

Running a Business in Belarus

New data from Enterprise Surveys indicate that tax reforms undertaken by the government of Belarus are positively impacting the private sector. Firms interviewed in 2005 and 2008 report significantly fewer required meetings with tax officials and lower incidence of tax-related bribes. Nevertheless, firms continue to report high tax rates as the biggest obstacle to their establishment. This is not surprising, given Belarus's bottom ranking for Doing Business paying taxes index. In addition, adhering to government regulations is time consuming in Belarus. Relative to Eastern Europe and Central Asia (ECA) countries, Belarussian firms indicate that a large percentage of senior management time is spent dealing with the requirements of government regulations (table 1). Belarus leads ECA countries in female participation in both employment and ownership, ranking third in both measures. Belarus also stands out in the region as having the largest percentage of government or state ownership in firms with mixed ownership (figure 1).

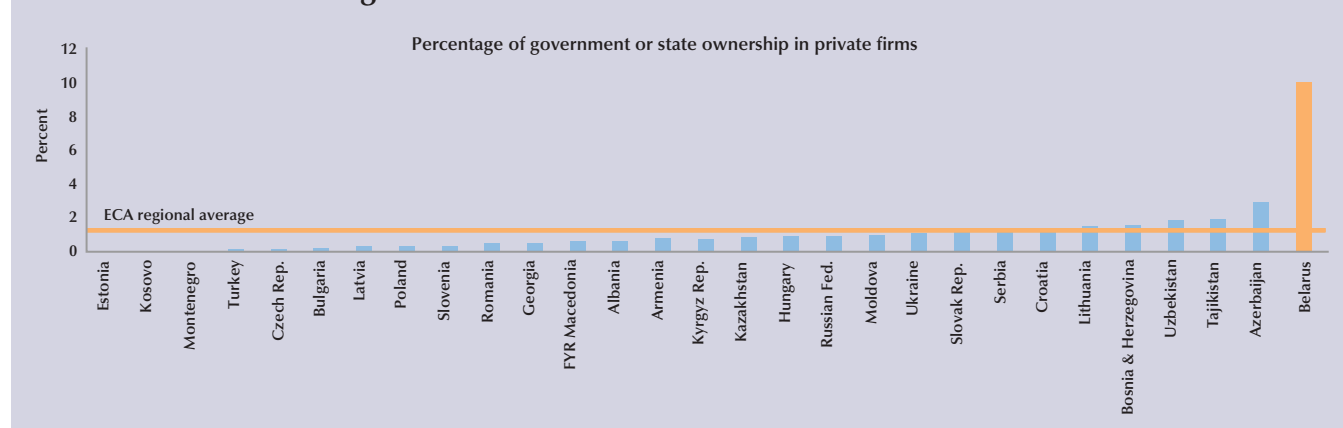
The Enterprise Surveys¹ use standard survey instruments to collect firm-level data on the business environment from business owners and top managers. The surveys cover a broad range of topics, including access to finance, corruption, infrastructure, crime, competition, labor, obstacle to growth, and performance measures. The survey is designed to be representative of a country's private nonagricultural economy, and firms sampled are stratified by size, location, and sector (figure 2)² to ensure that most major types of firms are covered. Only firms with five employees or more are included in the sample. In Belarus,

273 firms were interviewed from May through August 2008. The information collected refers to the characteristics of the firm at the moment of the survey, or to fiscal year 2007.

What is the average firm in Belarus?

Belarus stands out within the region as having very large firms. On average, firms³ have 91 permanent full-time workers, more than double the average for all ECA countries combined (table 2). Among ECA countries, only Russian firms have a higher average: 118. However, over 40 percent of the firms in retail and other services sector in Belarus

