September 11, 2013, limiting the amount of bonuses for top executives of commercial banks, is an example of responding to the effects rather than the causes of negative developments on the money market.

The creation of Development Bank OJSC was supposed to bring order to the financing of government investment and modernization programs and improve access to credit resources for

SME. However, the slow pace of structural changes and transformations in the public sector are delaying these efforts.

Decisions by government agencies regarding the public sector have frequently discriminated against the private sector. For example, Resolution No. 597 of the Council of Ministers, dated July 8, 2013, deprived the managers of private companies of the right to determine their own wage policies.

In 2013, legislative action failed to strengthen the institution of private property. For example, Resolution No. 721 of the Council of Ministers, dated August 15, 2013, gave the regional executive committees and the Minsk City Executive Committee a preferential right to purchase shares in over one hundred open joint stock companies. The situation for investors is made even more uncertain by the proposal for the government to take possessory control. **Just discussing this measure significantly undermines investment interest in the assets of the Republic of Belarus.**

Resolution No. 964 of the Council of Ministers, dated November 11, 2013, adopted the list of legal entities that support the functioning of strategically important sectors of the Belarusian economy “or other important governmental needs.” Creating such lists and establishing special legal and financial conditions for them could increase discriminatory practices against private businesses. Such practices include Executive Order of the President of the Republic of Belarus No. 461, dated October 9, 2013, which amended Executive Order No. 538, dated October 14, 2010, “On certain matters of the activities of condominium associations and developer organizations.” This document prohibited non-governmental organizations from managing residential properties, a decision that will expand monopolistic practices in this sector of the market.

Taxes and tax administration are one of the biggest problems for Belarusian business. Unfortunately, in 2013 government agencies ignored the proposals by the business community to reduce the tax burden and simplify the tax system as a whole. In fact, the fiscal burden on business grew heavier, due to the imposition of an official fee for the issuance of a permit to operate a motor vehicle (the vehicle tax).

The business community expresses serious concern over the proposals by government officials to impose new taxes and fees on commercial entities. In the current environment, the business community believes that any increase in the tax burden is absolutely impermissible. **We advocate more active dialog between business and government on how to significantly improve the quality of the tax system in the Republic of Belarus.** This aspect of the business climate is preventing Belarus from improving its place in the World Bank's Doing Business rankings¹ and significantly undermines the competitiveness of the nation's economy.

4. Priorities and proposals to reform the country's business climate in 2014

I. Fair competition

1. Treat private and public businesses equally in the conduct of tenders and auctions, access to financial resources, land, and real property, the granting of industry-specific tax benefits, and non-tariff regulatory measures.
2. Eliminate the procedure for distribution of raw materials, goods and services by Belarusian monopoly enterprises through quotas and at prices that are significantly below market; shorten the list of goods for which the government sets minimum export prices; require monopoly enterprises to follow a single pricing policy for all commercial organizations operating in a given sector of the market.
3. Introduce a system to counteract the development of monopolies by establishing a government agency for anti-monopoly policy and promoting competition that is independent of the Council of Ministers, industry concerns, and local governments.
4. Establish equal criteria and procedures for determining whether businesses have a dominant position on commodities markets in the Republic of Belarus and whether they are abusing this position and/or engaging in unfair competition; impose liability on officials, agencies, and organizations for engaging in discriminatory or monopolistic practices.
5. Eliminate the monopoly of the national telecommunications operator on international Internet traffic. Eliminate the requirement that telecommunications networks in the Republic of Belarus connect through the network of the national operator; as part of anti-monopoly regulation, set a maximum rate for international roaming, not to exceed three times the rate for services within the country. Eliminate roaming charges within the EEU [Eurasian Economic Union].
6. Allow domestic telecommunications operators to work together directly within the Republic of Belarus.
7. Prohibit free allocation of land parcels in regional cities and the city of Minsk using the benefits granted by Presidential Directive No. 10.
8. Allow sole proprietors to hire employees (other than family members).
9. Eliminate the practice under which certain types of insurance services may be provided only by state-owned insurance companies.
10. Allow state-owned organizations to insure their property interests with insurance companies of all forms of property, including those with foreign investment. Demonopolize the national reinsurance system, establish market relations between insurers and the national reinsurance company, grant insurers the unconditional right to operate on foreign reinsurance markets.
11. Eliminate barriers for insurance brokers on the insurance services market by repealing the restrictions on providing mandatory insurance and giving insurance brokers access to international reinsurance.
12. Prohibit insurance companies from independently determining the amount of harm in claims, require the amount of harm to be determined only by independent appraisers. Give consumers the right to select the appraiser in the event of a claim.
13. Move paid medical and educational services from the system of budget-funded health care and education into independent self-financing institutions.

14. Enact legislation on debt collection. Establish and develop the institution of private court bailiffs.
15. Add earnings as a criterion for classifying a business as a small or medium-size enterprise.
16. Prohibit government monitoring and enforcement agencies and government agencies that issue licenses, certificates, and permits from forming or owning equity in any business entity.
17. Prohibit closed tenders for contracts to supply goods and provide services. Require terms under which a new tender must be held if the winner of a tender unduly delays the delivery of goods and services.
18. Eliminate discrimination against private businesses in the special fees paid by customers and developers to fund the State Construction Oversight Service. Set a uniform rate of the fee for all businesses in the amount of 0.15% of the cost of construction and installation work.
19. Establish a rule allocating 20% of sales of raw materials for manufacturing at the Belarusian Universal Commodity Exchange to small and medium-size businesses; allow SME to purchase raw materials outside the Exchange at current market prices.

II. Effectively reducing bureaucracy

19. Set transparent rules for issuing technical specifications for construction and renovation involving industrial, civil, and residential construction projects and projects involving utilities and the transportation and social infrastructure.
20. Simplify the procedures for businesses to produce electricity and heat for sale to individuals and legal entities.
21. Reduce the cost and time of administrative procedures to obtain technical specifications, certificates of quality, and other certificates from the State Committee for Standardization, the Ministry of Health, and the Chamber of Commerce and Industry; eliminate extraneous procedures to obtain permitting documents.
22. Eliminate licensing and certification requirements for businesses that do not pose risks to public health and safety, specifically: legal services, gathering and distributing (including on the Internet) information on individuals for the purpose of making social connections, etc.
23. Allow private appraisers to appraise state-owned property (assets) and land.
24. Allow organizations that provide paid medical services, regardless of their form of ownership, to issue disability certificates, subject to appropriate accreditation by the Ministry of Health.
25. Allow organizations in the Republic of Belarus, regardless of their form of ownership, to issue statements at places where paid medical care is provided, verifying that an individual is in need of medical case, including surgery, for purposes of exemption from the individual income tax.

III. Optimizing regulation

26. Ensure the institutional independence of the National Bank, which should withdraw from being an incorporator of any commercial organization.
27. Reduce the cost of borrowing for businesses by maintaining predictable monetary, credit, and exchange-rate policies, base credit policy exclusively on market principles, both in Belarusian rubles and in foreign currency at the discretion of banks.
28. Remove all restrictions on borrowing in foreign currency.

29. Allow banks to maintain required reserves from borrowing in foreign currency.
30. Involve business associations in jointly developing macroeconomic policy and ideas to improve the financial system, and determining budget policy at the regional, city, and district level.
31. Draft and adopt a government program to develop credit unions (consumer cooperatives for mutual financial assistance) in Belarus, based on best international practices.
32. Expand access for businesses to financial resources by creating a fully functioning stock market and establishing a proper legal framework for modern financial institutions and instruments, including venture, investment, and innovation funds.
33. Discontinue the practice of cross-subsidies of public investment projects or programs that make lending more expensive for Belarusian businesses.
34. Empower the regional executive committees and the Minsk City Executive Committee to take parcels of agricultural land up to one hectare in area and provide them to businesses, and re-zone them in order to expand production.
35. Simplify and reduce the cost of the procedure for transferring land under a long-term lease or into private ownership for entrepreneurial activity.
36. Allow construction companies to enter into contracts for the construction (or renovation, reconstruction, restoration, or landscaping) of projects not using government funds without the requirement of competitive bidding.
37. Allow newly formed private companies to be registered in the location where one of the incorporators resides.
38. Optimize, simplify, and reduce the cost of the procedures for issuing permitting documentation for design and construction work, the procedures for obtaining approvals from government oversight agencies, and the procedures for review and commissioning of buildings and structures in civil and industrial construction projects.
39. Allow issuers of housing bonds to secure performance on these bonds by encumbering the newly created real property, unfinished construction, or non-mothballed residential properties with a pledge.
40. Repeal the provision in the Law "On automobile roads" requiring entrances to roadside service businesses to be located at least 50 meters from the edge of the traffic lane. Replace the strict restrictions on the location, size, functionality, and design of roadside service businesses with general rules on the construction and location of such businesses, developed in conjunction with business associations.
41. Remove quotas for revenue from the collection of fines and the sale of confiscated property from the "Republican Budget Revenues" section of the Budget Law.
42. Authorize the investment of funds in insurance reserves in various financial instruments, including private securities.
43. Eliminate the prohibition on advance payment for imports by commercial organizations and sole proprietors.
44. Allow commercial organizations to purchase small lots of goods, raw materials, and components outside the Republic of Belarus for cash, with subsequent payment of VAT to the Republic of Belarus (up to 1000 base units per transaction).
45. Eliminate the determination of indicative prices on imported goods by customs and other agencies, adopt the standards and requirements of the Customs Union and the WTO in the area of pricing of imported goods.
46. Index the tariffs charged by natural monopolies to no more than 90% of the rate of inflation.

47. Discontinue the practice of withdrawing funds from companies' accounts pursuant to collection orders by enforcement, oversight, and financial agencies without a court order.
48. Eliminate VAT on imports of technological equipment to be used by the importing company for manufacturing.
49. Simplify the paperwork for payment of import VAT in the import of small lots of goods from countries in the Customs Union.
50. Eliminate the fee for electronic filing of tax declarations (or statements) with the tax authorities, transition the Republican Unitary Enterprise "Information and Publishing Center for Taxes and Fees" to budget funding.
51. Exclude from the tax base amounts of expenses reimbursed to a lessor (or financial lessor) but not included in the rent, for companies and sole proprietors using the simplified taxation system.
52. Exempt individuals from payment of income tax and contributions to the Social Protection Fund on amounts they spend on medical care and health insurance, whether the payments are made by them or by their employer.
53. Give insurance brokers the opportunity to use the simplified taxation system.
54. Eliminate the requirement of advance payment of income tax when loans are granted by consumer cooperatives for mutual financial assistance with both legal entities and individuals as members (mixed type) and by specialized funds.
55. Allow private companies to set their own rates for business travel expenses to be counted as costs for tax purposes.
56. Provide profit tax benefits in the financing of capital investments in manufacturing.
57. Allow application and membership fees for joining business associations, self-regulating organizations, and chambers of commerce and industry to be deducted as expenses on the production and sale of goods and services for tax purposes.
58. Align the requirements for statistical reporting with accounting and tax rules. Move the deadline for filing statistical reports to February and for filing reports on forms 1mp and 1mp micro to after the filing of the annual balance sheet.
59. Enact a law "On charity" with profit tax benefits for organizations that sponsor nonprofit and community organizations, orphanages, cultural and artistic facilities, education, sports, and religious communities that are officially registered in the Republic of Belarus.
60. Count a portion of medical expenses paid by employers as costs of the production and sale of products, goods, and services for tax purposes, within the limit of funds spent by the employer on voluntary medical insurance (5% of the payroll fund).
61. Reduce tolls (in the Beltoll system) on toll roads for trucks with cargo capacity of up to 5 metric tons.
62. Completely eliminate government regulation of prices (or rates) for medical services for organizations not funded by the budget.
63. Provide equal benefits to legal entities that pay for their employees' medical care, regardless of whether they pay the provider directly or purchase health insurance policies from an insurance company, regardless of form of ownership.
64. Allow entrepreneurs and micro-enterprises to perform work and services in residential buildings in their place of registration, so long as the work does not damage the premises or negatively impact neighbors.

65. Adopt a regulation releasing good-faith purchasers from liability in the form of confiscation of goods under section 4 of article 12.17 of the Code of Administrative Offenses of the Republic of Belarus.

IV. Honest privatization

60. Sell unused or under-utilized real property in state or communal ownership for one base unit.
61. Transfer, in a transparent manner, marginally profitable or unprofitable enterprises as property complexes to private businesses in trust.
62. Prohibit government agencies from purchasing, and eliminate the preferential right of local governments to purchase, shares in joint stock companies (or equity interests or shares in other companies).
63. Prohibit reconsideration of the results of purchases of state property (or assets) or the formation of share capital of joint stock companies; grant amnesty for all transactions to privatize state property and assets before 2009.
64. Create a statutory duty, limited by a fixed list of grounds for rejection, and a procedure for proving these grounds, to sell to a business (at its request) the state-owned real property leased by the business for more than three years, and impose liability on officials for improperly rejecting or failing to make a decision on the sale of such property.
65. Require placement of properties in the unified databases of unused and under-utilized state property and land parcels upon application by businesses or industrial and business associations.
66. Enact legislation defining the term “hostile takeover” and the tools and mechanisms for counteracting it.

V. Responsible partnership

68. Create an institution in the office of the President of the Republic of Belarus with the authority to protect the rights of businesspeople (ombudsman). Candidates for this position should be nominated by the business community for approval by the head of state.
69. Ensure full transparency in the revenues and expenditures of all government agencies, and publish the results on these agencies' websites within one month after the completion of a financial audit.
70. Introduce mechanisms allowing the public to monitor the implementation of government investment and innovation programs and projects. Allow SME to participate in government programs on an equal basis.
71. Draft, jointly with the business community, and enact a Law “On public-private partnership.”
72. Involve representatives of business associations in all stages of the process of drafting national and local budgets.
73. Restore the right of non-governmental associations of entrepreneurs to apply a reduction factor of 0.1 to lease rates.
74. Allocate a parcel of land in Minsk for the construction of the Republican Multi-Function Center to Support Free Enterprise, financed with private investments.
75. Establish guaranteed quotas for small businesses in government procurement at a level of at least 10%, based on the type of goods or services.

76. Transfer, without payment, intellectual property created with government funding to small innovative businesses for subsequent commercialization, while respecting copyright.
77. Allocate at least 3% of the total amount of taxes received by national and local budgets from small and medium-size enterprises to programs that support SME.
78. Establish unified registers of technical, construction, fire protection, and public health standards, in coordination with business associations.
79. Post complete and detailed information on the website of the Ministry of Finance of the Republic of Belarus on past, current, and future budgetary expenditures by government agencies within the budgeting process.
80. Develop and launch a website giving businesses engaged in foreign trade free access to information on goods imported into the Customs Union.
81. Hold annual public hearings in parliament and hearings in regional (or municipal) councils of deputies on business conditions, trends, and development issues, with participation by business associations.
82. Allow industrial and business associations to file petitions directly with the Constitutional Court for a review of the constitutionality of legislation that regulates economic and entrepreneurial activity.

VI. Labor market and social partnership

83. Based on dialog between employers and employees, make the laws and the application of the law consistent with the conventions of the International Labor Organization, specifically on issues involving contracts and collective bargaining agreements.
84. Establish government programs to develop and support entrepreneurship by women and youth, in order to expand opportunities for these groups to open and grow their own businesses and to help them balance family obligations and education with business activity.
85. Develop and adopt mechanisms to provide targeted social assistance based on objective criteria of need, while simultaneously eliminating government price regulation (eliminate price regulation based on the fact that the goods are considered socially significant).
86. Modify the procedure for contributions to the Social Protection Fund: the employer and the employee each pay 15% of the amount of total payroll.
87. Reimbursement by the government of employers' expenses to train new employees hired under the structural reform program.
88. Provide funding for small and medium-size businesses to retrain and requalify employees laid off from state-owned enterprises under the national structural reform program.
89. Draft provisions and develop mechanisms to provide budget subsidies and loans for employees who move from areas with poor employment prospects to places where there is a labor shortage.
90. Amend the labor laws to eliminate barriers to forms of employment such as contract, remote, and home-based work.
91. Repeal the statutory provision that reduces the amount of pensions received by pensioners who continue working.
92. Require performance evaluations to be provided when an employee is terminated or hired.

5. Objectives of the 2014 Belarus National Business Platform

Implementing the 2014 Belarus National Business Platform will make it possible for business and government to achieve their goals.

For business, the Platform means:

- Access to credit resources at lower cost;
- Guarantees that the private and public sectors do business on equal terms;
- Involvement of small and medium-size business in the process of privatization and restructuring of enterprises and modernizing the economy;
- The opportunity to create competitive advantages for Belarusian business in an environment of open competition and interaction with businesses in Russia and Kazakhstan;
- A reduced tax burden for all commercial entities, regardless of their form of ownership;
- Lower costs of meeting requirements imposed by government agencies in the areas of price formation, licensing, permitting, and inspections;
- Transfer to SME and sole proprietors of title to state property and assets under long-term leases and transfer of title to unused real property;
- “Free” transfer to SME and sole proprietors of ownership of technologies developed with government funding;
- An end to discriminatory practices by local government agencies;
- The creation of a legal system that prevents unlawful mergers and hostile takeovers of Belarusian companies;
- Minimal risks that anti-business and contradictory legislation will be passed;
- The creation of high-quality institutions to fully integrate Belarus into the world economy according to WTO standards;
- Opportunities for companies in Belarus to restructure and prepare for open competition and cooperation with companies in Russia and Kazakhstan in the most favorable business environment;
- A better supply of workers and highly qualified personnel for SME on the labor market, and an end to labor emigration of valuable human capital;
- The creation of a competitive environment among the working-age population due to the additional supply of labor as a result of layoffs of superfluous industrial and manufacturing personnel from state-owned enterprises.

For the government, the Platform means:

- The creation of institutions and mechanisms that allow the economy to function without borrowing money and accumulating debt;
- Faster structural reforms;
- Diversification of budget revenue sources, exports, and modern jobs;
- Better management of the resources, assets, and property of the Republic of Belarus;

- Putting unused and under-utilized property and assets into commercial circulation, which will expand the tax base and increase tax revenues while easing the tax burden;
- Promoting entrepreneurial activity, which will expand the tax base, increase social welfare payments and the salaries of government employees, stimulate economic development in small cities and rural areas, and enhance family prosperity;
- Rapid, low-cost adaptation of legal institutions and economic laws to the requirements of the Common Economic Space and the WTO;
- Better public administration through simpler, less expensive, and transparent administrative procedures;
- Creating the conditions to stop brain drain of highly qualified personnel, attract direct foreign investment, and repatriate the wealth of Belarusians from abroad;
- Higher labor productivity at state-owned enterprises;
- The creation of new, modern jobs in the service and construction sectors, including road construction;
- More responsibility on the part of the working-age population for their financial security, and growth in entrepreneurial initiative;
- Reduced pressure on local and national authorities to provide support from the budget, more resources for targeted social assistance and infrastructure projects that will make the country more competitive;
- Enhanced technological potential in the main sectors of the national economy, which will allow them to operate in an environmentally friendly manner.

For society, the Platform means:

- Higher family incomes and greater buying power of pensions and salaries;
- Stabilization of prices, and some price reductions due to responsible policies and open competition on the domestic market;
- Creation of new, modern jobs, and greater mobility on the labor market;
- No more shortages, a wider range of goods available, and stronger consumer protection;
- Expanded opportunities to earn additional income;
- Concentration of government resources on the most needy citizens, in the most sensitive social projects, rather than support for chronically unprofitable enterprises;
- More investment in repairing damage to the environment;
- Development of a national business culture of HIRER: **H**ard work, **I**nitiative, **R**esponsibility, **E**nterprise, and **R**esults.

6. Mechanisms and tools to implement the 2014 Belarus National Business Platform

The business community is using the following mechanisms and tools to implement the 2014 Belarus National Business Platform:

1. Organize the work of the Coordinating Council to promote the Belarus National Business Platform.
2. Coordinate the efforts of all business-related NGOs, business advisory councils in government agencies, and industry-specific and regional business associations to implement the provisions of the Platform.
3. Organize public advisory and expert councils to operate effectively within national and local government bodies and agencies. Provide training for the members of the councils.
4. Involvement by representatives of business associations in the work of advisory and expert councils in the governing bodies of the Eurasian Economic Union of Russia, Kazakhstan, and Belarus.
5. Provide information resources to support advocacy for the Platform's provisions and proposals at all stages.
6. Facilitate agreement on positions supported by the entire business community through consultations, roundtables, surveys, and public and corporate dialog.
7. Involve representatives of business associations in Regulatory Impact Assessments (RIA) of legislation of the Republic of Belarus and the Eurasian Economic Union of Russia, Kazakhstan, and Belarus.
8. Present the positions of the business community to legislatures and local governments by holding hearings on the systemic and specific problems in business development, issues of social partnership and socio-economic policy, and public-private partnership (PPP).
9. Draft amendments and proposals on current and draft laws and regulations for submission to government agencies and local governments.
10. Consult with government agencies, including at meetings of working groups, inter-departmental commissions, and advisory and expert councils.
11. Arrange focus groups and panels of analysts and other experts to gather feedback from industrialists and businesspeople on the business community's legislative proposals and government programs and development strategies to increase the competitiveness of business and the national economy.
12. Set up permanent regional discussion forums for small and medium-size businesses and entrepreneurs, monitor the SME situation, and promote the growth of large private business and capital.
13. Take action to resist corruption and position the business community as an opponent of bribery, gray market, fraud, nepotism, hostile takeovers, unfair competition, and monopolies.
14. Review draft legislation for consistency with anti-monopoly and anti-corruption principles, lack of ambiguity, feasibility of implementation, and consistency with Directive No. 4, dated December 31, 2010.
15. Support businesspeople in litigation and administrative disputes with government agencies in cases when fines, penalties and other sanctions are imposed unlawfully, expand the use of arbitration panels in business associations and mediation.