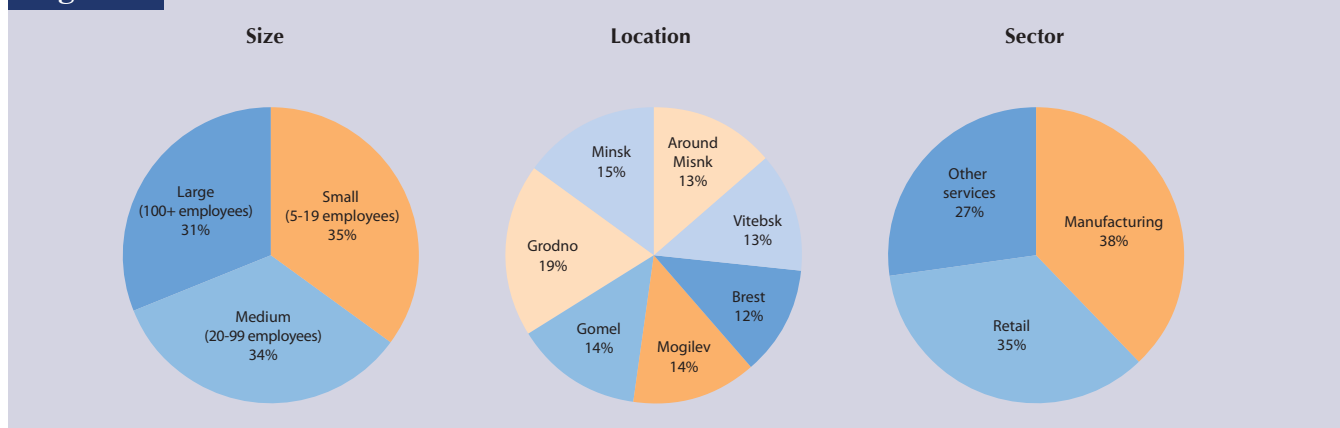
Figure 1 Belarus has the highest government participation in private firms across the region



Source: Enterprise Surveys.

Note: A private firm is an enterprise that operates in the private sector independently of its legal form (privately held versus publicly held). In fact, in Belarus 43 percent of the private firms with government participation in ownership are publicly listed companies.

Figure 2 Characteristics of the firms interviewed



Source: Enterprise Surveys.

have 10 employees or less. Among large firms in Belarus, the average number of permanent full-time workers is 389.

Belarusian firms also lead ECA in having the highest proportion of government or state ownership in private firms, on average 10 percent (figure 1). Compared to small or medium-size private firms, large private firms have significantly higher government or state ownership: 6 percent or 9 percent, versus 24 percent. Government participation in the ownership of private firms may be one of the driving forces behind such large workforce sizes.

In Belarus, firms have been in business, on average, for 15 years, but nearly half of all firms have been in opera-

tion for 12 years or less. Smaller firms tend to be younger, at approximately 11 years, while large firms have been in business for approximately 25 years. Firms with foreign participation in ownership also tend to be younger compared to domestically owned firms (firms with less than 10 percent of foreign ownership): 8 versus 16 years. Furthermore, firms with government participation in ownership are twice as old as firms with less than 5 percent of government participation in ownership (26 versus 12 years).

Female participation in both ownership and work force is common (figure 3). Belarus is ranked third among ECA countries for female participation in firm ownership, with

Table 1 How does Belarus 2008 compare within Eastern Europe and Central Asia?

	Descending ranking (out of 29 countries)
Ranking 1 assigned to the largest value	
Percent of firms formally registered when started operations in the country	13
Private domestic ownership (%)*	29
Private foreign ownership (%)*	11
Government/state ownership (%)*	1
Percent of firms with female participation in ownership	3
Bank finance for investment (%)	17
Percent of exporter firms	13
Domestic sales (% of sales)	14
Percent of firms with internationally recognized quality certification	22
Percent of firms with annual financial statement reviewed by external auditor	10
Capacity utilization (%)	15
Percent of firms using their own Web site	18
Percent of firms using e-mail to communicate with clients/suppliers	14
Ranking 1 assigned to the smallest value	
Value of collateral needed for a loan (% of the loan amount)	11
Number of power outages in a typical month	6
Senior management time spent in dealing with requirements of government regulation (%)	25
Average number of visits or required meetings with tax officials	11
Incidence of graft index **	21
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	17

Source: Enterprise Surveys.

Note: This table presents a ranking out of 29 economies for each of the listed indicators. The numbers are ranks as opposed to the actual value of the indicator.

Table 2 The average firm in Belarus 2008

	Belarus	ECA-29 †	EU-10 ‡
Age (years)	14.9	13.9	13.9
Percent of firms formally registered when started operations in the country	98.5	96.8	98.7
Most common legal form	Closed Shareholding Co.	Closed Shareholding Co.	Closed Shareholding Co.
Private domestic ownership (%)*	82.5	91.3	90.3
Private foreign ownership (%)*	6.9	6.2	7.4
Government/state ownership (%)*	10.2	1.1	0.5
Percent of firms with female participation in ownership	52.9	36.7	39.0
Percent of firms with female in top management position	24.8	18.9	22.2
Experience of the top manager (years)	13.0	16.1	17.2
Average number of temporary workers	2.6	3.2	2.5
Average number of permanent, full-time workers	91.2	43.4	36.4
Percent of full-time female workers	49.3	38.5	40.1

Source: Enterprise Surveys.

more than half of the firms having women as at least one of the owners (53 percent). Only Moldova (53 percent) and Kyrgyz Republic (60 percent) have higher proportions of firms with female participation in ownership. Firms with female participation in ownership have significantly more permanent full-time workers (127 versus 46). This is partly because, compared to services firms, manufacturing firms are more likely to have female participation in ownership (and manufacturers employ significantly more workers than services firms: 210 versus 56). Furthermore, firms with government participation in ownership are also more likely to have female participation in ownership. Compared to all ECA countries, Belarussian firms have, on average, a very high percentage of full-time female workers: 49 percent. Only Romania and Montenegro have a higher percentage, with 55 percent and 51 percent, respectively. Across the full sample, nearly one-fourth of firms report having a female as the top manager. Firms with a female top manager employ a higher percentage of full-time female workers: 76 percent versus 40 percent in firms with a male top manager.

How do businesses operate in Belarus?

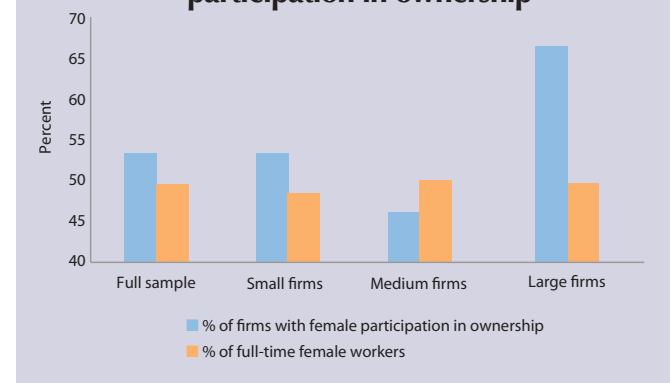
Similar to most firms in ECA, Belarussian firms rely mainly on internal financing for purchases of fixed assets. Even though more loans require collateral, the ratio of collateral to loan value is lower compared to ECA countries (table 3). However within Belarus, smaller firms report a significantly higher collateral-to-loan ratio compared to medium-size or large firms: 134 percent versus 109 or 115 percent, respectively. Belarus stands out among ECA countries for its high percentage of sales that are prepaid, almost double of the overall ECA average (table 3). Only Russia, Kazakhstan, and Uzbekistan have higher percentages of prepaid sales in the region.

Belarus is more integrated in international trade than most countries in ECA: 26 percent of firms export. The

use of material inputs or supplies of foreign origin is also high in Belarus: 73 percent of manufacturing firms use foreign inputs. Not surprisingly, firms with government participation in ownership use significantly more domestic inputs compared to fully privately owned firms: 86 percent versus 56 percent. The firms in and around Minsk are less likely to use inputs of foreign origin than in any other region: 22 percent in and around Minsk versus the national average of 73 percent.

Belarussian firms may be more integrated in global trade than most countries in ECA, but overall they significantly lag in innovation and technology, specifically in the areas of internationally recognized quality certification and internet usage. Compared to other ECA countries, fewer firms have an internationally recognized quality certification and fewer firms have their own Web site. Both quality certification and Web site usage are more common among large firms. However, e-mail use to communicate with clients or suppliers is higher for Belarus than the ECA average. Firms with foreign participation in ownership

Figure 3 Compared to medium and small firms, large firms have higher female participation in ownership



Source: Enterprise Surveys.