16. Widely distribute information resources, post materials on websites on business advocacy, opportunities for business development, protection, and self-defense in Belarus, the countries of the Common Economic Space, and other countries of the world.
17. Hold an annual competition for “Best City, District, and Region in Belarus for Business.”
18. Support professional skill competitions and professional awards for “Brand of the Year,” “Best Entrepreneur,” “Businessperson Award,” etc.
19. Conduct a survey of 500 business owners and sole proprietors twice per year to determine the Index of Business Optimism of Private Business in Belarus (IBO).
20. Arrange coordinated actions with business associations in Russia and Kazakhstan to advance the proposals of the Platform and understand the positions of business associations in our partner countries in the Common Economic Space.
21. Send copies of the 2014 Platform to the governments and business associations in Russia and Kazakhstan, so they can consider the positions of the Belarusian business community in developing a single economic policy to enhance business potential in the Common Economic Space.
22. Send copies of the 2014 Platform to international organizations with which the Republic of Belarus has relationships, so they can consider the views and proposals of the business community and private business in Belarus.
23. Have representatives of Belarusian business associations participate in the “Eastern Partnership” programs of the European Union, projects to develop inter-regional and cross-border cooperation, people's diplomacy, and humanitarian and cultural projects.
24. Communicate the analytical assessments and proposals of the BNBP among the youth (school, college, and university students and young professionals) in order to give them an objective understanding of the problems and prospects for business development in the Republic of Belarus; support youth economic initiatives and projects as the future of our country.

1 Doing Business 2014. Understanding Regulation of Small and medium-size Enterprises. World Bank.
<http://russian.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/Foreign/DB14-minibook-russian.pdf>

The Belarus National Business Platform in action:

Positive changes in the laws regulating business development in 2007-2013

– Key Results –

Adopted:

- Directive No. 4 of the President of the Republic of Belarus, dated December 31, 2010, “On developing entrepreneurial initiative and stimulating business in the Republic of Belarus.”
- Several regulatory documents on the accessibility of technical regulations.
- The new Law “On economic insolvency (bankruptcy).” The law largely codified previous statutory provisions on economic insolvency (bankruptcy).
- The Law of the Republic of Belarus “On arbitration tribunals,” which established a system to resolve disputes between businesses without government involvement. (The Minsk City Union of Entrepreneurs and Employers operates an arbitration tribunal.)

Discontinued:

- Confiscation of property and goods without a court order. Now property and goods may be confiscated only pursuant to a court decision.

Simplified:

- Business registration procedures. Businesses are now registered upon submission of a complete application.
- Business liquidation procedures. A rule was adopted under which indebtedness may be declared bad debt.

Authorized:

- Conversion of the ground floors of multi-story residential buildings, single-family homes and row houses, and adjacent maintenance buildings into commercial properties.
- Priority sale of leased premises (buildings, structures, and other properties) to the lessees if they have leased them for more than three years.

Eliminated:

- The institution of the “Golden Share.”
- The duty to follow the “uniform wage rate schedule.”
- Linking rents to the Euro.
- Government regulation of rents for sites in private shopping centers and markets.
- Mandatory approval of the selection of goods a business can sell.
- Mandatory limit on the amount of a company's cash on hand.

- The requirement that contracts and waybills specify the reason for purchasing the goods.
- Government regulation of prices for all businesses.

Achieved:

- Positive changes in the operation of enforcement and oversight agencies, specifically streamlining and reducing the number of inspections and limiting the number of scheduled inspections.

Introduced:

- Prohibition on conducting inspections during the first two years after registration of a company.
- Prohibition on retroactive amendments to laws and regulations, including provisions on the amount of rents, rates, taxes, fees, and other payments.

Rights granted:

- To businesses: The right to deposit in their foreign-currency accounts cash earnings from the wholesale sale of goods in the Russian Federation and Kazakhstan.
- To sole proprietors, private notaries, attorneys, and tradespeople: The right to suspend their professional activity while caring for a child up to the age of three years, by applying for social leave in accordance with the law, with payment of benefits in full, or to continue engaging in their profession while receiving 50% of the benefit.

The Code of Administrative Offenses is being improved annually:

- The amounts of fines are being reduced, warnings may now be given, and minimum amounts of fines are being eliminated for many offenses.

The term “reasonable risks” is being defined

- In the Criminal Code and the Code of Administrative Offenses.

Amnesty declared:

- For persons serving sentences for economic crimes, the penalties for which are not commensurate with the social harm of the offense – in the Law of the Republic of Belarus of July 9, 2012, “On amnesty for certain categories of persons who have committed crimes.”

Continual reductions in:

- The number of types of business requiring a license.

The Belarus National Business Platform in 2006-2013 Improvements in taxation

– Key Results –

1. The requirement to follow a “uniform wage rate schedule” was eliminated.
2. Turnover taxes on earnings were repealed.
3. Retroactive amendments to laws and regulations were prohibited, including provisions on the amounts of rents, rates, taxes, fees, and other payments.
4. Government price regulation for all businesses was eliminated.
5. The requirement to set a limit on the amount of a company's cash on hand was eliminated.
6. The requirement that contracts and waybills specify the reason for purchasing the goods was eliminated.
7. Businesses were given the right to deposit cash earnings from wholesale sales of goods in the Russian Federation and Kazakhstan into their foreign-currency accounts.
8. The tax burden on the economy has been eased. In 2013, the reduced burden was felt by small businesses using the simplified taxation system (STS), for which tax rates have fallen for two straight years, and the criteria for earnings and numbers at which they are not required to pay VAT or maintain accounting records have been revised.
9. The structure of the tax system has improved. Over the past five years, 26 taxes and fees have been repealed, and 34 separate fees and payments have been consolidated into a single duty.
10. Tax administration has improved. The frequency of tax payments was revised, the number of tax declarations that must be filed was reduced, advance payments of VAT and excises have been eliminated, and electronic filing has been introduced. For the value added tax, restrictions that prevented exporters from deducting the full amount have been removed (due to the transition to payment of taxes on the accrual method). The procedure for exporters to provide proof of export to countries in the Customs Union is being simplified in 2013. Belarusian exporters will be able to file applications to verify the zero rate of VAT electronically rather than on paper.
11. The income tax is now assessed and paid on a 12% scale. The rate of the tax on dividends has been reduced to 12 percent.

Overall, more than three hundred of the Belarus National Business Platform's proposals to improve the business climate in Belarus have been implemented.

Message from the Coordinating Council On Developing and Advancing the Belarus National Business Platform

Dear Friends and Esteemed Colleagues!

The Coordinating Council for the Development and Advancement of the Belarus National Business Platform invites you to review the **“2014 Belarus National Business Platform. Free Enterprise – Prosperous Country”** for discussion and comment.

Since 2006, the Platform has been drafted annually by proactive representatives of the Belarusian business community. After widespread discussion, the draft of the Platform is reviewed each year at the Assembly of Business Circles of the Republic of Belarus, which is attended by business founders and executives, representatives of over 50 business associations and nonprofit socio-economic organizations, and academics, recognized experts, officials of ministries and departments, members of the diplomatic corps, and journalists.

After the Platform is adopted, a copy is delivered to every high-ranking official of the Republic of Belarus in each branch of government, officials of ministries and departments, members of the National Assembly of the Republic of Belarus, officials of regional executive committees and the Minsk City Executive Committee, representatives of civil society, etc.

The **Platform** represents the consolidated position of the business community. It has had a direct impact on the dialog between business and government, created a platform for negotiations, and facilitated the advancement of constructive proposals to liberalize the economy and improve the business climate and the conditions for doing business in Belarus.

We invite you to get involved in the drafting and implementation of the “2014 Belarus National Business Platform. Free Enterprise – Prosperous Country” We believe that the more entrepreneurs, experts, and businesspeople who take part in drafting the Belarus National Business Platform, the better it will represent the views, needs, and interests of the emerging private business community in Belarus.

Your opinions, initiatives, arguments, ideas and personal involvement are extremely important to us!

Send your ideas, marked “Proposals for the 2014 Belarus National Business Platform”, to the e-mail address platforma@allminsk.biz or by mail to: V. N. Karyagin, Chairman of the Coordinating Council on Developing and Advancing the Belarus National Business Platform, 11 Serafimovich St., Room 104, Minsk, 220033.

If you have questions, call our telephone hotlines: +375-29-399-97-75 or +375-29-555-84-84, or call us at +375-17-298-24-38, +375-17-298-24-50, or +375-17-298-24-41/47.

All constructive proposals will be posted on the websites of the Republican Confederation of Entrepreneurship (www.rce.by), the Minsk Capital Association of

Entrepreneurs and Employers (www.allminsk.biz), and the Mises Research Center of the Strategy Analytical Center (www.liberty-belarus.info). Updates on the implementation of the 2014 Platform will also be posted here. You can enter your e-mail address to receive additional information on the process of drafting the 2014 Belarus National Business Platform.

We look forward to productive and mutually beneficial cooperation! Join us, and your involvement will make our business associations stronger!

Respectfully,

Vladimir N. Karyagin

*Chairman, Coordinating Council for the Development and Advancement
of the Belarus National Business Platform,*

Chairman of the Presidium of the Republican Confederation of Entrepreneurship

THE BUSINESS CLIMATE IN BELARUS AND THE WORLD IN 2014
Analytical Background for the
2014 Belarus National Business Platform

The macroeconomic and external environment of the business climate

For business in Belarus, the year 2013 was notable for the worsening of both the macroeconomic situation and regulatory practices. The economy fell into stagnation. For the second straight year, the rate of growth in gross domestic product declined. After GDP growth of 1.5% in 2012, the year 2013 ended with a figure of 0.9%, compared to the 8.5% GDP growth forecast by the government. In January 2014, for the first time in many years, the rate of GDP growth had fallen by 0.9%.

The Belarusian economy has entered a business cycle characterized by repression of entire sectors and industries, accumulation of debt and payment defaults, and reduced competitiveness on domestic and foreign markets. These accumulated problems are the result not of individual subjective decisions and poor quality of corporate governance and public administration, but of structural imbalances and distortions. In 2013, they were exacerbated by serious misjudgments about the state of the Belarusian economy, the potential to export Belarusian goods to foreign markets, and the ability of government agencies to pursue effective counter-cyclical policies.

Belarusian policymakers ignored the call by IMF Managing Director Christine Lagarde at the Davos forum: “We need a reset in the way the economy grows around the world.”¹ The founder of the World Economic Forum, Klaus Schwab, has a similar view: “The world is complex, it's fast-moving, and it's inter-connected... It's time to press the 'reset' button for the world economy.”²

Speaking about the reset, the head of the IMF talked about financial regulation, monetary policy, the sources of economic growth, and structural policy. Clearly, “nontraditional” monetary policy (virtually free money), nationalizing a large portion of the economy in order to save it from bankruptcy, living in debt, and a total lack of political will to put the government's finances in order will not work without increasing stress in the economy and creating bubbles on the real estate, securities, and commodities markets. The old economic policy accelerates the redistribution of money and assets to the rich and eroding the middle class, and it exacerbates the moral threats to the economy from companies that are “too big to fail.”

This diagnosis applies to developed and developing countries alike, including Belarus. In 2013, the country's government agencies continued the policy of “business as usual,” i.e. in the old way, without adapting to the external context, the internal imbalances and inequalities, or the obvious problems with promoting economic growth.

Instead of expanding the private, market sector in the economy, the authorities have chosen the exact opposite tactic: more government investment in state-owned commercial projects, more micromanagement, more money, resources and loans for the so-called growth points that were administratively identified almost twenty years ago. The policy of micromanagement of the economy with a dominant public sector is unworkable in an environment of rapid technological progress, volatility in the world economy, a high level of

1 World Economic Forum in Davos 2014 <http://forumblog.org/2014/01/top-10-quotes-day>

2 World Economic Forum in Davos 2014 <http://investmentwatchblog.com/bankers-at-davos-plan-to-push-the-reset-button-on-the-world-economy-says-wef-founder>

uncertainty, and a low level of trust in government.

The business community's hopes for significant improvement in the business climate in Belarus have been dashed. Government agencies have continued to ignore the will of the President, expressed in Directive No. 4 of December 31, 2010. Minor improvements in the areas of price liberalization, registration of real estate, enforcement actions, and administrative procedures have been far outweighed by worsening problems with money and credit, the failures of the administrative and legal system to counteract monopolistic and discriminatory practices, and cross-subsidies for raw materials, loans, and the services of infrastructure companies.

From the perspective of improving the legal framework for rapid growth in free enterprise, 2013 was a year of missed opportunities. Even when the right goals and objectives were declared, the legislation passed was contradictory. Certain positive, pro-business actions were neutralized by legislative decisions that made things worse for business. The business community was forced to spend significant resources and time opposing legislative and regulatory initiatives that would harm business. Many legislative acts were merely formal in nature and had no effect on small and medium-size business. This is demonstrated by business surveys and the Index of Business Optimism conducted in 2013 and early 2014.³ Thousands of resolutions, directives, executive orders, and orders have been adopted to implement the plans of government agencies. Most legislation happened by inertia, without addressing the serious problems faced by Belarusian business.

Economic development in Belarus in 2013

The quality of macroeconomic policy significantly deteriorated in 2013. The authorities failed to deal with inflation and the sharp growth in the current balance of payments deficit. The tax problem became worse. The process of creating a modern institution of private property is still in its infancy. Regulation of domestic trade became more strict, which, in tandem with protectionism in foreign trade, prevented the country from benefiting from the advantages of free trade.

In 2013, the Belarusian authorities failed to make adjustments in economic policy, even though the logic of economic trends required diversification and modification of the old sources, mechanisms, and tools used to generate economic growth. The external economic framework remained the same. The Russian energy subsidy stayed at the same level, ~13-15% of GDP. The Russian market remained open to Belarusian goods. In 2013, Belarusian companies exported goods worth \$16.31 billion to Russia (45.2% of total exports of goods). This is 3.2% more than in 2012. Imports were \$22.89 billion, resulting in a negative balance of \$6.06 billion for Belarus. The trade deficit with Russia fell by \$5.18 billion. However, exports to the EU declined sharply, by 40.2%. This shows how dependent Belarusian foreign trade is on oil agreements with Russia.

Public trust in the banking system is still growing, with deposits up 31.1%: Deposits in Belarusian rubles grew by 36% to Br102.34 trillion, and foreign-currency deposits increased by 11.6% to \$7.29 billion.⁴ Budget expenditures were ~43% of GDP. Investment in fixed capital grew by 7.4%. Banks continued active lending to the economy, primarily to the public sector.

3 Development of small and medium-size companies in Belarus, 2013. IPM Research Center. <http://www.research.by/publications/surveys-of-business/0001705/>, data from the Index of Business Optimism <http://rce.by/>

4 Bulletin of Bank Statistics No. 12 (174). National Bank 2014 http://nbrb.by/statistics/bulletin/2013/bulletin2013_12.pdf?v=2

Indebtedness on bank loans increased 23.5% in 2013 (excluding the resources of Development Bank OJSC) to Br259.39 trillion (plus Br57.44 trillion). So the traditional sources of economic growth remained in place, but they were unable to generate economic growth.

The use of the entire wealth of the country's resources could only keep the economy at an idle. In 2013, only retail trade saved Belarus from recession. With minimal growth in GDP overall, for the second straight year the retail sector has shown solid growth, 18.2% in 2013 and 14.1% in 2012.⁵ These figures correlate with an increase in the real income of the population, which grew by 15.4% in 2013 and 21% in 2012. There is a dissonance between these figures and the way Belarus's major manufacturers feel. After growing by 5.7% in 2012, industry declined by 4.8% in 2013. For the first time in ten years, agriculture had a negative growth rate of 4%. The volume of cargo transportation also declined by 4.8%. Export of goods fell by 19.2% to \$37.23 billion, and imports declined by 7.3% to \$43 billion. Despite the good intentions and generous funding of government modernization programs, labor productivity grew at a lower rate in 2013 than in 2012 (2.2% versus 3.9%). Profitability declined significantly in 2013, to 8.3%, compared to 12.3% a year earlier.

An analysis of return on sales by sector highlights the trouble spots in the economy. For example, this figure was -2% in the fishing industry. In this sector, 58% of companies are unprofitable. The potential of over 10,000 lakes in Belarus is essentially blocked. Not even willing to consider transferring them into private ownership, the government has turned fishing businesses into dependents, while retaining the institution of special fish importer.

Return on sales was 7.4% in industry and 4.5% in agriculture. If we deduct from net profit the amount of government subsidies provided to this sector in various forms, we have yet another unprofitable sector. Predictably, the highest return on sales in 2013 was in the financial sector: 24.5%. Communications enterprises also did not suffer (18.1%). Oligopoly is predominant in these sectors.

In 2013, the quality of economic processes declined significantly. Earnings from sales of goods and services grew by 10.1% from 2012 to 2013, but production costs increased by 12.7%. Profit fell by 38.2% and net profit by 40.7%, and the number of unprofitable companies increased by 76.5%, to 752 companies. The amount of net loss jumped 2.6 times. As of January 1, 2014, stocks of finished goods totaled Br27,958 billion, or 70% of average monthly production. For comparison, as of January 1, 2013, warehouses held Br22,193 billion in unsold goods, or 56.5% of average monthly production. The fact that the amount of frozen capital for the year in warehouses alone increased by Br5765 billion indicates the serious danger to the Belarusian economy posed by continuing the old economic policies. The data on warehouse stocks for January 2014, when they increased by Br3.88 trillion to Br31.84 trillion (78.2% of average monthly production) demonstrate that the negative trends in the country's economy are intensifying.

As of January 1, 2014, accounts payable of Belarusian companies totaled Br241.3 trillion (\$26.9 billion). In 2013, this figure grew by Br58.6 trillion (\$6.5 billion) or 32.1%. Accounts receivable increased in 2013 by almost the amount of net profit, by Br40.7 trillion (26.3%), to Br195.8 trillion (\$21.8 billion) at the beginning of 2014.

In 2013, indebtedness on bank loans in various sectors of the economy increased by Br57.44 trillion (28.4%) or \$6.4 billion, to Br259.39 trillion as of January 1, 2014. And this does not take into account the resources of the Development Bank. Loans in foreign currency represent about half the total. The amount of loans in foreign currency is \$13.7 billion.

5 Data from the National Statistics Committee of the Republic of Belarus, 2013-2014. <http://belstat.gov.by>

At the beginning of 2014, bad debt totaled Br2.53 trillion. This amount is clearly not a threat to the banks, but it grew by 2.3 times during 2013. Several years ago, the situation with Belarus's government debt was also very favorable, but then it increased by over five times.

As of January 1, 2014, debts on bank loans to individuals totaled Br53.97 trillion. This amount increased by 34.3% during 2013. Of all loans to individuals, 72.4% are real estate loans. Despite the exorbitant rates, consumer loans increased by Br4.6 trillion to Br14.89 trillion in 2013. The National Bank's program to promote financial literacy needs much more work.

The government has recklessly increased government debt and allowed debt to accumulate in the public and corporate sectors. As of January 1, 2014, the government debt was Br154 trillion, having grown over the past year by Br25.3 trillion or 19.6%. The government's foreign debt was \$12.4 billion, having increased by \$433.1 million or 3.6% in the past year. Overall, the government borrowed \$2.43 billion and repaid \$1.996 billion. Internal debt grew much faster, increasing by 38.1% in 2013 to Br35.7 trillion. On a net basis, sovereign bonds were issued for \$803.4 million. Thus, a considerable portion of the public's resources was used, directly or indirectly, to finance government programs. In 2013, the government took on a total of \$3.3788 billion in foreign and internal government loans in foreign currency and repaid \$2.1416 billion. This is a typical example of living in debt, which consumes both current capital and future sources of economic growth.

In 2013, the government put off addressing the most complex problems, which will increase the cost of solving them in the future. The problem of cross-subsidies became more acute, but there are no plans to address it until 2014-2015. In November, commercial banks charged an average rate of 20.3% per annum on loans in Belarusian rubles. But rates on loans in Belarusian rubles for entrepreneurs and SME reached 80% per annum in 2013, while lending in foreign currency was prohibited. There are still many beneficiaries of government largesse, who continue to receive subsidies from the budget and the banking system. This problem has also not been addressed. Sooner or later, policymakers will have to put an end to the practice, which is popular among speculators, of paying high interest rates on deposits in Belarusian rubles.

Business climate: The perspective of businesspeople⁶

By the middle of 2013, the mood of producers of goods and services in Belarus was on the rise, according to a survey of enterprises in the real sector conducted by the National Bank. In June 2013, a record 55.1% of businesses expected the physical volume of production to grow. 46.1% expected demand to grow, and only 8.9% expected physical volume of production to decline.

But the second half of 2013 radically changed the mood among companies. December 2013 marked the lowest level of expectations for growth in physical volume of production: 26.4%. This is less than half the percentage in June 2013. Pessimistic expectations of a decline in physical volume of production reached a record level of 34.6% of respondents in January-March 2014. Expectations for growth in demand over the next three months also hit a record low. Only 18.7% of respondents were optimistic. Pessimism was not this bad even in the crisis year of 2009 or during the inflation and devaluation of 2011. These and other factors led to a record low figure of -16 points on the business climate index in December 2013.