Table 3 Choices by the average firm in Belarus 2008

	Belarus	ECA-29†	EU-10‡
Internal finance for investment (%)	65.0	59.7	58.8
Bank finance for investment (%)	21.0	22.9	25.7
Value of collateral needed for a loan (percent of the loan amount)	118.4	132.2	123.4
Loans requiring collateral (%)	86.4	81.0	74.2
Percent of firms with a checking or savings account	92.3	88.9	85.2
Percent of exporter firms	26.0	22.1	29.1
Domestic sales (percent of sales)	91.1	90.8	88.3
Sales exported directly (% sales)	6.9	7.1	9.5
Sales exported indirectly (% sales)	2.0	2.0	2.2
Sales that are pre-paid (%)	40.4	23.0	11.2
Sales sold on credit (%)	46.0	49.4	66.3
Percent of firms with internationally recognized quality certification	13.9	20.0	25.8
Percent of firms with annual financial statement reviewed by external auditor	43.8	37.9	38.6
Capacity utilization (%)	74.8	73.7	81.3
Percent of firms using their own Web site	36.4	48.5	63.6
Percent of firms using e-mail to communicate with clients/suppliers	81.0	73.1	88.3

Source: Enterprise Surveys.

have a higher usage of all three innovation and technology domains: quality certification, Web sites, and e-mail usage⁴ (figure 4). Furthermore, domestically owned firms are less likely to have their financial statements reviewed by external auditors, compared to firms with foreign participation in ownership: 40 percent versus 74 percent.

What constrains firms in Belarus?

Taxes are the number one constraint for firms in Belarus. This is reflected in its *Doing Business 2009* ranking of 181 out of 181 economies in the paying taxes indicator. When asked to choose the biggest obstacle facing the establishment among 15 obstacles presented, almost 26 percent of firms chose tax rates. Fifteen percent of firms chose business licensing and permits, and another 14 percent of firms chose inadequately educated workforce as the biggest obstacle. Despite Transparency International's 2008 ranking of Belarus at 151 out of 180 in their Corruption Perceptions Index, Enterprise Survey data indicate that businesses perceive regulatory and tax burdens as bigger constraints than corruption.

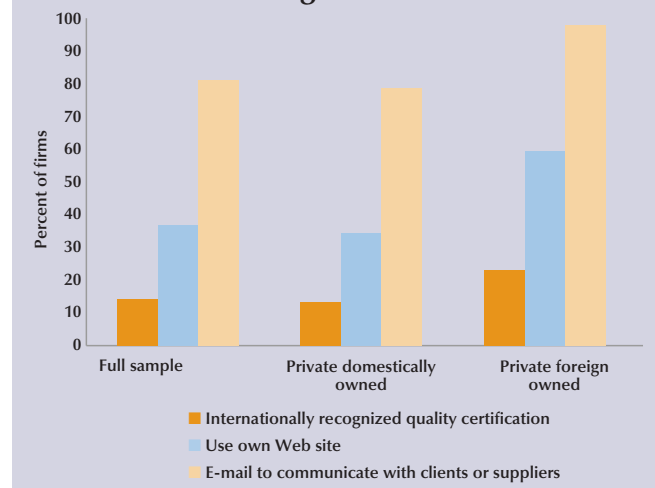
While the majority of firms perceive tax rates as a large burden, exporter firms perceive it to be a major constraint significantly more than nonexporter firms (81 percent versus 58 percent). Exporter firms report twice as many visits or meetings with tax officials per year as do nonexporters (1.9 versus 1.0); however, this difference is not statistically significant. In addition, larger firms report significantly higher number of visits compared to small firms (1.9 versus 0.7).

Regulations are time consuming in Belarus. Only four other ECA countries report more senior management

time spent in dealing with requirements of government regulation than Belarus (13.6 percent): Macedonia (14.5 percent), Albania (17.0 percent), Russia (19.9 percent), and Turkey (27.1 percent). In Belarus, foreign-owned firms report significantly more senior management time spent on regulation than domestically owned firms (26 percent versus 12 percent). An example of regulatory burden is the long wait Belarusian firms face in obtaining an operating license; the average is 38 days from the day the application was submitted. Only three other ECA countries have higher averages: Slovenia (56), Russia (57), and Lithuania (65 days).

Despite business owners not identifying corruption as one of the major perceived constraints, the survey yielded some evidence that firms are actually burdened with corruption. Twenty-six percent of firms indicated that firms are

Figure 4 Innovation gap between domestic and foreign-owned firms



Source: Enterprise Surveys.

	Belarus	ECA-29 †	EU-10 ‡
Number of power outages in a typical month	1.4	5.2	2.1
Senior management time spent in dealing with requirements of government regulation (%)	13.6	10.6	9.5
Average number of visits or required meetings with tax officials	1.1	1.6	1.1
Percent of firms expected to pay informal payment to public officials (to get things done)	26.1	23.1	12.7
Incidence of graft index**	13.5	13.5	6.8
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	0.4	0.5	0.4
Percent of firms paying for security	61.0	57.7	62.2

Source: Enterprise Surveys.

expected to make an informal payment to “get things done” regarding customs, taxes, licenses, regulations, and services. A slightly higher proportion compared to the ECA regional average of 23 percent. Small firms are more likely to report this type of bribery than large firms (38 percent and 6 percent, respectively). On the contrary, a small percentage of firms reported that informal gifts are required to secure a government contract (7 percent) in Belarus compared to the ECA regional average (19 percent). These differences might partially explain the perception of corruption by firms in Belarus as less of a burden as it would have been expected on the basis of Transparency International’s poor ranking. Moreover, firms may have simply shied away from reporting the true prevalence of corruption.

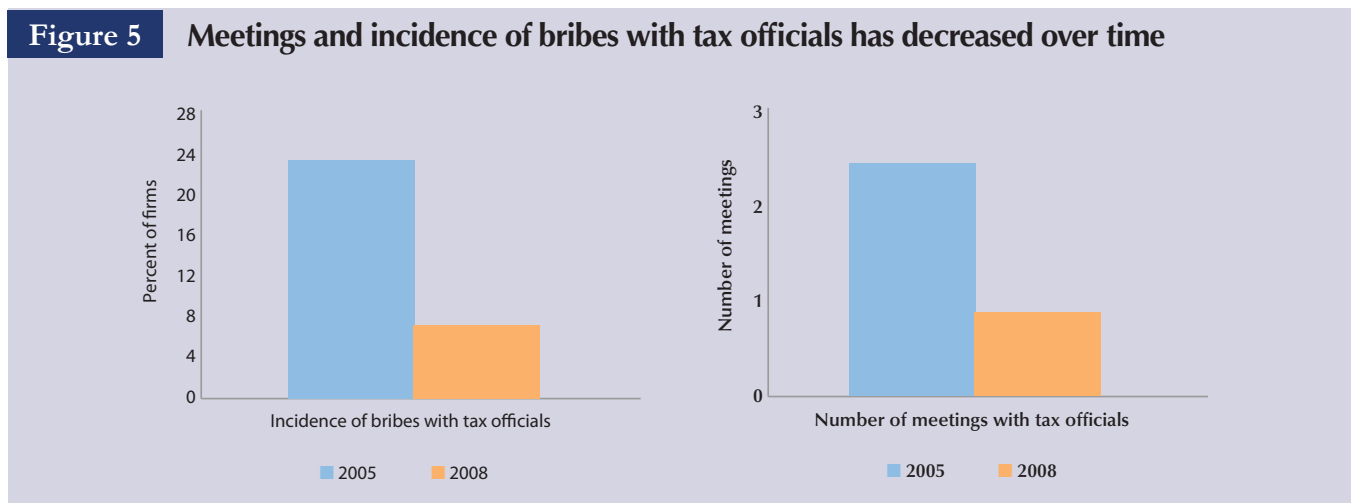
Belarus fares well among ECA countries in terms of infrastructure, specifically electricity and water supply. Compared to the ECA region, Belarus firms report few power outages in a typical month: 1.4 compared to 5.2 (table 4). Similarly, firms in Belarus report fewer numbers of incidents of insufficient water supply: 1.8 in a typical month compared to 4.9.

Compared to other ECA countries, firms in Belarus have similar experiences with the costs of security and crime victimization: 61 percent of firms pay for security and, on

average, 0.4 percent of annual sales is lost due to theft and vandalism. Nonexporter firms pay significantly more than exporter firms for security (1.5 percent versus 0.6 percent of annual sales). Security costs are significantly higher for small firms (1.8 percent of annual sales) than for medium firms (0.7 percent of annual sales). The survey data suggest that it is beneficial for firms to have some government ownership when it comes to being victims of crime. Private firms pay significantly more for security (1.5 percent versus 0.6 percent of annual sales for firms with government participation in ownership), yet despite greater spending on security, private firms lose significantly more to theft and vandalism: 0.5 percent of annual sales versus 0.02 percent for firms with government participation in ownership.

How has the business environment changed over the past three years?