The pessimism of companies in December 2013 turned out to be prophetic. In January 2014, the economy shrunk, industrial production declined by 7.1%, agriculture by 2.8%,

6 Monitoring Enterprises in the Real Sector of the Belarusian Economy. Analytical Review. 2007-2014. National Bank, February 2014. <http://nbrb.by/publications/EnterpriseMonitoring/>

investment in fixed capital by 0.4%, and cargo transportation by 6.2%. In the context of the Russian recession, the lack of agreements on potash and the predictable depression in the Ukrainian economy, which accounts for about 8% of Belarusian trade, the old economic policy will not bring good news for the country's economy and finances in 2014.

Assessments of the Present and Future by Belarusian Companies, 2007-2013

Indicator: respondents who...	Dec. 2013	June 2013	Dec. 2012	Jan. 2012	Jan. 2011	June 2010	Jan. 2010	Jan. 2009	Jan. 2008	Jan. 2007
Business climate index	-16.0	26.5	-4.9	-3.6	12.0	34.1	-4.3	-13.6	15.8	8.2
CURRENT SITUATION										
Consider the economic situation “unfavorable,” %	47.4	35.4	35.9	39.1	36.3	31.5	53.7	58.3	34.4	40.5
Consider the economic situation “satisfactory,” %	67.8	70.9	73.6	69.4	72.9	73.5	68.8	65.6	70.6	70.8
Mentioned growth in physical volume of production, %	21.5	38.9	28.5	38.0	33.3	52.4	23.1	23.9	36.5	33.0
Mention growth in physical volume of sales, %	22.2	31.4	28.7	37.7	28.8	47.9	22.4	21.6	31.6	32.9
Mention decline in utilization of capacity in industry, %	38.0	18.7	27.6	28.5	27.4	12.2	13.7	43.1	26.9	31.2
Mention surplus in number of employees, %	7.4	5.4	4.9	7.2	6.2	6.5	9.3	8.9	7.6	9.7
Mention decline in demand, %	36.4	18.5	28.4	28.5	29.6	14.3	41.1	44.1	26.2	29.3
Mention growth in demand, %	15.2	27.3	18.5	23.7	21.9	37.4	14.1	12.3	22.4	19.8
Mention insufficient operating funds, %	59.7	55.0	52.7	54.6	53.3	53.7	58.9	57.5	53.5	59.9
Mention increase in costs, %	52.3	47.6	55.8	69.8	54.1	48.0	48.2	52.9	50.8	52.8
Mention increase in prime costs, %	32.9	28.3	34.9	55.8	47.2	35.7	34.1	43.7	45.6	39.2
Mention increase in net profit, %	27.3	38.7	30.4	38.0	27.0	44.6	24.1	22.7	29.9	26.5
Mention reduction in net profit, %	45.0	32.5	41.7	38.6	49.3	26.9	52.8	53.7	43.6	47.4

Mention worse lending terms, %	43.2	21.5	24.1	25.1	20.1	22.7	25.9	32.8	21.8	23.8
EXPECTATIONS										
Expect growth in physical volume of production in the next three months, %	26.4	55.1	28.4	27.1	49.1	53.1	43.2	31.0	51.3	44.2
Expect decline in physical volume of production in the next three months, %	34.6	8.9	29.0	33.2	15.7	10.0	19.3	26.7	13.9	17.5
Expect growth in demand in the next three months, %	18.7	46.1	22.0	20.1	40.9	44.5	34.4	24.0	41.2	36.2
Expect growth in prime costs in the next three months, %	39.0	37.1	44.7	53.3	53.5	38.1	39.1	46.7	52.0	52.9
Expect reduction in prime cost in the next three months, %	3.9	2.2	2.4	3.2	2.0	2.6	3.6	5.7	1.4	1.6
Expect increase in need for borrowing in the next three months, %	37.6	32.7	36.1	33.3	34.5	30.2	36.6	43.9	40.0	38.1
Expect reduction in the need for borrowing in the next three months, %	5.7	7.9	6.8	5.3	4.4	5.1	3.9	4.2	5.1	3.4

Source: Monitoring Enterprises in the Real Sector of the Belarusian Economy. Analytical Review. 2007-2014. National Bank, February 2014. <http://nbrb.by/publications/EnterpriseMonitoring/>

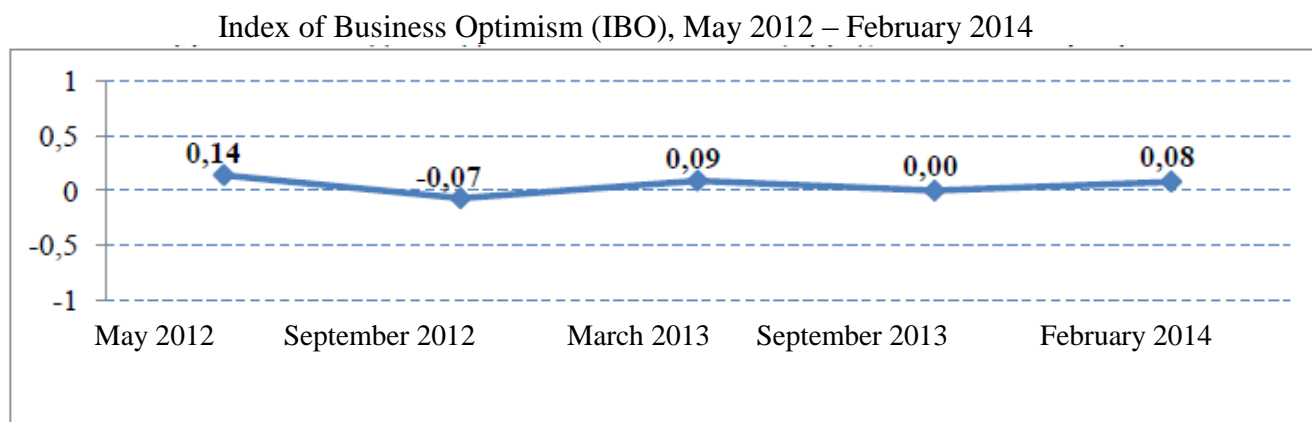
Index of Business Optimism of the Republican Confederation of Entrepreneurship

The Republican Confederation of Entrepreneurship and the Minsk Capital Union of Entrepreneurs and Employers, in conjunction with the Center for Sociological and Political Research at Belarus State University and the Strategy Analytical Center, have developed and presented a tool for assessing the attitudes of private business toward the present and the future. The Index of Business Optimism is measured twice per year.

Optimism is a subjective assessment of the state of the economy and business in the country. Experts have divided a scale from -1 to +1 into five parts. Each of them was weighted equally – 0.4 points. The lowest possible value of the index is -1, which corresponds to the most negative assessment of the current situation compared with the prior stage, and the highest possible value is +1, which corresponds to the most positive assessment of the current situation compared with the prior stage. The score on the index in all four cases is close to zero. The

Expert Council interprets this value as “moderate skepticism,” dominated by a “wait-and-see strategy, in which businesspeople are trying not to lay off employees and not to increase debt, while simultaneously getting tough on their clients. There is no particular joy about the economic prospects, nor is there a great feeling of disappointment about the sustainability of business in a given market segment.”

Here are the results of five measurements from May 2012 to February 2014.



Source: Republican Confederation of Entrepreneurship, February 2014. Survey of 500 representatives of the business community: sole proprietors, executives of small, medium-size and large companies in all regions of the Republic of Belarus.

The data from the survey conducted regularly by the members of the Republican Confederation of Entrepreneurship are similar to the results obtained by the National Bank. In the February 2014 survey, only 14.1% of the 500 respondents answered that the state of the Belarusian economy had improved over the past half year. Pessimistic assessments prevailed: 61.7% said the economic situation had become worse. These data are slightly better than those from September 2013.

In February 2014, 26.9% of private businesspeople reported that the condition of their business had improved over the past half year, while 43.4% said it had become worse. Based on these data, it cannot be said that free enterprise in Belarus has entered a sustainable development trajectory.

Forecasts of economic and business trends over the next half year support the view that the current stagnation could turn into a recession. In February 2014, only 13.5% of respondents expected the economy to improve, while 45.2% expected it to become worse. Of those surveyed, 28.9% expressed optimism about their own business, while 29.9% expected things to get worse, which is significantly lower than the result from September 2013. Notably, about a third of respondents to each question indicated no change in the situation. Given that the country's economy was stagnant in 2013, entrepreneurs cannot be relied upon as a source of new growth in the old institutional conditions.

An assessment of the main problems facing business in Belarus reveals inequality in the business environment for companies in the public and private sectors. The government could also solve the second most acute problem – the high cost of leasing commercial space, because this market is dominated by government agencies and state-owned and communally owned businesses. Asked to name the primary problem facing business, 50.8% of the respondents cited

the lack of qualified personnel and the failure of the personnel training system to meet the needs of the economy, and 49.2% cited poor access to financial resources. These problems are the direct result of bad macroeconomic policy and government centralization in the creation of the institutions of the labor market and educational services.

How, in your opinion, has the state of the Belarusian economy changed over the past half year?	May 2012	September 2012	March 2013	September 2013	February 2014
Better	24.1%	22.0%	20.8%	11.6%	14.1%
Unchanged (remained the same)	25.5%	38.0%	25.2%	21.5%	21.5%
Worse	45.4%	37.2%	47.8%	62.6%	61.7%

Source: Republican Confederation of Entrepreneurship

How, in your opinion, has the state of your business changed over the past half year?	May 2012	September 2012	March 2013	September 2013	February 2014
Better	29.5%	32.1%	30.5%	22.1%	26.9%
Unchanged (remained the same)	27.3%	42.4%	31.2%	31.9%	29.7%
Worse	43.2%	25.3%	39.3%	46.0%	43.4%

Source: Republican Confederation of Entrepreneurship

Have the conditions and results of doing business changed for you over the past half year with respect to the following factors (February 2014)?			
	Change for the better (%)	Remained unchanged (%)	Changed for the worse (%)
New client orders	26.1%	37.5%	36.4
Production of goods and services	18.7%	46.2%	35.1
Employment (number of employees)	12.0%	63.1%	24.9
Earnings	26.9%	27.3%	45.8
Access to financial resources	4.6%	46.2	49.2

Source: Republican Confederation of Entrepreneurship

How, in your opinion, will the state of the Belarusian economy change over the next	May 2012	September 2012	March 2013	September 2013	February 2014
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half year?					
Will get better	22.7%	14.7%	18.9%	9.7%	13.5%
Will not change (will remain the same)	28.3%	27.1%	28.5%	16.3%	33.9%
Will get worse	36.2%	47.7%	39.6%	65.6%	45.2%

Source: Republican Confederation of Entrepreneurship

How, in your opinion, will the state of your business change over the next half year?	May 2012	September 2012	March 2013	September 2013	February 2014
Will get better	44.0%	22.4%	31.2%	16.0%	28.9%
Will not change (will remain the same)	26.7%	28.9%	30.1%	31.9%	34.3%
Will get worse	18.0%	35.0%	27.7%	46.6%	29.9%

Source: Republican Confederation of Entrepreneurship

How, in your opinion, will the conditions and results of doing business change for you over the next half year with respect to the following factors (February 2014)?			
	Will change for the better (%)	Will remain unchanged (%)	Will change for the worse (%)
New client orders	30.7	48.4	20.9
Production of goods and services	25.7	49.6	24.7
Employment (number of employees)	15.5	67.9	16.6
Earnings	29.1	42.2	28.7
Access to financial resources	13.1	54.4	32.5

Source: Republican Confederation of Entrepreneurship

Main problems facing Belarusian business, February 2014

Responses to the question "What are the main problems facing Belarusian business in your view?" in %

No.	Problem	% of respondents
1.	Government monopolization of the economy (the functions of licensing, enforcement, and engaging in business are combined in a single government organization)	84.7
2.	High cost of leasing commercial space	64.5
3.	Lack of qualified personnel, failure of the personnel training system to	50.8

	meet the needs of the economy	
4.	Poor access to financial resources	49.2
5.	High level of influence of government agencies	24.1
6.	Excessive government regulation of the economy	20.5
7.	Chronic labor shortage	18.9
8.	Lack of qualified managers at all levels	16.7
9.	Lack of mechanisms to insure against business risks	14.9
10.	Widespread nonpayment for work performed	12.9
11.	Reduction in market competition (Order No. 26 on construction removes from the market not only non-professionals, but also small and medium-size businesses)	11.2
12.	High level of taxes	11.2
13.	Incompetence of businesspeople themselves	7.6
14.	Low level of competitiveness of the country's economy	5.6
15.	Instability in the economy	5.4
16.	Poor branding of Belarus as a country	3.2

Source: Republican Confederation of Entrepreneurship

IPM Research Center: Survey of small and medium-size business⁷

In May 2013, the IPM Research Center conducted its traditional survey of small and medium-size enterprises (SME) in Belarus (409 respondents). Of those surveyed, 61.9% said their economic condition was stable (compared to 56.2% a year ago). Only 3.7% of SME said they are in a bad condition (compared to 6% in 2012).

Over the past year, the condition of 33% of SME in the country improved significantly or somewhat (compared to 16.8% last year). 43% said their condition had not changed (compared to 31.5% in 2012), and 20.6% of those surveyed said their condition had become worse (compared to 51.3% last year). In the spring of 2013, respondents were still quite optimistic. 49.4% expected stability in sales volume, and 34.2% predicted growth in sales. 47.2% expected profits to increase, while 47.2% predicted stability. The situation looked quite favorable even in the area of investment. 21.3% of SME predicted increased investment, 47.2% expected stability, and only 14.9% expected a decline in investment. Belarusian SME also benefited from the stimulus to domestic demand. 28.9% of SME surveyed operate in the retail sector, 5.6% in the restaurant business, 17.4% in manufacturing, and 14.4% in construction. These sectors directly experienced the beneficial effects of the sharp growth in real income among the population. It should be noted, however, that the survey was conducted almost at the peak of business optimism according to surveys by the National Bank.

According to the survey by the IPM Research Center, 24.9% of respondents said the

7 Development of small and medium-size businesses in Belarus, 2013. IPM Research Center. <http://www.research.by/webroot/delivery/files/Survey2013r1.pdf>

conditions for doing business in Belarus are improving, and 23.9% said they are getting worse. 45.5% of SME surveyed stated that nothing had changed in the business environment. The survey shows that SME are able to accurately identify areas where the government is working well, and where it is clearly failing and allowing conditions to regress.

Thus, for the factor “business registration,” on a scale from -5 (significant worsening in the situation) to +5 (significant improvement), 2.9% of respondents said the situation had become worse (responses from -5 to -3), while 11.7% reported improvement (responses from +3 to +5). Almost 37% of those surveyed noticed no changes. In fact, most of the positive changes in the registration process were made earlier. And on the issue of rents, 33.4% of those surveyed said the situation had gotten worse, while only 1.9% reported improvement. On the tax burden, 19.8% said it was worse and 3.2% said it was better, on price formation the figures were 14.2% and 2.4%, on the amount of fines 22.5% and 3.6%, and on access to loans 16% and 10.5%, respectively. The government adopted a whole series of decisions to simplify administrative procedures, but assessments by SME were ambiguous. 9.8% noted improvements, 8.6% believed the procedures were worse, and 29.8% said nothing had changed.

60.4% of Belarusian SME believe that competition has become more intense on the market over the past three years (compared to 67% in 2012), and only 5.1% said competition had become weaker. The times of relaxation and high margins are receding into the past. Those who had become accustomed to 50-100% markups are in for a cold shower. This time, the cold water will be turned on not by bureaucrats, but by competitors, including competitors from Russia and large Belarusian companies. Many recognize the risks and threats to business sustainability, so they are planning to invest resources in growth. For 62.4% of those surveyed, expanding the business is a major goal. 76.3% believe it is important to maintain the level they have reached (respondents were allowed to select multiple answers).

Discriminatory practices by the public sector make it harder to compete successfully on the market. In the opinion of 24.9% of SME, businesspeople experience unequal conditions for doing business in terms of taxation. 44% of those surveyed believe that enforcement agencies discriminate against the private sector, 41% see discrimination in lease rates, 22.7% in prices for raw materials, 21% in obtaining permits and licenses, and ? in access to **credit resources**. 31.3% of small and medium-size businesses believe that local governments show favoritism toward the public sector. Only 11% of SME think conditions are the same everywhere for the private and public sectors. This result is cause for some serious analysis by the Constitutional Court, which continues to believe that the constitutional principle of equality in the conditions of doing business is observed in the country.

Private small and medium-size business would be willing to compete on equal terms with the public sector, but those who spend other people's money (politicians and bureaucrats) have still not created an institutional environment guaranteeing honest, open competition. In Belarus, there are essentially two economies operating in a single country. One offers favorable terms of access to loans, tax holidays, inexpensive rents and raw materials, and loyal treatment by enforcement and executive agencies. The other economy has outrageous interest rates on loans, a heavy tax and rent burden, and biased treatment by enforcement agencies and bureaucrats. They have a wide range of tools at their disposal for sector-based or pinpoint discrimination against companies that compete with state-owned businesses.

In the Belarus National Business Platform (BNBP), the business community has clearly prioritized the tasks necessary to improve the business climate. On a scale of 1 (most important task) to 6 (not very important task), “fair competition” was rated 63.7% (1 or 2 points). The

average score of all responses was 2.47. The second most important factor was “regulation of the business environment” (3.27 points and 36.9%), and third was “full-scale modernization” (3.53 points and 31.8%).

Private business has a very effective tool to influence the government: the Belarus National Business Platform (BNBP). 23% of respondents are familiar with it. Of those, 76.6% support it. This level of support creates an opportunity for the business community: establish a dialog between business and government by advocating for the Platform. The more SME know about it, the greater the likelihood that the government will listen to the voice of private business and improve the conditions for doing business.

The majority of SME do not understand their own strength. Only 10% of small and medium-size businesses are members of business associations. If only that many more of the passive 90% joined business associations, the likelihood of the business climate improving in Belarus would increase dramatically. If the business community can join together and rally around the Platform as the key document, it will be able to achieve improvements in the business climate and an end to discrimination by state-owned businesses much more quickly.

What external factors are making it harder for you to do business successfully?

(-5 = makes it extremely hard, 0 = not significant, 5 = helps significantly)

Factor	Responses from -5 to -3, makes it extremely or very hard, %	Responses from 5 to 3, helps or helps significantly, %	Average score
Lease rates	49.1	7.6	-1.93
System of inspections and fines	41.4	6.4	-1.73
Level of competition	47.8	14.9	-1.45
Interest rates on loans from banks and other financial institutions	35.5	8.2	-1.37
Level of corruption	27.1	5.1	-1.27
Tax regulation and tax rates	29.9	8.1	-1.13
Currency regulation	23.7	9.3	-0.77
Business conditions compared with the public sector	18.1	12.7	-0.36
Economic policies of other countries	7.9	6.9	-0.17
Level of protection of property rights and the interests of private business	11.0	19.5	0.34
Support from the government	6.4	32.5	1.09
Level of access to market information	4.9	31.7	1.26
Level of access to legal information	4.1	34.7	1.43

Source: Survey “Development of small and medium-size businesses in Belarus, 2013. IPM Research Center. Survey conducted by the NOVAK Laboratory of Axiometric Research in May 2013. <http://www.research.by/webroot/delivery/files/Survey2013r1.pdf>

Problems, complaints, and SME development

Belarusian SME have no clear guideposts for development within the institutional processes occurring in the country. 55% of small and medium-size enterprises are not interested in participating in the privatization of state enterprises. This figure was 54% a year earlier. Another 22.7% would be interested if the process of selling state assets were honest and transparent (this figure was 17% in 2012). The Belarusian authorities are blocking one of the biggest and most important sources of resources and assets for the development of free enterprise in the country.

The survey indicates that corruption and the shadow economy are widespread. In 2012, only 19.2% of those surveyed considered corruption a major problem (scores of -2 and -1 on a scale from -2 to +2 (insignificant problem)). In 2013, the number of such responses increased sharply, to 33.3%. At the same time, the number of SME that do not see corruption as a major problem decreased significantly.

On the question of how often managers of private companies are forced to give bribes to government officials, 28.9% of SME now say “that does not happen,” and 26.7% had no answer. Respondents reported the largest number of abuses and instances of corruption in the procedure for registration and certification with the public health authorities (35% of SME noted that they are frequent or very frequent in this area), health inspections (38.9%), fire safety oversight (37.6%), and the conduct of tenders (34.5%). The fewest abuses were reported in price regulation (10.3%) and payment of taxes (15.8%). Relatively low levels of abuse were reported in customs and leasing (23.2% each). The survey showed that corruption is most often initiated by government officials. This view was expressed by 53.8% of SME, and only 12.2% agreed that businesspeople are the source of corruption.

Those who spend and consume other people's money (politicians and bureaucrats) want business to create new jobs, pay more taxes, and make more investments. But government agencies are doing a poor job of creating a favorable business climate in the country. Inflation remains a major problem. 45.7% of SME consider it a very big problem. This is a complaint about the performance of the National Bank and the Council of Ministers. The second most acute problem is tax rates, in the opinion of SME, 40.3% of which named it as a big problem in the survey. The area of taxation in general remains problematic, with tax regulation (30.9%) also listed in the top five biggest problems facing Belarusian business. This assessment is an expression of disapproval of the Ministry of Finance and the Ministry for Taxes and Fees. The top officials in these agencies have already said that tax reform is over and Belarus has created a fully European fiscal environment. In form, of course, this is true, but the high taxes, bloated government expenditures, and budget deficit are the same problems that have driven the European Union into recession. Copying unsound and ineffective European practices will only make problems worse in the domestic economy.

The third biggest problem for SME in Belarus in 2013 was access to finances (36.1%). This problem became worse in 2013 compared to the prior year. Again, responsibility for the failure to solve this problem lies with the National Bank and the Council of Ministers. The National Bank cannot say “no” to the lobbyists from industries that are used to getting resources from the budget and state banks on favorable terms. The Council of Ministers is indulging unprofitable, irresponsible enterprises and clothing the senseless spending of budget funds in the guise of modernization.

Biggest problems for doing business in Belarus, 2012 and 2013
from -2 (biggest problem) to 2 (not a significant problem), % of respondents

No.	Problem	Big problem, % of responses -2 and -1		Not a significant problem, % of responses 1 and 2	
		2012	2013	2012	2013
1.	Inflation	43.3	45.7	21.5	13.7
2.	Tax rates	31.6	40.3	21.6	16.1
3.	Access to finances	29.5	36.1	19.0	15.6
4.	Corruption	19.2	33.3	19.4	11.5
5.	Tax regulation	24.6	30.9	19.7	12.8
6.	Restrictive regulation of the labor market	15.3	22.2	16.2	12.5
7.	Poor work ethic in the labor force	20.0	22.0	25.3	16.6
8.	Crime and theft	17.0	21.3	15.0	13.4
9.	Regulation of the currency market	24.8	20.0	16.3	10.3
10.	Inadequate education of the labor force	15.8	18.8	13.5	13.4
11.	Enforcement of contracts		18.4		10.7
12.	Inadequate supply of infrastructure	11.3	18.3	12.7	8.5
13.	Ineffective public administration	26.5	17.6	19.0	13.4
14.	Instability in policy	21.5	16.4	16.8	15.9
15.	Instability in government	15.5	15.7	13.2	18.1
16.	Enforcement of property rights and protection of (tangible) property		14.7		11.7
17.	Independence and competence of the courts		12.0		9.1
18.	Enforcement of property rights and protection of (intellectual) property		11.5		10.0
19.	Poor health care	16.3	11.5	10.3	10.5
20.	Independence and competence of the media and information resources		10.9		10.3

Source: Survey "Development of small and medium-size businesses in Belarus, 2013. IPM Research Center. Survey conducted by the NOVAK Laboratory of Axiometric Research in May 2013.
<http://www.research.by/webroot/delivery/files/Survey2013r1.pdf>

Areas/agencies of government regulation of business where most abuses and

instances of corruption occur
(1 = very rare abuses, 5 = very frequent abuses)

No.	Indicator	Rare abuses, responses 1 and 2		Frequent abuses, responses 4 and 5	
		2012	2013	2012	2013
	Public health oversight	29.0	23.7	43.4	38.9
	Fire safety oversight	30.0	27.2	43.2	37.6
	Obtaining various permits from local government agencies	29.4	29.1	35.5	36.9
	Public health registration and certification	38.6	28.4	32.4	35.0
	Tender	31.0	22.5	30.8	34.5
	Obtaining licenses	40.0	34.2	26.0	28.4
	Customs processing	43.0	29.1	18.7	23.2
	Leasing	41.0	35.2	22.2	23.2
	Tax audits	50.2	38.1	17.3	20.3
	Payment of taxes	59.3	48.5	9.8	15.8
	Price regulation	50.8	46.0	18.3	10.3

Source: Survey "Development of small and medium-size businesses in Belarus, 2013. IPM Research Center. Survey conducted by the NOVAK Laboratory of Axiometric Research in May 2013. <http://www.research.by/webroot/delivery/files/Survey2013r1.pdf>

Are you and your company interested in participating in the privatization of state enterprises in Belarus?

Response	%
No	55.0
Yes, if the privatization process is honest and transparent	22.7
Yes, if there are guarantees of property rights	16.4
Yes, at acceptable (not speculative) prices	18.1
Yes, if necessary financial resources are available	7.1
Yes, if private property of land is allowed	4.4
Yes, if there are restrictions on foreign capital (from countries outside the Customs Union)	3.4
Yes, if there are restrictions on foreign capital (from countries in the Customs Union – Russia and Kazakhstan)	1.0
Don't know/unsure	9.0
Total	100%

Source: Survey "Development of small and medium-size businesses in Belarus, 2013. IPM Research Center. Survey

conducted by the NOVAK Laboratory of Axiometric Research in May 2013.
<http://www.research.by/webroot/delivery/files/Survey2013r1.pdf>

Belarus in the context of international indexes

Various international organizations have indexes and ratings that give a deeper and more detailed picture of the business climate in the country and its economy in general. The world never stops moving. Today there are no special secrets or encrypted recipes for generating economic growth. Detailed information and analysis about how to create competitive institutions of sustainable development as rapidly as possible at the lowest cost are available in thousands of publications and on hundreds of websites of authoritative organizations.

Comparing various figures, parameters, indicators and assessments with other countries shows how a country is progressing and the extent to which it is using all its resources. There is a certain correlation among the indexes of the various organizations. For example, countries that have a long history of economic freedom, protection of private property, a favorable business climate, and effective governmental and societal institutions to combat corruption tend to have higher rates of economic growth.

The authorities in Belarus recognize the need to improve the country's position in prestigious international ratings. In 2013, Belarus was not listed among the countries that were consistently implementing systemic reforms to improve the institutions of economic growth and development. One important criterion to assess the efforts of Belarusian government agencies is whether the country makes it into the Top 30 countries in the world in the ratings that measure economic policy and the institutions and capital needed for development.

World Bank index on the ease of doing business⁸

In the World Bank's report "Doing Business-2014. Understanding Regulations for Small and Medium-Size Enterprises," Belarus was ranked 63rd out of 189 countries. No big jump in the rating was achieved: in 2013, Belarus was 58th out of 183 countries. In 2013, the authors of the Report made methodological adjustments and added four new countries. A recalculation of the result from last year puts Belarus in 64th place. Stagnation in the efforts to improve the business climate in Belarus was clearly apparent. We made very little progress in closing the gap between our country and Singapore, the top-rated country in the world in quality of the business climate. Belarus was behind by 35.93 percentage points in the DB-2013 report and by 34.42 percentage points in DB-2014. At this rate, it will take us many more five-year increments to reach the Top 30 in this rating.

In the period from June 2012 to May 2013, which the DB-2014 rating covers, the World Bank found that the number of business-related reforms increased by 18% compared to the previous report. 114 countries accelerated efforts to improve the business environment. Overall, 238 reforms were implemented in the regulation of business. According to the authors of the report, "*if the countries of the world followed the best practice in regulatory processes, entrepreneurs would spend 45 million fewer days each year satisfying bureaucratic requirements.*" Based on the 11-year series of Doing Business reports, there is every reason to support the conclusion of Jim Yong Kim, the president of the World Bank Group: "*A more*

8 Doing Business-2014. Understanding Regulations for Small and Medium-Size Enterprises, World Bank, October 2013, www.doingbusiness.org

favorable business climate, in which entrepreneurs can build a business and invest in social development, is the foundation for local and worldwide economic growth.”

Experts have found a positive correlation between the quality of the business climate and labor market dynamics. This topic became relevant in Belarus in 2013. More countries around the world are recognizing the importance of free enterprise. In the Organization for Economic Cooperation and Development, 19 countries implemented 65 reforms. Singapore remained in first place in the rating. The Top 10 also included Hong Kong, New Zealand, the United States, Denmark, Malaysia, South Korea, Georgia, Norway, and the United Kingdom. Developing countries are rapidly gaining on the leaders, knowing that freedom for business is a more important institution of development than even natural resources or geographical position. According to Augusto Lopez-Claros, director of the Department of Global Indicators and Analysis at the World Bank, *“there is a clear trend toward convergence throughout the world. The countries with the most costly and complex regulatory processes and the weakest legal institutions are gradually adopting some of the best practices observed in the top-performing countries. This process is closing the gap in the results in many areas measured by the Doing Business report.”*

The World Bank has clearly identified the role of government in the development of private business: *“Governments support economic activity by establishing and enforcing rules. These rules should clarify property rights and reduce the cost of resolving disputes. This increases the predictability of economic transactions and protects contractual partners against abuse.”* Notably, among the leading countries in the index of ease of doing business, there are both countries with small government (according to the IMF, total government spending as a percentage of GDP in 2013 was 16.4% in Singapore, 18.6% in Hong Kong, 29.6% in Malaysia, and 21.8% in South Korea) and welfare states. For example, 58.3% of GDP passes through government hands in Denmark, 43.4% in Norway, 44.1% in Britain, 38.3% in the United States, and 35.7% in New Zealand. Belarus cannot copy the institutions of these countries until it has established the appropriate culture and civil society and until it has built effective, transparent institutions of public administration.

Belarus has become a leading country in terms of the speed with which it is narrowing the distance to the top countries on the index of ease of doing business, taking third place. Belarus was 58.9 percentage points behind the leading country in 2005, but only 32.9 percentage points behind in 2013. This 26 point jump was made possible by 29 regulatory reforms, which made Belarus one of the most rapidly reforming countries in the world during this time.

Rwanda is in first place in narrowing the gap to the leader in the DB rating (a 33.1 percentage point reduction, which put this country in 32nd place in the DB-2014 rankings). Georgia is in second place. It reduced its distance to the leader by 32.3 percentage points by implementing 36 regulatory reforms. Behind Belarus, Ukraine is in fourth place, with a result of 23.1 percentage points due to 26 reforms.

On average around the world, it is necessary to complete seven procedures in order to start a business. This takes 25 days and costs 32% of per capita income. In Belarus, five procedures are required to start a business (in the DB-2013 report it was 6). This takes 9 days (it was 10 before) and costs only 0.8% of per capita income (compared to 3.2% last year). The world leader in ease of starting a business is New Zealand. In that country only one procedure is necessary, which takes half a day and costs nothing. Canada is in second place in this category, and Singapore is third. Our 15th place is a perfectly respectable result by world standards.

Belarus is ranked 30th in obtaining construction permits (it was in 37th place in the DB-

2013 report). The number of procedures remained the same (12), but the time needed to complete them declined from 135 days to 128 days. The cost also fell, from 40.9% of per capita income to 21.3%. Hong Kong is the world leader in this category, followed by Georgia and Singapore.

In terms of getting electricity, Belarus is languishing at the bottom of the ratings. Our country was in 175th place in the 2012 rankings and 168th in 2013. Seven procedures must be completed in order to connect a new production facility to the electricity network. This takes 161 days and costs 431.7% of per capita income.

In ease of registering property, Belarus holds the honored and respectable third ranking in the world. We kept this position by having only two procedures that can be completed in just four days without paying a cent. And on the factor of “getting credit,” Belarus dropped in the ratings, from 105th place in DB-2013 to 109th place in DB-2014. If this factor had considered the cost and terms of getting credit and the level of inflation, we would be guaranteed a place in the bottom twenty countries of the world. The leaders in ease of getting credit are Malaysia and the UK.

Protecting investors has never been a strong point for Belarus. As the institution of private property significantly weakened, Belarus fell in this rating, from 95th place in DB-2013 to 98th place DB-2014. New Zealand, Singapore, Hong Kong, Canada, and Malaysia protect the rights of investors most reliably. In taxation, one of the most problematic parameters of a business climate, we are experiencing stagnation. In DB-2013, Belarus was in 135th place, and in DB-2014 we rose to 133th. The number of tax payments remained the same (ten). The time needed to pay taxes declined somewhat, from 338 to 319 hours, and the total tax rate (% of gross profit) was 54% (compared with 60.7% last year). In this category, Russia is in 56th place, with a total tax burden of 50.7%, and Kazakhstan is 18th with 28.6%. The best tax systems, according to the World Bank, are in the UAE, Qatar, Saudi Arabia, Hong Kong, Singapore, and Ireland.

Contrary to the logic of membership in the Customs Union, the government of Belarus ignored yet another problem area for our country: foreign trade. We have not improved at all in any of the indicators used to measure ease of trading across borders. We were in 150th place in 2012 and in 149th place in 2013. Joining the Customs Union has not led to improvements in the regulation of export and import flows in any of the countries in this integrated union. Russia was in 157th place in 2013 (it had been in 162nd place). Kazakhstan was and remains in 186th place. In the whole world, only war-torn South Sudan, Tajikistan, and Uzbekistan are worse. It is hard to imagine that, with this level of regulation of foreign trade, Belarus, Russia, and Kazakhstan will be able to create a better integrated association than the European Union. The Top 10 countries in the world in ease of trading across borders include, in addition to the Asian tigers and the UAE, such EU members as Sweden, Estonia, Denmark, and Finland.

On the factor “enforcement of contracts,” Belarus maintained its fairly high ranking of 13th. Russia is 10th in the world in this category, and Kazakhstan is 27th. The world's best systems of enforcing contracts are in Luxembourg, South Korea, Iceland, Norway, and Germany. On the tenth and final factor, “resolving insolvency,” Belarus also did nothing, but we still moved up from 55th to 54th place. Russia is in 55th place, and Kazakhstan is tied with us for 54th. The world leaders in this category are Japan, Norway, Finland, Singapore, the Netherlands, and Belgium.

After a series of successful but easy reforms, the Belarusian authorities have rested on their laurels for three straight years in the area of business regulation. Belarus has come face to face with the need for structural reforms. The authorities have squeezed all they can out of the centralized state economy. To go further, we must change the essential nature and makeup of the existing institutions of our economic model. So far we have seen purely cosmetic changes, but

the desire, ability, and willingness to do what is implied by the ratings of the world leaders do not yet exist at the governmental level in Belarus.

**Ranking of selected countries
on the index of ease of doing business, Doing Business-2014**

Place in DB-13	Country	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
1.	Singapore	3	3	6	28	3	2	5	1	12	4
2.	Hong Kong	5	1	5	89	3	3	4	2	9	19
3.	New Zealand	1	12	45	2	3	1	23	21	18	12
4.	USA	20	34	13	25	3	6	64	22	11	17
5.	Denmark	40	8	18	7	28	34	12	8	32	10
6.	Malaysia	16	43	21	35	1	4	36	5	30	42
7.	South Korea	34	18	2	75	13	52	25	3	2	15
8.	Georgia	8	2	54	1	3	16	29	43	33	88
9.	Norway	53	28	17	10	73	22	17	26	4	2
10.	United Kingdom	28	27	74	68	1	10	14	16	56	7
14.	Sweden	61	24	9	38	42	34	41	6	25	20
17.	Lithuania	11	39	75	6	28	68	56	15	17	44
21.	Germany	111	12	3	81	28	98	89	14	5	13
22.	Estonia	61	38	56	15	42	68	32	7	26	66
24.	Latvia	57	79	83	33	3	68	49	17	21	43
27.	Japan	120	91	26	66	28	16	140	23	36	1
37.	Armenia	6	79	109	5	42	22	103	117	112	76
38.	France	41	92	42	149	55	80	52	36	7	46
45.	Poland	116	88	137	54	3	52	113	49	55	37
50.	Kazakhstan	30	145	87	18	86	22	18	186	27	54
63.	Belarus	15	30	168	3	109	98	133	149	13	74
65.	Italy	90	112	89	34	109	52	138	56	103	33
68.	Kyrgyzstan	12	66	180	9	13	22	127	182	70	132
70.	Azerbaijan	10	180	181	13	55	22	77	168	28	86
75.	Czech Republic	146	86	146	37	55	98	122	68	75	29
78.	Moldova	81	174	165	19	13	80	95	150	23	91
92.	Russia	88	178	117	17	109	115	56	157	10	55
96.	China	158	185	119	48	73	98	120	74	19	78
112.	Ukraine	47	41	172	97	13	128	164	148	45	162

Source: Doing Business-2014. Understanding Regulations for Small and Medium-Size Enterprises, World Bank, October 2013, www.doingbusiness.org

Distance to the leader in the index of ease of doing business

(leader = 100%), in percentage points

Country	DB-2006	DB-2008	DB-2010	DB-2011	DB-2012	DB-2013	DB-2014	DB-2014 to DB-2013, in % points
Singapore	89.8	90.13	90.68	91.4	91.35	91.39	92.21	0.82
Hong Kong	83.75	85.64	88.65	88.99	89.61	89.69	89.13	-0.56
New Zealand	88.62	88.53	87.98	88.24	88.26	88.65	88.65	-
USA	83.95	83.46	84.57	84.59	84.54	83.96	83.99	0.03
Denmark	79.57	82.75	83.58	84.89	85.09	85.13	85.16	0.03
Malaysia	71.38	71.68	74.86	76.26	79.09	80.06	81.87	1.81
South Korea	74.48	75.86	81.12	81.38	82.7	83.53	83.74	0.21
Georgia	48.44	65.83	73.62	76.09	78.64	80.83	81.07	0.24
Norway	81.52	81.61	81.82	81.96	81.98	83.06	83.16	0.1
United Kingdom	82.02	81.91	82.67	83.49	83.62	83.66	83.52	-0.14
Sweden	77.82	79.36	82.07	83.57	83.2	82.84	82.96	0.12
Lithuania	71.84	72.49	72.7	72.75	73.39	73.54	75.79	2.25
Germany	77.34	78.2	79.95	79.91	80.05	79.7	79.97	0.27
Estonia	72.97	74.26	74.63	74.86	74.45	74.12	75.24	1.12
Latvia	67.55	70.9	70.46	71.02	74.44	74.57	75.77	1.2
Japan	76.91	77.68	78.49	78.66	78.7	78.62	78.6	-0.02
Armenia	56.22	60.72	60.39	61.04	63.32	67.74	68.21	0.47
France	62.62	67.95	71.22	71.73	71.76	71.92	71.97	0.05
Poland	57.56	60.15	63.06	64.85	65.5	71.05	71.96	0.91
Kazakhstan	48.36	52.0	57.27	59.53	62.28	62.22	62.64	0.42
Belarus	41.14	44.37	53.47	55.79	60.83	64.07	65.58	1.51
Italy	63.88	63.5	64.96	65.33	65.68	66.59	67.38	0.79
Kyrgyzstan	44.91	47.37	56.88	60.12	59.28	60.39	61.86	1.47
Azerbaijan	49.02	50.78	58.96	59.02	60.06	60.57	61.53	0.96
Czech Republic	57.6	60.72	59.83	64.12	64.56	65.7	66.46	0.76
Moldova	54.55	56.3	57.48	58.24	61.42	62.3	64.51	2.21
Russia	49.91	54.74	52.88	52.37	55.06	56.58	61.95	5.37
China	44.98	52.11	58.17	58.97	59.18	60.18	61.51	1.33
Ukraine	38.17	41.18	43.28	46.21	46.67	50.97	58.44	7.47

Source: Doing Business-2014. Understanding Regulations for Small and Medium-Size Enterprises, World Bank, October 2013, www.doingbusiness.org

Business climate in Belarus and its main competitors,

rating of ease of doing business, DB-2014

No.	Indicator	Belarus	Russia	Kazakhstan	Ukraine	Poland	Lithuania	Singapore
	Gross national product per capita, \$ 2011	\$6,530	\$12,700	\$9,730	\$3,500	\$12,670	\$13,850	\$47,210
	Rank on the index of ease of doing business (of 189 countries)	63	92	50	112	45	17	1
I.	Starting a business (rank)	15	88	30	47	116	11	3
1.	Number of procedures	5	7	6	6	4	4	3
2.	Time for registration (days)	9	15	12	21	30	6.5	2.5
3.	Cost (% of per capita income)	0.8	1.3	0.6	1.3	14.3	0.9	0.6
4.	Minimum capital (% of per capita income)	0.0	1.2	0.0	0.0	12.6	0.0	0.0
II.	Dealing with construction permits (rank)	30	178	145	41	88	39	3
5.	Number of procedures	12	36	29	10	18	16	11
6.	Time to obtain (days)	128	297	157	73	161	105	26
7.	Cost (% of per capita income)	21.3	89.0	87.3	607.1	10.6	18.0	15.7
III.	Getting electricity	168	117	87	172	137	75	6
8.	Number of procedures	7	5	6	10	6	5	4
9.	Time (days)	161	162	88	277	161	148	36
10.	Cost (% of per capita income)	431.7	293.8	65.3	178.0	205.2	48.1	27.5
IV.	Registering property (rank)	3	17	18	97	54	6	28
11.	Number of procedures	2	4	4	8	6	3	5
12.	Time (days)	4	22	23	45	35	2.5	5.5
13.	Cost (% of registered property)	0.0	0.1	0.1	1.9	0.4	0.8	2.9
V.	Getting credit (rank)	109	109	86	13	3	28	3
14.	Index of protection of property rights (scale from 0 to 10)	3	3	4	9	9	7	10
15.	Index of depth of credit information (scale from 0 to 6)	6	5	5	5	6	6	5
16.	Official registration of credit information (% of adults)	60.3	0.0	0.0	0.0	0.0	28.3	0.0
17.	Private credit bureau (% of adults)	0.0	59.2	45.6	28.3	82.8	89.4	60.3

VI.	Protecting investors (rank)	98	115	22	128	52	68	2
18.	Index of information disclosure (0-10 scale)	7	6	7	5	7	7	10
19.	Index of director liability (0-10)	0	2	6	2	2	4	9
20.	Index of ease of shareholder suits (0-10 scale)	8	6	7	6	9	6	9
21.	Index of strength of investor protection (0-10 scale)	5.0	4.7	6.7	4.3	6.0	5.7	9.3
VII.	Paying taxes (rank)	133	56	18	164	113	56	5
22.	Number of payments	10	7	7	28	18	11	5
23.	Time (hours)	319	177	188	390	286	175	82
24.	Total tax burden (% of profit)	54.0	50.7	28.6	54.9	41.6	43.1	27.1
VIII.	Trading across borders (rank)	149	157	186	148	49	15	1
25.	Number of documents for export	9	9	10	6	5	4	3
26.	Time to export (days)	15	22	81	29	17	10	6
27.	Costs of export (\$ per container)	1510	2615	4885	1930	1050	750	460
28.	Number of documents for import	10	10	12	8	4	5	3
29.	Time to import (days)	30	21	69	28	14	9	4
30.	Costs of import (\$ per container)	2315	2810	4865	2505	1025	800	440
IX.	Enforcement of contracts (rank)	13	10	27	45	55	17	12
31.	Number of procedures	29	36	37	30	33	32	21
32.	Duration (days)	275	270	370	378	685	300	150
33.	Costs (% of claimed debt)	23.4	13.4	22.0	43.8	19.0	23.6	25.8
X.	Resolving insolvency (rank)	74	55	54	162	37	44	4
34.	Time (years)	3.0	2.0	1.5	2.9	3.0	1.9	0.8
35.	Cost (% of assets)	22	9	15	42	15	7	3
36.	Rate of return of capital (cents on the dollar)	36.9	42.8	43.2	8.2	54.8	48.4	89.4

Source: Doing Business-2014. Understanding Regulations for Small and Medium-Size Enterprises, World Bank. Assessment of 189 Countries. October 2013, www.doingbusiness.org

The Belarusian tax system in the world context

In the opinion of Belarusian government officials, tax reform has been completed in Belarus. But business in Belarus has not experienced either an easing of the tax burden or a reduction in the administrative burden of paying taxes. Moreover, after a brief warming trend in taxation, it is getting noticeably cold again. New taxes, higher rates of old taxes, radically higher discrepancies on real estate and land taxes, lagging behind our partners in the Customs Union, and the fact that we are clearly losing the competition for investors due to tax administration – this is how our country is starting the year 2014. The problem is not even that Belarus has dropped in the ranking of countries on the quality of the tax system, from 129th out of 185 countries last year to 133rd out of 189 countries in 2013. The danger is that the government believes that tax reform can be taken off the agenda.

In November 2013, PricewaterhouseCoopers (PwC) conducted another detailed comparative analysis of the tax systems in 189 countries and presented it in the report *Paying Taxes (PT) 2014*.⁹ This report puts Belarus in 133rd place. Kazakhstan, our partner in the Customs Union, took the honor of 18th place (it was 17th the year before). Russia is in 56th place, 8 places higher than in the PT-2013 report. Low, simple, easy to pay taxes, along with reliable institutions protecting property rights and free trade, keep the Asian tigers in the top positions in rankings of competitiveness, innovation, and attractiveness for investment. The surprising thing is not that Hong Kong and Singapore are staying with their development model, but that other countries are not following their example.

We should note the Scandinavian phenomenon of Denmark. Those who spend other people's money (politicians and bureaucrats) in that country distribute over 50% of GDP. Yet the country is in 8th place in the world in ease of paying taxes. The total tax burden is only 27% of gross profit. This is even less than in Singapore. The Danes understand the importance of business development, so their tax system is focused on stimulating free enterprise to the greatest possible extent. Notably, South Korea is ranked high, in 25th place, with a tax burden of 27.9%. Taking about a quarter of the profit from business in taxes is necessary but not sufficient for successful business development.

A whole series of countries in the European Union teach us a lesson about how not to implement tax reform. Italy is in 138th place, with more tax payments and a significantly higher tax burden (65.8%) than Belarus. The Czech Republic and Hungary also rank low. At one time, these countries were leaders in market reform. But today they are firmly bogged down in the wilderness of state interventionism. The Czech Republic is in 122nd place in ease of paying taxes (48.1% tax burden), and Hungary is in 124th (49.7%). The tax systems even within the EU are so diverse that the phrases “Belarus implemented tax reform according to the European model” and “meets world standards” are meaningless.

The average tax burden throughout the world in 2012 was 43.1% (compared to 44.7% in the previous year). An average of 268 hours is spent paying taxes in the world economy. This is one day more than in the PT-2013 Report. The number of tax payments is 26.7 (it was 27.2 last year).

Over the past nine years (2004-2012), the regions of Central Asia and Eastern Europe have become the biggest reformers. The countries in our region reduced the time needed to pay taxes by 220 hours and the number of tax payments by 25, mainly by allowing online tax payments. The total tax burden shrunk by 15.7%. Notably, the amount of time needed to pay

9 *Paying Taxes 2014. The Global Picture. A comparison of tax systems in 189 economies worldwide.*
<http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2014.pdf>

taxes in Belarus fell by 668 hours during this period. We rose from last place to our highest point, 129th place, in 2012. In 2013, we expect to stall in the zone of unfavorable tax systems and setbacks in reforms.

In the period from 2004 to 2012, the authors of the Report found slow but positive tax trends in the global economy. The overall tax burden was 53.4% of gross profit in 2004 and 44.3% in 2012. Most of the reduction was in consumption taxes (5.9 percentage points). In Belarus this indicator is worse than the world average (54%). So we are today where the world was almost 10 years ago. The time needed to pay taxes fell from 330 hours to 275 hours (a reduction of 55 hours), and the number of tax payments declined from 34 to 27. In Belarus, these figures are 319 hours and 10 payments. Despite the reduction in the number of taxes, we are still about 10 years behind the average world level.

The reduction in the total tax burden by 9.1 percentage points and the lower costs for business to comply with official requirements are trends in the right direction, but they are very slow and could easily be rolled back. Today, when dozens of developed and developing countries are swimming in debt and cannot balance their budgets, the politicians and bureaucrats are increasing the tax burden rather than cutting government spending. This is a threat to the economies of these countries, but also an opportunity, for countries whose political and business elites understand the importance of shifting economic power to private business and consumers, to intensify tax competition. This understanding does not exist in our country.

Tax system in the world, 2006, 2012-2014

Tax	Total tax rate, % of gross profit				Time to pay taxes				Number of payments			
	2014*	2013	2012	2006	2014	2013	2012	2006	2014	2013	2012	2006
Profit taxes	16.1%	16.2%	16.0%	19.4%	71	68	70	86	3.3	3.4	3.4	4.1
Labor taxes and social contributions	16.3%	16.2%	16.2%	17.5%	96	97	99	120	10.4	10.6	11.5	13.1
Other taxes and contributions	10.7%	12.3%	12.6%	16.4%	101	102	108	125	13.0	13.2	13.6	16.0
Total:	43.1%	44.7%	44.8%	53.3%	268	267	277	331	26.7	27.2	28.5	33.2

* In the report "Paying Taxes 2014," experts analyze data on tax systems in 2012

Source: Paying Taxes 2014. The Global Picture. A comparison of tax systems in 189 economies worldwide.

<http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2014.pdf>

Average indicators

Index of ease of paying taxes in the world and in Belarus, 2012-2014

Tax	Total tax rate			Time to pay taxes			Number of payments		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Profit tax	16.1%	16.2%	16.0%	71	68	70	3.3	3.4	3.4
Belarus	13.4%	20.3%	20.2%	157	166	398	1	1	1
Labor taxes and social contributions	16.3%	16.2%	16.2%	96	97	99	10.4	10.6	11.5
Belarus	39.0%	39.0%	39.0%	88	93	100	5	5	13
Other consumption	10.7%	12.3%	12.6%	101	102	108	13.0	13.2	13.6

taxes									
Belarus	1.6%	1.4%	3.6%	74	79	156	4	4	4
Total in the world:	43.1%	44.7%	44.8%	268	267	277	26.7	27.2	28.5
Belarus total:	54.0%	60.7%	62.8%	319	338	654	10	10	18
<i>Minimum in the world</i>	8.2%	8.4%	0.2%	12	12	0	3.0	3.0	3.0
<i>Maximum in the world</i>	283.2%	339.7%	339.7%	2600	2600	2600	71.0	71.0	135.0

Source: Paying Taxes 2014. The Global Picture. A comparison of tax systems in 189 economies worldwide.

<http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2014.pdf>

Rating of countries on ease of paying taxes and quality of the tax system, 2014 Paying Taxes – 2014 (PT)

Overall rating,* rank in PT-2014	Country	Number of tax payments	Time to comply with tax obligations, place, hours	Total tax rate, % of gross profit**
4	Hong Kong	3	78	22.9
5	Singapore	5	82	27.1
8	Canada	8	131	24.3
12	Denmark	10	130	27.0
14	United Kingdom	8	110	34.0
16	Switzerland	19	63	29.1
18	Kazakhstan	7	188	28.6
23	New Zealand	8	152	34.6
25	South Korea	10	187	27.9
29	Georgia	5	280	16.4
32	Estonia	7	81	49.4
38	Chile	7	291	27.7
41	Sweden	4	122	52.0
49	Latvia	7	264	35.9
56	Lithuania	11	175	43.1
56	Russia	7	177	50.7
64	USA	11	175	46.3
77	Azerbaijan	18	214	40.0
89	Germany	9	218	49.4
95	Moldova	31	181	40.4

102	Slovakia	20	207	47.2
103	Armenia	10	380	38.8
113	Poland	18	286	41.6
120	China	7	318	63.7
122	Czech Republic	8	413	48.1
124	Hungary	12	277	49.7
127	Kyrgyzstan	51	210	33.4
133	Belarus	10	319	54.0
138	Italy	15	269	65.8
140	Japan	14	330	49.7
158	India	33	243	62.8
164	Ukraine	28	390	54.9

* The overall rating is the arithmetic average of a country's ranks in each of its components.

** The total tax rate is the ratio of all taxes paid by a company to its gross profit.

Source: Paying Taxes 2014. The Global Picture. A comparison of tax systems in 189 economies worldwide.

<http://www.pwc.com/gx/en/paying-taxes/assets/pwc-paying-taxes-2014.pdf>

Index of Economic Freedom

The 2014 Index of Economic Freedom (IEF) of the Heritage Foundation and the prestigious newspaper Wall Street Journal includes 186 countries representing 99% of the world's population. The index was 60.3 points,¹⁰ which is the highest level in 20 years. It is 0.7 points higher than in 2013 and 2.7 points higher than in 1995. The largest number of countries (117) have a ranking in the Index between 50 and 70 points. Fifty-six countries are considered “moderately free,” and 61 are “generally unfree.” Twenty-seven countries are still in the “repressed” category, with fewer than 50 points. In the 2014 Index, Belarus made it out of the “repressed countries” category for the first time, with 50.1 points.

In 1995, 45.5% of countries in the world were ranked “free,” “mostly free,” or “moderately free.” In 2014, 50% of countries are in these categories. In 1995, 23.8% of developing countries were in these groups, and this figure increased to 31.5% in 2014. Azerbaijan made the biggest improvement over the entire period covered by the Index, from 30 to 61.3 points. Georgia jumped from 44.1 points into the “mostly free” group with 72.6 points. The report's authors also noted the success of Armenia (rising from 42.2 to 68.9 points), Lithuania (from 49.7 to 73.0 points), and Kazakhstan (from 41.7 to 63.7 points). The three biggest losers are Ecuador (falling from 57.7 to 48 points), Argentina (from 68.0 to 44.6 points), and Venezuela (from 59.8 to 36.3 points). Over the entire period covered by the Index, Belarus has improved its ranking by 9.7 points. Russia has made little headway, adding only 0.8 points to its score over 20 years.

In 2013, 114 countries became more free economically, while economic freedom declined in 59 countries. Personal records were set by 43 countries. In four countries, the level of

10 Index of Economic Freedom 2014, Heritage Foundation <http://www.heritage.org/index/download>

economic freedom remained unchanged. They include: Singapore (2nd place in the world), Sweden (20th), Columbia (34th), Poland (50th), and Turkey (64th). Earning their highest ratings in the history of the Index were Germany (18th place), Lithuania (21st), Georgia (22nd), Austria (24th), Latvia (42nd), Bulgaria (61st), and Romania (62nd). The United States failed to make the top ten for the first time, taking 12th place. Since 2007, the Index of Economic Freedom for the United States has fallen by almost six points. Greece, France (70th), Cyprus (46th), Italy (86th), and the United Kingdom (14th) have less economic freedom in 2014 than they did in 1995.

Despite the record level of the Index, 4.5 billion people, or about 65% of the world's population, still live in economically unfree countries. More than half of them live in India and China. Only six countries in the world are economically free: Hong Kong (China), Singapore, Australia, Switzerland, New Zealand, and Canada (over 80 points on the Index, on a scale from 0 to 100). Not a single poor country is at the top of the economically free world. In the small group of economically free countries, per capita GDP by PPP in 2012 was \$45,404. In the countries in the “mostly free” group, this figure is \$37,799. In “moderately free” countries, it is lower still: \$16,457. Per capita GDP is \$5,541 in “mostly unfree” countries and \$6,231 in repressed countries.

Chile, which ranks 7th and for decades was a poor, developing country, caught up to and passed Belarus and Russia through institutional solutions and an economic policy of freedom. In 2012, it had per capita GDP of \$18,419. The tiny African nation of Mauritius (1.3 million population) overtook Estonia, a country of about the same size, in quality of economic policy, taking 8th place on the Index. Through a commitment to economic freedom, this country has increased its per capita GDP by PPP to \$15,592, nearly catching up to our country.

Yet the BRICS countries continue to disappoint. Brazil fell 14 places to a shameful 114th. Russia, India, and China are in 140th, 120th, and 137th places, respectively. Against this background, South Africa looks almost like a capitalist country (75th place).

The authors of the report call upon policymakers to pay close attention to the main lessons learned from 20 years of monitoring economic freedom.

Lesson 1 – the countries that have chosen one of the models of capitalism with an open economy and free trade have worked better than those that have chosen protectionism and isolationism.

Lesson 2 – open competition stimulates growth in labor productivity and more effective distribution of resources to a greater extent than centralized planning.

Lesson 3 – private property and legal protection for people and business liberate initiative and stimulates creativity to a greater extent than collectivism and socialism.

Lesson 4 – governments that dominate the economy lead their citizens into poverty.

Belarus has still not learned any of these lessons. Our country is moving exactly contrary to the trends that have brought countries out of poverty and into the group of developed nations in the past 20 years of measuring economic freedom and over more than 150 years of history. Belarusian strategists and policymakers continue to ignore the excellent examples of fully resetting economies and development institutions in countries like South Korea, Singapore, Chile, Taiwan, Estonia, and even Georgia.

Belarus also needs to learn from the sad, even tragic lessons of rejecting economic freedom. Argentina was once the richest country in the world. Today it is in 166th place in the Index. It has per capita GDP by PPP of \$18,112, and it could fall even further. That is still higher than the figure in Belarus, but it is orders of magnitude less than the most prosperous, developed countries of the world. Argentina is run by people who are actively using the recipes of Marxism

and left Keynesianism. They are dooming the country to a slide into degradation and social conflict.

Venezuela is another clear example that should not be imitated. Twenty years ago, this country was in the “mostly free” category and had not only abundant oil, but also an excellent opportunity to get into the Top 20 richest countries in the world. Today, per capita GDP by PPP in Venezuela is only \$13,616, and the country is experiencing shortages of safety, toilet paper, and brainpower as a result.

From 1995 to 2012, per capita GDP by PPP in Belarus increased by about five times, but the sources of this growth are running dry before our eyes. Russia itself has entered the zone of stagnation and recession. It will not be able to support Belarus at 15% of annual GDP. Without institutional, structural reforms and economic freedom, it will be impossible to double GDP from the current \$16,000 per capita.

Belarus has a critical need for new sources of growth. We are capable of reproducing the institutional experience of South Korea. In the course of 40 years, that country has become industrially and technologically developed, without Russian subsidies, through the enormous beneficial power of economic freedom and full integration into the world economy.

Belarus has grown as much as it can by mobilizing internal and external resources. Without structural, institutional reforms, things can only get worse from now on. The worst-case scenario can be avoided if we come to our senses and finally throw into the dustbin of history the ideas and models that have failed for 150 years to lead a single country to progress, well-being, and prosperity.

Average indicators

Index of economic freedom by region and in individual countries, 2014

Component of the Index of Economic Freedom-2014	North America	Europe	Asia and the Pacific Region	Average for the world	Belarus 150 th place	Russia 140 th place	Kazakhstan 67 th place	Sweden 20 th place
Index of economic freedom 2014	74.1	67.1	58.5	60.3	50.1	51.9	63.7	73.1
Rule of law								
Property rights	73.3	61.0	38.2	43.1	20.0	25.0	30.0	90.0
Freedom from corruption	63.2	55.2	35.8	40.3	24.6	22.1	25.7	92.3
Limited government								
Fiscal freedom	75.5	71.8	80.2	77.3	89.2	85.6	92.9	42.9
Government spending	58.1	41.7	66.6	62.7	61.2	61.5	85.0	21.4
Regulatory effectiveness								
Freedom to do business	85.1	78.1	65.5	64.9	73.4	70.0	74.4	91.1
Labor freedom	79.5	62.1	67.2	61.6	77.7	55.8	86.7	52.9
Monetary freedom	76.4	77.2	72.6	74.2	33.9	69.4	74.4	82.5
Open markets								
Trade freedom	86.9	86.3	71.3	74.8	81.4	74.6	78.2	87.8

Investment freedom	73.3	74.0	44.3	55.5	30.0	25.0	40.0	90.0
Financial freedom	70.0	63.0	43.3	48.9	10.0	30.0	50.0	80.0

Source: Index of Economic Freedom 2014, Heritage Foundation <http://www.heritage.org/index/download>

Indicators of economic development and prosperity and place in the Index of Economic Freedom (IEF) 2014

Place in the IEF-2014	Country	GDP by PPP, 2012, in \$ billion	Average growth rate, 2008-2012	Per capita GDP by PPP, in 2012 \$	Inflation in 2012, %	Inflow of direct foreign investment, \$ billion	Government debt, as % of GDP
1.	Hong Kong	369,4	2,5	51494	4,1	74,6	0,5
2.	Singapore	326.5	4.3	60410	4.6	56.7	111.0
5.	New Zealand	132	0.6	29730	1.1	2.9	38.2
7.	Chile	320.5	3.8	18419	3.0	30.3	11.2
12.	USA	15700	0.6	49922	2.1	167.6	106.5
11.	Estonia	29.1	-1.0	21713	4.2	1.5	8.5
20.	Sweden	393	1.0	41191	0.9	13.7	38.0
18.	Germany	3200	0.7	39028	2.1	6.6	82.0
21.	Lithuania	65	-0.5	21615	3.2	0.84	40.0
26.	Czech Rep.	287	0.3	27191	3.3	10.6	43.1
31.	South Korea	1600	2.9	32272	2.2	9.9	33.7
41.	Armenia	19.6	1.0	5838	2.5	0.49	39.5
57.	Slovakia	131.9	2.0	24249	3.7	2.8	52.3
42.	Latvia	37.3	-2.6	18255	2.3	0.99	36.4
50.	Poland	800.9	3.4	20592	3.7	3.4	55.2
61.	Bulgaria	103.8	0.7	14312	2.4	1.9	18.5
67.	Kazakhstan	231.8	4.8	13893	5.1	14.0	12.3
81.	Azerbaijan	96.8	5.4	10478	1.1	2.0	11.6
110.	Moldova	12.2	2.8	3415	4.7	0.16	23.8
137.	China	12400	9.3	9162	2.7	121.1	22.8
140.	Russia	2500	1.8	17709	5.1	51.4	10.9
150.	Belarus	146.7	5.0	15634	59.2	1.4	36.9
155.	Ukraine	335.2	-0.9	7374	0.6	7.8	37.4

Source: Index of Economic Freedom 2014, Heritage Foundation <http://www.heritage.org/index/download>

Economic freedom and standard of living,

(per capita GDP, by purchasing power parity)

Region	5 most free countries of the region				5 least free countries			
	2011	2012	2013	2014	2011	2012	2013	2014
Asia, Oceania	44,310	40,830	43,140	44,605	3,042	3,400	5,357	6,293
Middle East, Northern Africa	34,848	39,063	4,1577	4,3664	8,513	7,885	7,732	7841
Europe	47,570	46,593	35,848	36,730	10,413	13,595	13,723	13,727
America	24,658	25,198	35,403	26,994	8,527	8,243	8,948	9,625
Sub-Saharan Africa	9,338	8,989	7,459	8,267	1,485	1,514	5,093	6,460

Source: Index of Economic Freedom 2014, Heritage Foundation <http://www.heritage.org/index/download>

Rankings of countries in the Index of Economic Freedom, 2004-2014

Country	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Estonia	11	13	16	14	16	13	12	11	14	14	10
Lithuania	21	22	23	24	29	30	26	21	21	23	18
Czech Republic	26	29	30	28	34	37	37	39	40	47	35
Latvia	42	55	56	56	50	45	38	38	37	39	33
Poland	50	57	64	68	71	82	83	90	84	77	80
Kazakhstan	67	68	65	78	82	83	76	83	76	117	135
Moldova	110	115	124	120	125	120	89	82	87	84	94
Russia	140	139	144	143	143	146	134	131	128	131	122
Belarus	150	154	153	155	150	167	150	148	145	145	146
Ukraine	155	161	163	164	162	152	133	135	110	101	114

Source: Index of Economic Freedom 2014, Heritage Foundation <http://www.heritage.org/index/download>

Trend in the Index of Economic Freedom 1995-2014

Country	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Trend 1995-2010	Trend 2009-2014
Estonia	65.2	69.9	75.1	74.9	78	77.8	76.4	74.7	75.2	73.2	75.3	75.9	+10	+0.5
Lithuania	49.7*	61.9	70.5	71.8	71.5	70.8	70.0	70.3	71.3	71.5	72.1	73.0	+21.6	+3.0
Czech Rep.	67.8	68.6	64.9	66.8	67.8	68.5	69.4	69.8	70.4	69.9	70.9	72.2	+2.6	+2.8
Latvia	55*	63.4	66.4	67.2	68.3	68.3	66.6	66.2	65.8	65.2	66.5	68.7	+10.8	+2.1
Poland	50.7	60	58.8	58.6	57.4	59.5	60.3	63.2	64.1	64.2	66.0	67.0	+13.4	+6.7
Kazakhstan	41.7**	50.4	53.3	59.7	59.1	60.5	60.1	61.0	62.1	63.6	63.0	63.7	+20.4	+3.6
Moldova	33.0	59.6	57.8	58.3	59.2	58.4	54.9	53.7	55.7	54.4	55.5	57.3	+22.7	+2.4
Russia	51.1	51.8	51.6	52.7	52.5	49.9	50.8	50.3	50.5	50.5	51.1	51.9	-0.6	+1.1
Belarus	40.4	41.3	46.3	46.8	46.4	44.7	45.0	48.7	47.9	49.0	48.0	50.1	+7.5	+5.1
Ukraine	39.9	47.8	56.1	54.6	51.6	51.1	48.8	46.4	45.8	46.1	46.3	49.3	+5.9	+0.5

Note: Numbers indicate percentages showing the extent to which a country is free. For example, in 2014 Estonia

was economically free by 75.9% and Belarus by 50.1%, i.e. half of the ideal level under the methodology.

* For 1996, the first year of the assessment

** For 1998, the first year of the assessment

Source: Index of Economic Freedom 2014, Heritage Foundation <http://www.heritage.org/index/download>

Trend in components of the Index of Economic Freedom, 2000-2014

Indicator	Belarus				Russia				Poland				Ukraine			
	2000	'05	'10	'14	2000	'05	'10	'14	2000	'05	'10	'14	2000	'05	'10	'14
Business freedom	55	40	72.1	73.4	55	55	52.2	70.0	70	70	62.2	70.1	55	55	38.7	59.8
Trade freedom	57.6	69	80.3	81.4	52.4	63.2	68.4	74.6	74.8	79.2	87.5	87.8	70	76.2	82.6	86.2
Fiscal freedom	58.3	76.2	85.2	89.2	74.6	91.5	82.3	85.6	58.1	68.3	74.9	76.1	62.3	83	77.9	79.1
Freedom from government (size of government)	39.3	35.4	32.0	61.2	73	58.9	66.5	61.5	33.7	30.3	46.8	43.2	41.9	78.6	41.1	37.5
Monetary freedom	32.5	42.7	62.6	33.9	57.5	65.6	62.6	69.4	66.9	82.3	78.1	77.8	63	76.2	61.2	78.9
Investment freedom	30	30	20	30.0	50	30	25	25.0	70	50	60	70.0	50	30	20	20.0
Financial freedom	30	30	10	10.0	30	30	40	30.0	50	70	60	70.0	30	50	30	30.0
Property rights	30	30	20	20.0	50	30	25	25	70	50	55	60.0	30	30	30	30.0
Freedom from corruption	39	42	20	24.6	24	27	21	22.1	46	36	46	54.8	28	23	25	21.9
Labor freedom	-	67.8	84.8	77.7	-	64.5	59.6	55.8	-	52.1	61.5	60.4	-	58.6	57.7	49.8

Source: Index of Economic Freedom 2014, Heritage Foundation <http://www.heritage.org/index/download>

Property Rights Index

The next important indicator that characterizes the business climate in a country is the Property Rights Index¹¹ from the Property Rights Alliance. This organization evaluates 131 countries that produce 98% of GDP in the world economy.

On a scale from 0 (property rights are not protected at all) to 10 (complete protection), the world average in 2013 was 5.6 points. According to the Mises Research Center in the Strategy Analytical Center, Belarus is in 120th place among 131 countries, close to Ukraine (113th place). Our country received only 4.0 points out of a possible 10. For comparison, Russia dropped from 97th to 102nd place (4.5 points), and Kazakhstan was also in 102nd place (4.5 points), having risen from 107th place in 2012.

11 International Property Rights Index 2013 Report, Property Rights Alliance
<http://www.propertyrightsalliance.org/userfiles/2013%20International%20Property%20Rights%20Index-PRA.pdf>

International Property Rights Index (IPRI), 2010-2013*

Ranking in the Property Rights Index			Country	International Property Rights Index (IPRI)			Quality of legal and political environment			Protection of tangible property rights			Protection of intellectual property rights		
'11	'12	'13		'11	'12	'13	'11	'12	'13	'11	'12	'13	'11	'12	'13
1	1	1	Finland	8,5	8,6	8,6	8,8	8,8	8,9	8,3	8,3	8,3	8,5	8,6	8,6
4	6	2	New Zealand	8,2	8,2	8,4	8,8	8,8	8,9	7,7	7,8	8,2	8,0	8,0	8,2
1	2	2	Sweden	8,5	8,5	8,4	8,8	8,7	8,7	8,2	8,4	8,2	8,5	8,4	8,2
4	3	4	Norway	8,2	8,3	8,3	8,5	8,7	8,7	8,3	8,4	8,3	7,8	7,8	7,9
4	3	5	Switzerland	8,2	8,3	8,2	8,5	8,6	8,5	7,8	7,9	7,9	8,3	8,3	8,3
9	9	5	Netherlands	8,0	8,1	8,2	8,4	8,5	8,6	7,5	7,6	7,7	8,2	8,2	8,3
3	3	7	Singapore	8,3	8,3	8,1	8,3	8,3	8,3	8,3	8,4	8,2	8,3	8,3	7,9
4	6	7	Luxembourg	8,2	8,2	8,1	8,5	8,6	8,5	7,9	7,8	7,6	8,3	8,3	8,2
8	6	9	Denmark	8,1	8,2	8,0	8,7	8,7	8,6	7,3	7,6	7,2	8,3	8,4	8,1
9	10	9	Canada	8,0	8,0	8,0	8,4	8,4	8,4	7,5	7,5	7,6	8,1	8,1	8,1
13	15	14	Germany	7,8	7,7	7,7	8,1	8,1	8,0	7,1	7,0	7,1	8,1	8,1	8,1
18	18	17	USA	7,5	7,5	7,6	7,1	7,1	7,2	7,1	7,2	7,2	8,4	8,3	8,3
28	28	29	Estonia	6,7	6,7	6,7	7,1	7,1	7,1	7,1	7,0	6,9	5,8	6,0	6,0
43	40	44	Poland	6,2	6,2	6,2	6,4	6,4	6,4	5,6	5,7	6,0	6,6	6,6	6,1
47	47	48	Lithuania	6,0	6,0	6,0	5,8	5,8	5,8	6,3	6,3	6,3	5,9	5,9	5,9
60	55	53	Latvia	5,5	5,6	5,7	5,9	5,9	5,8	5,8	6,0	6,3	4,8	4,8	5,0
64	62	56	Brazil	5,3	5,4	5,6	5,0	5,1	5,2	5,5	5,7	6,0	5,5	5,5	5,6
60	57	58	China	5,5	5,5	5,5	4,5	4,3	4,3	6,8	6,9	6,8	5,2	5,2	5,4
93	97	102	Russia	4,6	4,5	4,5	3,5	3,3	3,3	5,2	5,3	5,4	5,0	4,8	4,9
100	107	102	Kazakhstan	4,4	4,3	4,5	4,4	4,2	4,0	5,6	5,6	6,0	3,2	3,1	3,5
117	118	113	Ukraine	4,0	4,0	4,2	3,5	3,6	3,6	4,4	4,3	4,8	4,2	4,2	4,3
117	119	120	Belarus**	4,0	3,9	4,0	3,1	3,0	3,1	4,2	4,2	4,3	3,2	3,2	3,9

* 0 = property rights not at all protected, 10 = full protection.

** Assessment by the Mises Research Center and the Strategy Analytical Center. 2013 assessment – of 131 countries, 2012 – of 130 countries, 2011 – of 129 countries, 2010 – of 125 countries.

Source: *International Property Rights Index 2013, 2012, 2011, 2010 Report, Property Rights Alliance.*

Legatum Prosperity Index

The next important indicator of the quality of systemic sustainable development is the Legatum Prosperity Index.¹² It is published annually by one of the leading think tanks in the world on issues of prosperity and creating wealth. The assessment of a country's prosperity also includes an assessment of such parameters as the economy, free enterprise, the quality of public administration, education, health care, safety and security, personal freedom, and social capital. The strongest correlation between the overall prosperity index and its sub-indexes is found on the factor of “entrepreneurship and opportunity.” The better the business climate in a country, the more rapid are the processes of commercializing innovations, expanding private initiative, and modernizing the country as a whole. Having freedom of choice and entrepreneurial opportunities for satisfaction with life is more important than the opportunity to make a lot of money quickly.

12 The 2013 Legatum Prosperity Index. An inquiry into Global Wealth and Well-being, Legatum Institute, <http://www.prosperity.com>

In 2013, Belarus was ranked 58th on the Prosperity Index, having fallen four places in the rankings.¹³ In 2011, the best year for our country, we were in 50th place. For comparison, in 2013 Russia was in 61st place, Ukraine was in 64th, Lithuania was in 43rd, and Poland was in 34th place. Over the past five years, Belarus has basically changed places with China.

Our country has a very good chance to make it into the Top 30 most prosperous countries of the world. Belarus has a solid foundation to increase the level of prosperity and satisfaction with life. Belarus is in 20th place out of 142 countries in quality of the education system, 39th in health care, and 24th in social capital. This indicates that the human and social capital required for dynamic growth in the level of prosperity exists in Belarus.

Our country needs to significantly improve its position on three parameters: (1) economy (inflation, trust in financial institutions, access to capital, technology and innovation, and macroeconomic stability as a whole. On this factor Belarus was in 114th place in 2013 (in 2012 we were in 90th place); (2) governance (Belarus is in 124th place. This category assesses political stability, effectiveness of public administration, separation of powers, transparency in government, etc.); (3) personal freedom (Belarus is in 104th place). We must also significantly improve the quality of the business climate and entrepreneurial opportunity. Because the Prosperity Index integrates economic and social factors along with a subjective assessment of satisfaction with life, it is important for an assessment of the general trends in socio-economic and institutional reform.

Legatum Prosperity Index-2013, ranking of selected countries

Rank	Belarus	Russia	Ukraine	Poland	Lithuania	Kazakhstan	Sweden	China	USA
Index 2013, rank	58	61	64	34	43	47	4	51	11
Economy	114	50	72	49	94	45	6	7	24
Entrepreneurship	67	47	61	42	40	55	1	66	13
Governance	124	115	121	39	45	97	4	65	11
Education	20	26	31	38	28	41	14	54	5
Health	39	44	86	32	43	60	12	68	2
Safety and security	50	98	55	26	34	66	3	92	31
Personal freedom	104	114	107	55	101	52	4	111	16
Social capital	24	62	36	31	54	22	10	25	9

Source: Legatum Institute, October 2013, <http://www.prosperity.com/>

Year-on-Year Rankings of Countries in the Legatum Prosperity Index, 2009-2013

Country	Rank*				
	2009	2010	2011	2012	2013
Norway	1	1	1	1	1
Switzerland	8	9	9	9	2

13 <http://www.prosperity.com>

Canada	7	6	6	6	3
Sweden	7	6	5	3	4
New Zealand	3	5	4	5	5
Denmark	2	2	2	2	6
Australia	5	4	3	4	7
Finland	4	3	7	7	8
Netherlands	11	9	9	8	9
Luxembourg	-	-	-	11	10
USA	10	10	10	12	11
Ireland	9	11	11	10	12
Germany	16	15	15	14	14
United Kingdom	13	13	13	13	16
Singapore	17	17	16	19	18
Hong Kong	21	20	19	18	19
France	18	19	18	21	20
Japan	19	18	21	22	21
South Korea	29	27	24	27	26
Czech Rep.	24	24	26	28	29
Estonia	31	35	33	35	36
Lithuania	40	42	44	43	43
Malaysia	43	43	43	45	44
Kazakhstan	51	50	46	46	47
Latvia	41	47	51	47	48
China	58	58	52	55	51
Belarus	55	54	50	54	58
Russia	62	63	59	66	61
Ukraine	63	69	74	71	64
Chad	-	-	-	139	142

* The Legatum Index ranked 110 in 2009-2011 and 142 countries in 2012 and 2013.

Source: Legatum Institute, October 2013, <http://www.prosperity.com/>

EBRD Index of Systemic Market Transformations

The expert opinion of the European Bank for Reconstruction and Development (EBRD) is important to an assessment of the quality and depth of systemic transformations in a country. Its methodology of assessing progress in systemic transformations is one of the most authoritative in

the world. The report of the European Bank for Reconstruction and Development (EBRD) on the transition process in 2013 (Transition Report 2013. Stuck in Transition?¹⁴) is full of pessimism. The majority of countries in the region are stuck in place, and some are sliding backward. The EBRD asks a very important question: “Is this attitude toward structural reform and economic policy in general merely a temporary stop on the road, or is it evidence of rejection of the free market and a return to even more dangerous interventionism?”

According to the EBRD's analysis, Belarus was and remains an outsider in market transformations. This stability would be enviable if the economy were showing sustainable growth rates and companies were enjoying higher productivity and promoting goods on new markets. As the head of state put it succinctly on November 29 at a meeting with the government, “*Everywhere we see bungling, lack of discipline, and inability to organize work. The basic ability to get things done is in short supply.*”¹⁵

The countries in the region have stalled. Many are rolling back the very reforms that radically improved their level of prosperity. History has given Belarus one more chance to overtake our stymied competitors. Unfortunately, the renewal of human capital in government agencies that is necessary to perform this task is not yet happening.

As hard as the transitional economies have tried to build effective market institutions and catch up to the West, this goal has eluded them. The EBRD believes that “*after 25 years since the transitional processes began, economic institutions in the region of transitional countries are generally still weaker than in other countries with comparable income levels.*”

According to the Bank, in 2013 the rates of GDP growth in the transitional countries of Central and Eastern Europe and Central Asia will be the lowest in the past 15 years (excluding the recession of 2009). In 27 of the 34 transitional countries, the rates of economic growth slowed in 2012. After the recession of 2009, the transitional countries in the region have experienced five straight years of GDP growth, but they have not yet reached pre-crisis levels. GDP is growing more slowly, not only in comparison with the peak years of 2004-2008 (6.6%), but with the period 1999-2003. One of the causes of the slower growth in the countries of the region is the recession in Europe. According to the EBRD, it will be extremely difficult to restore high growth rates in the long term without deep structural reforms, which policymakers are still putting off.

Of the 34 transitional countries, including four countries in North Africa and the Middle East, support for market reforms has waned in fifteen. The public in these countries has experienced acute social and financial pain. Without bothering to determine the proximate cause, people believed that the pain was caused by the free market and democracy. This false view was promoted by intellectuals who have traditionally opposed the free market and business.

In fact, virtually all transitional countries in the region copied the institutions not of capitalism, but of European welfare states. The outsized role of the government was the key factor that exacerbated the crisis. Those who spend other people's money in transitional countries quickly took control of budget flows and government resources. Powerful oligarchic groups prevented the creation of a truly competitive playing field, and politicians shamelessly established a tradition of living in debt and collecting high taxes from business and the public.

In 2013, Belarus failed to take a single step in the direction of market institutions and reforms at either the national or corporate level. EBRD experts did not find evidence of

14 Transition Report 2013. Stuck in Transition? European Bank for Reconstruction and Development. November 2013 http://tr.ebrd.com/tr13/images/downloads/357_TR2013.pdf

15 http://naviny.by/rubrics/economic/2013/11/29/ic_news_113_428908/print

modernization in Belarus, because it amounts to nothing more than the distribution of government funding and has done nothing to create real market institutions. Russia, Ukraine, and Kazakhstan are also stalled. Of the 34 countries in the region, it is difficult to identify a leading country that would hold firmly to the strategic course toward free market institutions while maintaining full political competition.

The Bank notes with alarm that “*market reforms are being hindered by political, social, and human limitations.*” Even the transitional countries in the region that have joined the EU are experiencing a whole series of serious institutional problems. First, not all countries that are true democracies are leaders in implementing market reforms. In other words, there is no definite link between economic progress and democracy. Twenty years ago, per capita income based on purchasing power parity in the transitional countries of the region (excluding the least developed countries of Central Asia and the Western Balkans) varied from 15 to 45% of the EU-15 level. Today, in the majority of these countries per capita GDP based on PPP has increased by 20 percentage points relative to the EU-15 average. Nevertheless, people are dissatisfied, angry about unfairness, and concerned about the uncertainty and vulnerability of the labor market. In some countries of Southeastern Europe, youth unemployment exceeds 50%.

Second, for many countries in the region, membership in the EU is ceasing to be a significant factor. The EBRD notes that several countries that have already joined the European Union are regressing in terms of market institutions. Those who spend other people's money in transitional countries are becoming dependent on European funds and resources, ignoring internal structural reforms and the task of creating an open competitive environment.

Third, after the crisis of 2008-2009 and the period of slow growth, public support for market reforms and democracy has declined significantly, especially in less advanced countries. The highest level of disappointment is found in Hungary, Bulgaria, Latvia, and Romania. People blamed the market and democracy for the crisis. As a result, the EBRD has found that 11 indicators have become worse since 2010, six of which are in EU countries. In this period, only seven indicators have improved. 2013 was the first year since the collapse of the Soviet system when the number of factors getting worse exceeded the number of improvements in transition indicators.

At the company level, the Bank also found an increase in anti-market measures. The most popular such measures are increases in subsidies and enhanced government control over energy, transportation, and the pension system. For example, Hungary, which was once a leader in market reforms, is actively restoring socialist practices. Its government has set price limits on electricity for the public, formed a national transportation company that restricts competition, and eliminated the private pension system. The EBRD notes that such actions “*generally follow worldwide trends and the prominent views in the academic literature.*”

Based on information from various countries and data on the region with transitional economies, the Bank reached the following conclusions: “(1) economic development makes democratization more likely; (2) natural resource endowment holds back democratization; and (3) market reforms appear to influence future democratization – at least in the sense of preventing reversals to less democratic systems. This could be because economic liberalization weakens the power of interest groups who benefit from less democracy. Hence, the causal links between democracy and reforms appear to run in both directions.”

Status of reforms in transitional economies
Reforms at the level of companies, markets, and trade, 2012-2013

Country	Company						Markets and trade					
	Large-scale privatization		Small-scale privatization		Governance and restructuring		Price liberalization		Trade and foreign exchange system		Competition policy	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Belarus	2-	2-	2+	2+	2-	2-	3	3	2+↑	2+	2	2
Estonia	4	4	4+	4+	4-	4-	4+	4+	4+	4+	4-	4-
Georgia	4	4	4	4	2+	2+	4+	4+	4+	4+	2	2
Kazakhstan	3	3	4	4	2	2	4-	4-	4-	4-	2	2
Latvia	4-	4-	4+	4+	3+↑	3+	4+	4+	4+	4+	4-	4-
Lithuania	4	4	4+	4+	3	3	4+	4+	4+	4+	4-	4-
Moldova	3	3	4	4	2	2	4	4	4+	4+	2+	2+
Poland	4-	4-	4+	4+	4-	4-	4+	4+	4+	4+	4-	4-
Russia	3	3	4	4	2+	2+	4	4	4↑	4	3-	3-
Slovakia	4	4-	4+	4+	4-	4-	4+	4+	4+	4	4↓	3+↓
Ukraine	3	3	4	4	2+	2+	4	4	4	4	2+	2+

* Scale from 1 to 4+, in which 1 means a strict regime of central planning in the economy, and 4+ indicates the standards of an industrial market economy.

Source: Transition Report 2013. Stuck in Transition? EBRD November 2013

<http://www.ebrd.com/downloads/research/transition/tr13.pdf>

Indicators of transformation: Corporate sector and energy, 2012

Country	Corporate sector				Energy		
	Agriculture	General industry	Real estate	Telecom	Natural resources	Renewable energy	Energy
Estonia	3+	4+	4+	4	4	3-	4
Latvia	3	4-	4-	3+	4-	3+	3+
Lithuania	3+	4↑	4-	4-	4-	3+	3+
Poland	3+	4-	4-	4	3	3	3+
Belarus	2+	2	2	2	1	2	1
Moldova	3-	2-	2+	3	3	2+	3
Ukraine	3-	2+	3-	3-	2-	2+	3
Russia	3-	3-	3-	3+	2	2	3+
Kazakhstan	3-	2	3	3	2-	2-	3

Source: Transition Report 2013. Stuck in Transition? EBRD November 2013

<http://www.ebrd.com/downloads/research/transition/tr13.pdf>

Indicators of transformation: Infrastructure and financial institutions, 2013

Country	Infrastructure					Financial Institutions			
	Water & sewage	City transportation	Roads	Railroads	Banks	Insurance & other financial services	Financing of small business	Private shareholder capital	Capital markets
Estonia	4	3+↓	3	4	4-	3+	3	3-	3
Latvia	3+	4-	3	4-	3+	3+	3	3-	3
Lithuania	3+	4-	3	3	3+	3+	3	2+	3
Poland	4-	4-	4-	4-	4-	3+↓	3	3+	4
Belarus	2-	2	2	1	2	2	2	1	2-
Moldova	2	3-	3-	2	2+	2+	2	2-	2+
Ukraine	2+	3-	3-	2+	3-	2+	2+↑	2	3-
Russia	3	3	3-	4-	3-	3-	2	2+	4-
Kazakhstan	2+	2+	3-↑	3	3-	2+	2	2-	3

Source: Transition Report 2013. Stuck in Transition? EBRD November 2013

<http://www.ebrd.com/downloads/research/transition/tr13.pdf>

Index of Global Competitiveness from the WEF

The Index of Global Competitiveness¹⁶ is a comprehensive analysis of the quality of a country's government, market, and legal institutions. Published annually by the World Economic Forum (WEF), it is the most thorough comparative study of productivity among the countries of the world. In addition to absolute measures (GDP, inflation, budget deficit, national debt, etc.), the 2013-2014 Index of Global Competitiveness (IGC) includes the results of a survey of 14,000 business leaders in 148 countries. The rating integrates a total of 110 indicators. They are grouped into 12 pillars of competitiveness: (1) institutions, (2) infrastructure, (3) macroeconomic environment, (4) health and primary education, (5) higher education and training, (6) goods market efficiency, (7) labor market efficiency, (8) financial market development, (9) technological readiness, (10) market size, (11) business sophistication, and (12) innovation.

For Belarus, the conclusions of this authoritative research study are extremely valuable in the context of growing tension in the world economy and the increasingly stringent framework of the Customs Union. There are things we could borrow from the democratic countries of the West, but we must take care to avoid their budgetary irresponsibility and growing dependency. Authoritarian countries have also learned a lot from globalization. There are no more iron curtains today not because the power structures weakened, but because such barriers are harmful to the regimes and their rulers themselves.

Unfortunately, the level of attention paid to the theory and practice of competitiveness is unacceptably low in Belarus. Feeble attempts by the Ministry of Economy to get Belarus onto the list of WEF countries ended in failure. The errors were not corrected, so our country still does

¹⁶ The Global Competitiveness Report 2013-2014, assessment of 148 countries of the world. World Economic Forum, September 2013 <http://reports.weforum.org/the-global-competitiveness-report-2013-2014>

not participate in the most representative study of competitiveness in the world.

According to the Mises Center of the Strategy Analytical Center, Belarus would have been ranked 98th in the 2013/2014 Index of Global Competitiveness, an improvement of six places from the prior year's report. We are at about the same level as Bolivia, Nicaragua, and Serbia. Russia is ahead of us, in 64th place, Ukraine is ranked 84th, and Kazakhstan broke into the Top 50 most competitive countries for the first time (50th place).

For the fifth straight year, Switzerland remains the most competitive country in the world. With a population 1.5 million (16.4%) smaller than ours, in 2012 it produced nominal GDP ten times higher than Belarus. In this democratic, decentralized, country that is open to world trade and competition, per capita GDP based on purchasing power parity is 5.2 times greater than in Belarus. Switzerland is the world leader in innovation and business sophistication, second in labor market efficiency, and third in basic requirements (institutions, infrastructure, macroeconomic environment, health and primary education).

The five most competitive countries in the world also include authoritarian Singapore (2nd), Finland (3rd), Germany (4th), and the United States (5th). Each of these countries stands head and shoulders above Belarus on all the indicators. All of the Scandinavian countries are in the Top 20, demonstrating that in the modern world, geography is no barrier to living comfortably, working at the cutting edge of advanced technology, and respecting property rights. Finland's population is slightly more than half of Belarus's, yet in 2012 this country had GDP four times higher and per capita GDP seven times higher than ours.

Sweden has about the same population as Belarus, but it has nominal GDP 8.4 times higher and per capita GDP by PPP 8.3 times higher. It is time once and for all to dispel the myth of Swedish socialism. The data indicate that Sweden retains the basic foundations of a free market economy. Even though almost 50% of GDP passes through government hands, these foundations are strong and solid. This is the result of a unique alloy of culture, tradition, religious belief, and an ethic of respect for human rights and liberties.

On protection of property rights, a key institution of capitalism, Sweden scores 5.9 points on a scale from 1 (very weak protection) to 7 (complete protection). This is 14th place in the world. The Swedes can serve as a model for protection of minority shareholder rights. For this factor, Sweden has 5.6 points out of 7, putting it in 8th place in the world.

On quality of governance, Sweden is also in the world elite. On the issue of bribes and informal payments (1 = very frequent, 7 = never), this country has 6.2 points. This is the 10th best result in the world. Swedish politicians and bureaucrats perform with quality, openly, and in solidarity with the public, and people trust them. On the factor "trust in politicians" (1 = very low, 7 = very high), Sweden has 5.6 points (6th in the world).

Sweden has a full-fledged capitalist institution in the form of an independent judiciary. The country scores 6.2 points on this factor, which puts it 9th in the world. The police work reliably and without bribes. The country has dependable banks (6.0 points, 19th place in the world), and venture capital (private, of course) is available – 5th place in the world. Sweden is ranked 10th in ease of access to credit. Only in a true capitalist economy could there be such a well-developed financial system of private banks operating in an environment of open competition.

The quality of Sweden's independent central bank is evidenced by the fact that in 2012, Sweden was tied for first place in the world in inflation, with a rate of 0.9 percent. The government's sound policy and discipline are reflected in its credit rating. Sweden has the third best credit rating in the world, 93.4 points out of a possible 100. Responsible macroeconomic

policy is another key institution of capitalism.

Sweden consistently respects the principles of open trade. The country ranks fourth in the world in the number of trade tariffs and seventh in the difficulty of customs procedures. This means that Swedish customs operates at minimal cost to business. Supporting the principle of free trade is another foundation of capitalism.

Today, as many western democracies sink into interventionism (high budget deficit, enormous debts, bailing out financial structures that are too big to fail, bankruptcy of social security systems), the authoritarian model is becoming more popular. It is certainly not that people like tyranny and villains, but that authoritarian leaders are learning from the best examples of capitalist countries and perform many functions with a high level of quality.

Take, for example, Singapore and China. Singapore is ranked second in the world, and China is 29th. Singapore has a population of 5.2 million, but they produce a GDP 4.4 times higher than Belarus. Per capita GDP in this miracle city-state is 7.7 times higher than in Belarus. China, with a population of over 1.3 billion, produced per capita GDP of \$6,076 in 2012. This was the last year when the Celestial Kingdom was behind Belarus in this category. In 2013, given the growth rates of the two economies, China will surpass Belarus and show significant improvement in key factors that promote competitiveness.

In protection of property rights (on a scale of 1 to 7), China is ranked 50th with 4.6 points. It has overtaken Latvia, Poland, Italy, Greece, and even the Czech Republic, to say nothing of the member states of the Customs Union. The phenomenon of authoritarianism that, under the red flag of communism, protects property rights better than many EU countries, requires interpretation and analysis. Protecting the rights of minority shareholders is a critically important factor in maintaining support for market reforms among the public and the business community. On this factor, China received a low score of 4.1 points (75th place), but even that is better than Hungary, the Czech Republic, Latvia, Greece, Lithuania, and Poland. The post-Soviet countries lag noticeably behind China. In protection of investors, China received 5 points (84th place), but even that is better than Greece, Slovakia, and Croatia.

China is actively fighting corruption, and this shows in the ratings on various factors. The country received 4 points on bribes and informal payments. This is way down in 68th place, but it is better than the rankings of Brazil, Italy, Romania, the Czech Republic, Croatia, Greece, and Slovakia. It would seem that an independent judiciary cannot exist in a Soviet-style system, but the Soviet mentality that we know from the USSR or today's Belarus does not exist in China. On the factor "independent judiciary," China received 4 points (7 is the highest score), putting it in 57th place. This is a higher ranking than Latvia, Hungary, Brazil, the Czech Republic, Italy, Spain, Greece, Croatia, and Romania.

China is ahead of many democratic countries in quality of government regulation. Experts assess the regulatory burden in China at 4.3 points out of 7 (the best score). This gives China the high rank of 14th place, better than the United Kingdom, Canada, Germany, the United States, Japan, and many other democracies. The enlightened Chinese communists understand business freedom better than dozens of democracies that are mired in a culture of dependency.

China devotes significant effort to providing high-quality and dependable police services. On this factor, the Celestial Kingdom scored 4.4 points (59th place). This is better than Lithuania, Poland, Greece, the Czech Republic, Slovakia, and Bulgaria. China also has much better scores on the labor market than many EU countries. In China, salaries are based on labor productivity (4.7 points and 17th place) to a much greater extent than in Canada, Ireland, Germany, Finland, and Austria.

China is far ahead of many democracies in terms of trade freedom, quality of infrastructure, and even dependability of banks. On this last factor, China received 5 points (72nd place). This is better than Latvia, Bulgaria, Hungary, Lithuania, and even the United Kingdom.

Thus, the conflict between enlightened authoritarianism and irresponsible democracy continues. Belarus has absorbed the worst features of both systems. We have irresponsible policies regarding the labor market, the financial sector, and macroeconomics in general. The attitudes of the Belarusian authorities toward property rights are as archaic as a vacuum tube television set.

Belarus still does not understand the advantages of open trade and putting the resources of small investors to work in the equity of companies. The actions and ideas of Belarus's politicians and bureaucrats have stalled our country in the gap between the most competitive models. The result of nearly 25 years of development is an institutional swamp, a structural dead end, and legal excess. This combination of factors has never led a single country to well-being and prosperity.

Countries of the world in the Index of Global Competitiveness (IGC), 2010-2013

Country	Rank in the Index of Global Competitiveness (IGC)*			Rank in sub-indexes of the IGC								
				Basic requirements			Efficiency enhancers			Innovation factors		
	2011/12	2012/13	2013/2014	2011/12	2012/13	2013/2014	2011/12	2012/13	2013/2014	2011/12	2012/13	2013/2014
Switzerland	1	1	1	3	2	3	2	5	5	1	1	1
Singapore	2	2	2	1	1	1	1	1	2	11	11	13
Finland	4	3	3	5	4	7	10	9	9	4	3	2
Germany	6	6	4	11	11	9	13	10	8	5	4	4
USA	5	7	5	36	33	36	3	2	1	6	7	6
Sweden	3	4	6	4	6	8	7	8	7	2	5	5
Hong Kong	11	9	7	2	3	2	4	3	3	25	22	19
Netherlands	7	5	8	7	10	10	8	7	11	9	6	7
Japan	9	10	9	28	29	28	11	11	10	3	2	3
UK	10	8	10	21	24	24	5	4	4	12	9	10
China	26	29	29	30	31	31	26	30	31	31	34	34
Estonia	33	34	32	27	26	26	36	31	30	37	33	35
Poland	41	41	42	56	61	59	30	28	32	57	61	65
Czech Rep.	38	39	46	45	44	55	29	34	37	32	32	36
Lithuania	44	45	48	49	49	43	48	46	47	50	47	44
Kazakhstan	72	51	50	62	47	48	76	56	53	114	104	87
Latvia	64	55	52	66	54	40	54	48	41	64	68	68
Russia	66	67	64	63	53	47	55	54	51	97	108	99
Georgia	88	77	72	86	64	57	89	87	86	117	120	122
Slovakia	69	71	78	60	62	67	54	51	56	64	74	77

Ukraine	82	73	84	98	79	91	74	65	71	93	79	95
Greece	90	96	91	80	98	88	65	69	67	81	85	81
Belarus*	93	92	98	95	112	117	91	94	99	96	90	104

* The Index ranked 148 countries in 2013-2014, 144 countries in 2012-2013, and 142 countries in 2011-2012.

* For Belarus, the assessment was performed by the Mises Research Center of the Strategy Analytical Center

Basic requirements: institutions, infrastructure, macroeconomic environment, health, primary education.

Efficiency enhancers: higher education, goods market and labor market efficiency, financial market development, technological readiness, market size.

Innovation factors: business sophistication, innovation

Source: The Global Competitiveness Report 2012-2013, assessment of 142 countries. World Economic Forum, September 2012

The Global Competitiveness Report 2013-2014, assessment of 148 countries. World Economic Forum, September 2013

Selected indicators of competitiveness of countries, 2013-2014

Indicator	USA	China	Germany	Sweden	Kazakhstan	Russia	Poland	Ukraine	Lithuania	Belarus*
GDP, \$ billion 2012	15685	8227	3401	526	196.4	2022	488	176.2	42.2	63.0
Population, million	311.6	1344	81.8	9.4	16.6	143	38.5	45.7	3.0	9.5
GDP per capita, \$	49922	6076	41513	55158	11773	14247	12538	3877	14018	6660
GDP by PPP as share of world GDP, %	18.87	14.92	3.85	0.47	0.28	3.02	0.96	0.4	0.08	0.1
Budget balance, % of GDP 2012	-8.5	-2.2	0.2	-0.4	4.7	0.4	-3.5	-4.6	-3.0	0.5
Gross national savings, % of GDP, 2012	13.1	49.5	24.2	25.7	27.3	28.5	17.5	10.1	16.2	31.6
Inflation, % 2012	2.1	2.7	2.1	0.9	5.1	5.1	3.7	0.6	3.2	59.2
Government debt, % of GDP 2012	106.5	22.8	82.0	38.0	12.3	10.9	55.2	37.4	39.6	20.0
Imports, % of GDP 2012	17.5	25.5	42.7	41.3	29.6	21.6	46.7	55.4	85.5	71.1
Country credit rating, 0-100 (best)	88,8	78,9	92,3	93,4	57,0	65,9	70,5	32,7	60,6	42,0
Protection of property rights, 1 = very weak, 7 = very strong	5,2	4,6	5,8	5,9	4,3	3,0	4,3	2,5	4,2	2,1
Protection of intellectual property, 1 = very weak, 7 = very strong	5,2	3,9	5,6	5,5	3,6	2,9	3,7	2,5	3,7	2,5
Diversion of public funds, 1 = very frequent, 7 = never	4,6	3,9	5,4	5,9	3,3	2,5	3,7	2,4	3,2	2,3
Public trust in politicians, 1 = very low, 7 = very high	3,3	4,1	4,4	5,6	3,8	2,7	2,4	2,2	2,4	2,8
Bribes and informal payments, 1 = very frequent, 7 = never	4,9	4,0	5,7	6,2	4,1	3,2	4,8	2,8	4,6	3,5
Judicial independence, 1 = very dependent, 7 = fully independent	5,0	4,0	6,0	6,2	3,4	2,7	4,1	2,2	3,7	2,0
Favoritism in decisions of government officials,	3,3	4,0	4,6	5,3	3,0	2,6	3,1	2,3	3,1	2,4

1 = always, 7 = never										
Wastefulness of government spending, 1 = very wasteful, 7 = very efficient	3,1	3,9	4,2	5,0	3,8	2,8	2,9	1,9	2,9	2,0
Burden of government regulation, 1 = very heavy, 7 = very light	3,4	4,3	3,6	4,1	3,7	2,9	2,7	2,6	3,0	2,1
Efficiency of the legal system in resolving disputes, 1 = very inefficient, 7 = very efficient	4,7	4,2	5,2	5,7	3,9	3,0	2,9	2,3	3,4	2,4
Transparency of decision-making, 1 = not transparent, 7 = very transparent	4,4	4,4	5,0	5,5	4,7	3,8	3,6	3,5	4,7	1,9
Reliability of police services, 1 = not reliable, 7 = fully reliable	5,7	4,4	6,0	5,9	3,9	3,0	4,1	2,8	4,2	4,8
Protection of minority shareholders' rights, 1 = not protected, 7 = full protection	4,9	4,1	4,8	5,6	4,1	3,3	3,9	2,7	3,9	1,8
Strength of investor protection, 0-10 (best)	8,3	5,0	5,0	6,3	8,0	4,7	6,0	4,7	5,7	2,9
Quality of infrastructure, 1-7 (best)	5,7	4,3	6,2	5,7	4,5	3,8	4,0	4,4	5,1	4,7
Quality of roads, 1-7 (best)	5,7	4,5	6,0	5,5	2,8	2,5	3,0	2,1	5,0	5,1
Quality of education system, 1 = poor, 7 = very good	4,6	4,0	5,1	5,0	3,4	3,5	3,4	3,6	4,0	3,0
Intensity of competition on the domestic market, 1 = highly restricted, 7 = free	5,8	5,3	5,9	5,6	4,3	4,5	5,3	4,5	5,4	4,6
Effectiveness of anti-monopoly policy, 1 = does not stimulate competition, 7 = effectively stimulates it	5,0	4,3	5,1	5,5	3,8	3,5	4,1	3,1	3,8	2,5
Effect of taxation on incentives to work and invest, 1 = significantly restricts, 7 = no effect	4,1	4,1	4,1	4,5	3,9	3,0	3,1	2,3	3,2	2,7
Total tax rate, % of profit 2012	46,7	63,7	46,8	53,0	28,6	54,1	43,8	55,4	43,7	60,7
Costs of agricultural policy, 1 = very high, 7 = balanced	4,1	4,6	4,0	4,7	3,9	3,0	3,6	3,2	3,9	2,7
Prevalence of trade barriers, 1 = very prevalent, 7 = free trade	4,5	4,3	4,4	4,9	4,5	3,8	4,2	3,8	4,4	3,7
Burden of customs procedures, 1 = very high, 7 = effective	4,8	4,2	4,9	5,5	4,0	3,3	4,2	3,0	4,6	3,4

regulation										
Degree of consumer orientation, 1 = very poor treatment, 7 = very good	5,4	4,5	5,3	5,6	4,5	4,1	4,9	4,5	5,3	3,1
Pay and productivity, 1 = pay is not based on productivity, 7 = based to a very high degree	4,8	4,7	4,3	3,9	4,9	4,2	4,2	4,5	4,7	1,8
Country's capacity to retain talent, 1 = the best people leave the country, 7 = the best people stay	5,7	4,3	5,1	5,1	3,3	2,8	2,7	2,0	2,5	1,7
Ease of access to loans, 1 = very difficult, 7 = very easy	3,9	3,4	3,2	4,2	2,9	2,9	2,5	2,3	2,4	1,5
Soundness of banks, 1 = insolvent, 7 = sound	5,2	5,0	5,1	6,0	4,4	4,0	5,3	3,0	4,2	3,2
Indicator	USA	China	Germany	Sweden	Kazakhstan	Russia	Poland	Ukraine	Lithuania	Belarus*

* Assessment by Mises Research Center based on national statistics, World Bank data (Doing Business reports), EBRD and UN reports, surveys by NOVAK and the Independent Institute of Socio-Economic and Political Research Source: The Global Competitiveness Report 2012-2013, assessment of 144 countries. World Economic Forum, September 2012

The Global Competitiveness Report 2013-2014, assessment of 148 countries. World Economic Forum, September 2013

Measurement of Human Capital by the World Economic Forum¹⁷

The World Economic Forum (WEF) made an attempt to measure human capital. The methodology was described for the first time in the Human Capital Report 2013. The highest-quality and most valuable human capital is concentrated in Europe. Eight of the countries in the Top 10 are in Europe. Switzerland is the leader in the world rankings. It has the highest ratings in “health and well-being” and “employment and workforce.” Within Europe, the Scandinavian countries dominate. Four of them are in the top ten. Finland was recognized by the experts as the world leader in education (per capita GDP by PPP is \$31,800). This country is best in the world in quality of the environment for development of human capital. Of the 122 countries evaluated, Russia was ranked 51st in the overall Index, Ukraine was 63rd, Kazakhstan was 45th, and Poland was 49th. Belarus was not ranked by the WEF. Based on the methodology described, Belarus would be in about 61st place.

The Human Capital Index is calculated based on 51 indicators. They are grouped into four factors. The first, education, is evaluated based on 12 indicators. The second, health and well-being, encompasses 14 indicators. The “workforce and employment” factor includes 16 indicators, and nine indicators are measured in the “enabling environment” factor. The sources of the data are the WHO (World Health Organization), the ILO (International Labor Organization), the IMF, the WEF's surveys of managers of businesses and organizations, and the results of the Gallup poll on perception of well-being around the world.

In addition to the standard quantitative indicators used to assess education, the experts also consider the quality of knowledge in mathematics and natural sciences, the quality of

¹⁷ Human Capital Report 2013. World Economic Forum.

http://www3.weforum.org/docs/WEF_HumanCapitalReport_2013.pdf

management schools, and the extent to which the education system meets the needs of a competitive economy. The assessment of the labor market measures social mobility and whether training and retraining programs are consistent with the real demand for workers. It is important to have not only a formal education and a diploma in hand, but also marketable knowledge and skills. WEF experts emphasize the importance of social mobility, i.e. the ability to adapt to real demand on the labor market. In the modern, competitive world, it is rare for people to work at the same place their whole lives. The Index also measures ease of doing business and protection tangible and intellectual property rights.

Perhaps only Singapore can compete with the Scandinavian phenomenon. It is ranked third in the overall index, ahead of Germany (6th), the United States (16th), and Canada (10th). This is a phenomenal result for a small island nation with no agriculture or fuel resources of its own, and its total government spending is forecast to be only 16.4% of GDP in 2013. Singapore's advantages in human capital include the fact that its policymakers have avoided the fundamental economic heresy of trade protectionism, import substitution, high taxes, and central planning of business. To its benefit, Singapore prudently eschewed the welfare-state model. In 2012, GDP per capita by purchasing power parity was \$53,266. By comparison, Canada, at one time the world leader in prosperity and wealth, has per capita GDP of \$35,936. And unlike the tiny island nation, this North American country has abundant natural and energy resources, and its politicians and bureaucrats pass 41.1% of GDP through their hands. We should note one more curious detail. In quality of the health care system, Singapore is ranked 13th in quality of the health care system. Private medicine dominates in this sector. The Singaporeans have struck an excellent balance between market incentives and personal interest in investing in one's health. Canada's much-lauded government medical system was ranked 20th by the WEF, and America's was 43rd. With his reforms, Barack Obama may drag the American health care system down even further.

Of the former Soviet countries, Estonia is ranked highest at 27th. It has become a solid average performer by world standards, ranking higher in the Index than the Czech Republic (33rd), Lithuania (34th), Italy (37th), and Poland (49th). In nearly 25 years of independent development, this small country, strongly influenced by Scandinavian culture and capital, has created an efficient government and good health care (22nd place) and education (20th) systems. And it would never occur to an Estonian politician to restore the practice of mandatory distribution of students after university. Having adopted the educational standards of the Bologna system, Estonia has no nostalgia for Soviet times. Its policymakers are doing everything to ensure that Estonians remain in their native country by choice. And it is working. Surveys show that among youth, the desire to leave the country permanently is 3.5 times less in Estonia than in Belarus. Estonia had per capita GDP by PPP of \$18,722 in 2012. By comparison, enormous Russia, with all its riches in oil, gas, and every element on the periodic table, has per capita GDP of \$15,177. It lags behind the Estonians, and also the Lithuanians and Latvians, on all factors of the Human Capital Index.

Due to its health care and education systems and its water, transportation and communications infrastructure, Belarus is in about 61st place in the Human Capital Index. Our weaknesses are the level of social mobility within the country, weak institutions to protect property rights, and the link between universities and industry. Belarus continues to favor the standard international test PISA (Program for International Student Assessment). The Belarusian labor market does not fit easily into the standard international assessment. Whenever Western researchers hear about our unemployment rate of 0.6%, the distribution of university graduates,

and the prohibition on firing in certain areas (woodworking, for example), they want nothing more to do with our country.

In Belarus, the politicians and bureaucrats continue to scare us with horror stories about the West, presented a deeply distorted picture of what it is really like. In words and on paper, everything in Belarus is done for the individual. If this were true, the quality of human capital in our country would have been noted by the international judges and analysts of organizations like the WEF. Belarusian executives would be recruited to manage international corporations and organizations. Belarusian diplomas and credentials, of physicians for example, would be standards against which other countries were measured. Our architects, builders, teachers, engineers, and agronomists would be trendsetters in their fields. This does not happen. The rare exceptions prove the rule. If the authorities could not find world-class local managers even for Belarus Potash Company, the Belarusian people's most valuable state-owned enterprise, then what can be said about the quality of human capital in other, less prominent sectors of the economy?

In various marketing and analytical reports on Belarus's comparative advantages, the government invariably boasts about our “human capital.” Unfortunately, it somehow gets lost when young people enter the labor market after school or university. Human capital deteriorates unless it trains continuously and has sparring partners in the form of strong competitors from other countries. This process is occurring today in our country. Talented, creative, enterprising Belarusian who want to make a better life and do great things either have left or are planning to leave. They do not fit within the model of government control and distribution of human capital. In that model, loyalty to the bosses, keeping your head down, and the art of flattery are rewarded. It's not that this type of human capital wants collapse and poverty for our country, but it is definitely not reaching for the stars.

Human Capital Index (HCI-2013)

Country	Rank in HCI-2013	Education, rank	Health and well-being, rank	Workforce and employment, rank	Enabling environment, rank
Switzerland	1	4	1	1	2
Finland	2	1	9	3	1
Singapore	3	3	13	2	5
Netherlands	4	7	4	8	4
Sweden	5	14	2	6	10
Germany	6	19	8	9	3
Norway	7	15	6	5	8
United Kingdom	8	10	17	10	7
Denmark	9	18	3	12	11
Canada	10	2	20	15	17
New Zealand	12	5	15	17	18
Japan	15	28	10	11	13
USA	16	11	43	4	16
South Korea	23	17	27	23	30
Estonia	27	20	22	39	26

Czech Republic	33	36	36	36	31
Lithuania	34	23	41	56	36
Chile	36	49	38	37	35
Latvia	38	30	48	54	43
China	43	58	65	26	47
Kazakhstan	45	43	69	40	51
Poland	49	42	47	63	57
Russia	51	41	62	66	63
Belarus*	61	48	52	62	79
Ukraine	63	45	55	67	96
Georgia	77	74	66	102	76
India	78	63	112	49	67
Moldova	83	64	53	110	102
Yemen	122	122	122	120	116

* Assessment by Mises Research Center

Source: Human Capital Report 2013. World Economic Forum.

http://www3.weforum.org/docs/WEF_HumanCapitalReport_2013.pdf

Transparency International's Corruption Perception Index¹⁸

In today's world, a country free of corruption is a great rarity. According to Transparency International, an authoritative anti-corruption organization, 69% of the countries of the world (out of 177) have fewer than 50 points on a scale from 0 (total corruption) to 100 (no corruption). They are not even halfway to an honest economy that operates strictly according to the law. The politicians and bureaucrats are actively fighting corruption, but only in words. In rare cases, they try to root out corruption. Most anti-corruption measures are intended to address the effects rather than the causes. But the bureaucrats and politicians are not going to cut off the branch on which they are sitting and from which they feed off of others.

In the countries of the Americas, 66% of countries failed to get more than 50 points. Canada is perceived as the least corrupt country (9th place, 81 points). The USA was ranked 19th with 73 points. The lowest score went to Haiti (163rd place, 19 points). The large countries of South America are also not without their problems. Brazil is ranked 72nd (42 points), and Argentina is 106th (24 points). The governments in these countries engage in active interventionism. Enormous resources pass through the hands of those who spend other people's money. The IMF estimates total government spending in 2013 at 45.9% of GDP in Argentina and 40.2% in Brazil. With a low culture of honesty in government agencies, an acute shortage of transparency and accountability of bureaucrats, and a high level of nepotism and favoritism, it is no surprise that these countries will never catch up with the world leader with those institutions.

It is very different in Chile and Uruguay. These countries have successfully cured themselves of the disease of redistributing other people's money. As a result, Uruguay was ranked 19th (73 points) and Chile 22nd (71 points). In Chile, total government spending in 2013 is

18 Corruption Perception Index 2013. Transparency International
<http://www.transparency.org/cpi2013/results#myAnchor2>

estimated at 23.7% of GDP. The policymakers' belief in the advantages of the free market model has led to rapid growth in public well-being. In 2012, per capita GDP by PPP was \$226,555. By comparison, the figure was \$21,903 for Poland, \$15,579 for Belarus, and \$26,426 for the Czech Republic.

The situation with the perception of corruption in the EU and Western Europe is much better than in the Americas. In this region, only 23% of countries had fewer than 50 points. Denmark, with 91 points, is the least corrupt country in the world, while Greece, with 40 points, was down in 80th place. This country was strongly influenced by advocates of the theory and practice of interventionism. Living in debt at the expense of future generations, living off enterprising and responsible citizens like parasites, and always blaming the rich for all troubles – this is a direct path to economic and social degradation.

In Eastern Europe and Central Asia, 95% of countries failed to reach the 50-point mark. We live in the most corrupt region of the world. Even in Africa, known for its traditions of corruption, the situation is better. In our region, Turkey has had the most success in combating corruption. It is in 53rd place, with 50 points. Turkmenistan and Uzbekistan are tied for 168th place with 17 points.

The Customs Union of Belarus, Russia, and Kazakhstan lives up to its reputation as an integrated association of bureaucrats, oligarchs, and smugglers. None of the countries can boast of high-quality public administration and effective measures to counteract corruption. Belarus kept its rank from last year of 123rd place, but its score on the Index was two points worse (31 last year, now 29). Russia took 127th place (it was 133rd last year), and Kazakhstan is 140th (down from 133rd in 2012). Of the countries that have been invited to join the Customs Union, Armenia was ranked 94 (36 points), and Kyrgyzstan was 150th (24 points).

In the countries of the Customs Union, life is good for the *nomenklatura* [ruling class], the “red directorate” [former Soviet managers], and the security services. They pretend to fight corruption and that everyone is equal before the law. In fact, they protect the interests of their bosses, top managers, and each other. Those who spend other people's money are turning the divine bounty of the country, in the form of natural resources (Russia, Uzbekistan, Turkmenistan, Kazakhstan), into a resource curse.

In our region, even democracy has become a curse. Take the example of Ukraine and Moldova. Our southern neighbors are firmly stuck in the cage of political consensus with interventionists from various political parties and factions. Ukraine is ranked 144th, with 25 points. Its politicians spend about 50% of GDP and just cannot learn to live within their means and pay their bills.

The second example of abuse and perversion of democracy is Moldova. Despite its policy of European integration, this country has fallen in the Corruption Perception Index from 94th place in 2012 to 102nd this year (35 points). Captivated by European ways, Moldovan politicians pass about 41% of their country's GDP through their hands. They admire the Scandinavian model, but they have forgotten the bitter experience of countries like Greece, Italy, Romania, and Bulgaria. Of course, Moldova's politicians have noble goals, but given the various political forces that dominate the government, the mechanisms to pursue them and the beneficiaries remain the same: the “court” businesspeople and the bureaucrats who provide cover for them.

Ordinary people don't care about the pretext under which half of the country's income is taken from them: the flags of the Eurasian Economic Union or the starry blue banner of the EU. This is the root of the deep distrust of government agencies, political parties, and parliaments. This is the cause of disappointment in democracy and growing support for the political model of

the strong hand. Looking at democracy, which has created a vicious circle of oligarchs, corrupt officials, and monopolists, Belarusians do not support it with much enthusiasm. Of all possible evils, they choose the one they know, the one they have become accustomed to and adapted to in the past 20 years. They have come to believe that in this system, a little bit of universal corruption might become a source of additional income.

Trend in Corruption Perception Index (CPI) 2004-2013

Rank					Country	Corruption Perception Index Score				
2013	2012	2011	2009	2004		2013	2012*	2011	2009	2004
1	1	1	1	2	New Zealand	91	90	9,5	9,4	9,6
1	1	2	2	3	Denmark	91	90	9,4	9,3	9,5
3	1	2	6	1	Finland	89	90	9,4	8,9	9,7
5	5	5	3	5	Singapore	86	87	9,2	9,2	9,3
28	32	29	27	31	Estonia	68	64	6,4	6,6	6
38	41	41	49	67	Poland	60	58	5,5	5,0	3,5
43	48	50	52	44	Lithuania	57	54	4,8	4,9	4,6
49	54	61	56	57	Latvia	53	49	4,2	4,5	4
102	94	112	89	114	Moldova	35	36	2,9	3,3	2,3
80	80	75	75	71	China	40	39	3,6	3,6	3,4
123	123	143	139	74	Belarus	29	31	2,4	2,4	3,3
140	133	120	120	122	Kazakhstan	26	28	2,7	2,7	2,2
127	133	143	146	90	Russia	28	28	2,4	2,2	2,8
144	144	152	146	122	Ukraine	25	26	2,3	2,2	2,2

* A new scale has been used since 2012: from 0 (maximum level of corruption) to 100 (total lack of corruption)

Source: Corruption Perception Index 2013. Transparency International 2004, 2009-2013

Ranking of Former Soviet Countries in the Corruption Perception Index, 2002-2013

Country	Rank in the Corruption Perception Index										
	2002	2003	2005	2006	2007	2008	2009	2010	2011	2012	2013
Estonia	29	33	27	24	28	27	27	26	29	32	28
Poland	45	64	70	61	61	58	49	41	41	41	38
Lithuania	36	41	44	46	51	58	52	46	50	48	43
Latvia	52	57	51	49	51	52	56	59	61	54	49
Moldova	93	100	88	79	111	109	89	105	112	94	102
Belarus	36	53	107	151	150	151	139	127	143	123	123
Russia	71	86	126	121	143	147	146	154	143	133	127
Kazakhstan	88	100	107	111	150	145	120	105	120	133	140
Ukraine	84	106	107	99	118	134	146	134	152	144	144

* First place = least corrupt country in the world

Source: Corruption Perception Index 2013. Transparency International 2004, 2009-2013

*WEF Networked Readiness Index*¹⁹

The World Economic Forum (WEF) and the prestigious business school INSEAD have published a report on the state of information technology in the world, the Global Information Technology Report 2013. It presents a detailed analysis of modern information and telecommunications technologies (ITT). Without them, no country can hope for economic success, prosperity, and competitive business in the long term.

The concept of the Internet of Everything (IoE) is gaining popularity in the world. This is a process of “smart” connections between people, data, processes, and things. 99% of the things in the outside world are not yet connected to the internet, but the Report's authors believe this number will decrease dramatically. In order to maximize human potential, a country needs modern, hi-tech, fast networks. Networked readiness is becoming one of the most important aspects of a country's economic security.

Smart networks will be the driver of a new wave of innovation, growth in labor productivity, and new jobs. Creating jobs requires close cooperation and honest partnership among manufacturers, researchers, consumers, and government. Businesses offer new goods and services. Researchers expand the frontiers of knowledge and contribute to the development of new technologies. Consumers test innovations and vote with their dollars, euros, and rubles. The government also has a job to do. It is responsible for creating a favorable business climate, primarily by protecting property rights and upholding the principles of trade freedom.

The WEF report discusses the link between the development of information and telecommunications technologies (ITT) on the one hand and economic growth and employment on the other. This topic is extremely relevant, especially in the context of the catastrophic state of youth employment in Europe and the deterioration of the labor market in Belarus. The authors believe that expanding networks in the country will have a beneficial effect on both growth and employment.

The world leaders in the Networked Readiness Index are the Scandinavian countries and the South Asian tigers. Of the five Scandinavian countries, four are in the Top 10 : Finland (ranked first in the world), Sweden, Norway, and Denmark). Iceland is in 17th place. Singapore is ranked second in the world, Taiwan is 10th, South Korea is 11th, and Hong Kong is 14th. These small, open economies understand perfectly well that their competitive advantages are modern ITT, energy infrastructure, transportation, and the highest standards in education and health care. At today's speeds, the meaning of “far away” has shrunk dramatically. The world has become flat. It values uniform international standards for business and communication, so that people with money, ideas, and creative plans can start businesses with as few headaches as possible.

On the sub-index of infrastructure development and digital content, all five Scandinavian countries are in the Top 10. They stand head and shoulders above not only the countries of Africa and Latin America, but even Southern and Eastern Europe. The Southeast Asian “tigers” have the world's best business climate and environment for innovation. The governments in these countries are true world leaders in advancing the digital agenda.

In 2013, for the first time, Finland ranked first among 144 countries. This country

19 Global Information Technology Report 2013. World Economic Forum.
http://www3.weforum.org/docs.WEF_GITR_Report_2013.pdf

improved its scores in 2/3 of the 54 indicators. Twenty-seven indicators were taken from surveys of fifteen thousand experts, analysts, and business leaders, and the other half are quantitative indicators taken from the International Telecommunications Union (ITU), the World Bank, and the UN. Singapore remained in second place. Sweden, last year's leader, rounds out the top three, remaining one of the few knowledge economies in the world.

Of the countries of the former Soviet Union, Estonia has the highest rank in the Networked Readiness Index. It rose two places in 2013, to 22nd. Lithuania (32nd place) is also on the threshold of the Top 30. Kazakhstan significantly improved its position, rising 12 places to 43rd place since last year. Russia is also moving up, albeit more slowly (from 56th to 54th place).

According to the Mises Center in the Strategy Analytical Center, Belarus also improved its position. According to estimates, our country would rank about 64th, still a long way from the world leaders. But we are catching up, breathing down the neck of even Russia and Kazakhstan.

Digitization is the use of digital services by consumers, companies, and governments on a massive scale. It drives economic growth and facilitates job creation. According to Booz & Company, digitization has increased gross world product by \$193 billion and created six million jobs. "Increasing digitization in a country by 10% leads to growth in per capita GDP of 0.75%." The same study shows that raising the level of digitization by 10 points reduces unemployment by 1.02%.

The use of 3G and 4G technology can radically modernize not only business, but also education, medicine, and even manufacturing. The explosive growth in the production of goods using 3D printers requires high-speed internet and sophisticated technologies for storing and managing data.

Belarus has not yet entered the digital world in a serious way. The Ministry of Communications and Information Technology, in conjunction with the Beltelecom monopoly, is slowing down digitization and the development of modern network resources in our country. Belarus does not yet understand the concept of the Internet of Everything (IoE) and has not adopted it as a guideline. As a result, our country is lost in the middle of the ratings, among the countries that are not taking advantage of their strengths. But one must only look at the Scandinavian countries and study the lessons of the "Asian tigers" to understand what strategy our country should follow in order to avoid wallowing for years in the analog era of paper letters, telegrams, and archaic faxes.

Networked Readiness Index 2012, 2013

Rank		Country	Index Score	
2013	2012		2013	2012
1	3	Finland	5.98	5.81
2.	2.	Singapore	5.86	5.96
3.	1.	Sweden	5.94	5.91
4.	6.	Netherlands	5.60	5.81
5.	7.	Norway	5.66	5.59
6.	5.	Switzerland	5.66	5.61
7.	10.	United Kingdom	5.64	5.50
8.	4.	Denmark	5.58	5.70
9.	8.	USA	5.57	5.56

10.	11.	Taiwan	5.47	5.48
11.	12.	South Korea	5.46	5.47
14.	13.	Hong Kong	5.40	5.46
13.	16.	Germany	5.43	5.32
20.	14.	New Zealand	5.25	5.36
21.	18.	Japan	5.24	5.25
22.	24.	Estonia	5.12	5.09
32.	31.	Lithuania	4.72	4.66
34.	39.	Chile	4.59	4.44
41.	41.	Latvia	4.43	4.35
43.	55.	Kazakhstan	4.32	4.03
49.	49.	Poland	4.19	4.16
54.	56.	Russia	4.13	4.02
56.	61.	Azerbaijan	4.11	3.95
58.	51.	China	4.03	4.11
64.	67.	Belarus*	3.93	3.90
73.	75.	Ukraine	3.87	3.85
77.	78.	Moldova	3.84	3.78
82.	92.	Armenia	3.76	3.52
142	142.	Haiti	2.58	2.27
144	-	Burundi	2.30	-

* Assessment by the Mises Research Center at the Strategy Analytical Center
Source: Global Information Technology Report 2013. World Economic Forum.
http://www3.weforum.org/docs/WEF_GITR_Report_2013.pdf

Networked Readiness Index 2013

Indicator	Poland		Russia		Kazakhstan		Ukraine		Finland		Belarus*	
	Rank	Points	Rank	Points	Rank	Points	Rank	Points	Rank	Points	Rank	Points
Rank (of 144 countries, index score (1-7))	49	4.19	54	4.13	43	4.32	73	3.87	1	5.98	64	3.93
A. Subindex: Environment	55	4.10	102	3.58	66	3.93	105	3.54	3	5.59	114	3.40
1. Political and regulatory environment	62	3.80	108	3.24	77	3.63	124	3.01	3	5.84	126	3.0
2. Business and innovation environment	53	4.41	90	3.92	64	4.23	78	4.07	7	5.34	73	4.18
B. Subindex: Readiness	37	5.26	32	5.29	50	4.98	29	5.34	1	6.51	39	5.2
3. Infrastructure and digital content	38	5.00	43	4.72	63	4.14	74	3.85	2	6.87	61	4.11
4. Access	47	5.63	18	6.23	36	5.90	2	6.88	19	6.22	28	6.02
5. Skills	47	5.15	61	4.91	62	4.91	35	5.30	1	6.45	47	5.15

C. Subindex: Use	50	4.01	56	3.91	42	4.18	95	3.27	2	5.97	61	3.8
6. Individual use	33	5.00	45	4.51	54	4.06	74	3.17	6	6.40	46	4.5
7. Business use	74	3.41	95	3.24	85	3.34	84	3.35	3	5.97	103	2.8
8. Government use	107	3.62	74	3.99	23	5.13	121	3.28	10	5.55	107	3.5
D. Subindex: Impact	77	3.38	53	3.72	37	4.18	81	3.32	3	5.86	68	3.6
9. Economic impact	64	3.31	54	3.38	66	3.28	74	3.21	1	5.99	73	3.3
10. Social impact	86	3.45	50	4.06	23	5.09	87	3.43	9	5.74	89	3.35

* Assessment by the Mises Research Center at the Strategy Analytical Center

Source: Global Information Technology Report 2013 Growth and Jobs in a Hyperconnected World. World Economic Forum. http://www3.weforum.org/docs/WEF_GITR_Report_2013/ April 2013