The Enterprise Surveys data provide the tools to monitor changes in the business environment across different rounds of surveys. In Belarus, of 273 firms interviewed in 2008, 71 were also previously surveyed in 2005.⁵ Since the same firms are interviewed over time, this subset of data is more appropriate to evaluate the evolution of the business environment and the impact of business environment



Source: Enterprise Surveys.

reforms than the full data sets for both years. Considering the full data sets would introduce effects that are the result of variations in the sample composition over the two years.⁶ Therefore, the following analysis refers only to these firms that were interviewed in both rounds of surveys.

The cross-year analysis produces two important results. First, the number of visits or required meetings with tax officials decreased significantly between 2005 and 2008 (2.5 versus 0.9). This reduction occurred in parallel with a tax reform; on Jan 1, 2006, the tax rates for turnover tax and transport tax were decreased as described in the *Doing Business 2007* report. The reduction in the number of tax visits is robust across different subsets of the firms interviewed in 2005 and 2008. For instance, this result holds for fully domestically owned firms, large firms, and manufacturing firms. Similarly, the percentage of firms reporting incidence of bribes with these tax officials decreased between 2005 and 2008 (23 percent versus 7 percent).⁷ Despite Belarus's current rank of 181 in paying taxes, and despite the fact that 62 percent of firms perceive tax rates as a major constraint, empirical evidence indicates that tax reforms are positively affecting firms (figure 5).

Second, firms in Belarus report a higher percentage of sales that are sold on credit: 25 percent in 2005 versus 48 percent in 2008. This increase is consistent across different types of firms. Nonexporting firms, domestically owned firms, retail firms, and medium sized firms all experienced this increase. In parallel, the percentage of sales that are prepaid also doubled from 20 to 40 percent over the same period.

In summary, apart from infrastructure, Belarussian firms lag behind the rest of ECA in many of the measures presented in this note. Firms identify tax rates and compliance with government regulations as the biggest obstacles to their performance. Overcoming these constraints, along with firms' increasing use (and workforce knowledge) of technology are reforms that could potentially reduce the gap between Belarus and other Eastern Europe and Central Asian countries.

Notes

1. The Enterprise Surveys, implemented in Eastern Europe and Central Asia countries, are also known as Business Environment and Enterprise Performance Surveys (BEEPS) and are jointly conducted by the World Bank and the European Bank for Reconstruction and Development for this geographic region.
 2. This figure presents the unweighted distributions by size, sector, and location of the firms interviewed without any inferences to the whole economy.
 3. The term "average firm" is used to convey the average firm characteristics from the Belarus 2008 Enterprise Survey. The sample of firms interviewed is representative of the manufacturing and services sectors of the economy. For more information on the survey methodology please consult <http://www.enterprisesurveys.org/Methodology/>
 4. However, for the first two variables the difference is not statistically significant.
 5. The information collected in 2005 refers to the characteristics of the firm at the moment of the survey or to fiscal year 2004.
 6. The firms surveyed in both years may not be representative of the Belarus private nonagricultural economy since these are a subset of the full sample. Firms with fewer than five employees may be included among the firms surveyed in both years. The analysis presented is purely descriptive and does not aim at establishing causality between reforms and their intended effects.
 7. This decrease is marginally significant at $p=0.09$.
- * The ownership variables represent the average ownership composition within a firm. These variables do not represent the ownership composition across firms.
- ** Incidence of Graft Index is the percentage of instances in which a firm was either expected or requested to provide a gift or informal payment during solicitations for public services, licenses, or permits. This Index uses data from six survey questions for each firm. For purposes of Index computation, a refusal to answer a particular survey question is considered an affirmative answer. This Index is a modified version of the Graft Index defined in A. Gonzalez et al. 2007. World Bank Policy Research Working Paper #4394.
- † ECA includes Albania 2009, Armenia 2009, Azerbaijan 2009, Belarus 2008, Bosnia and Herzegovina 2009, Bulgaria 2009, Croatia 2009, Czech Republic 2009, Estonia 2009, Georgia 2008, Hungary 2009, Kazakhstan 2009, The Republic of Kosovo 2009, Kyrgyz Republic 2009, Latvia 2009, Lithuania 2009, FYR Macedonia 2009, Moldova 2009, Montenegro 2009, Poland 2009, Romania 2009, Russian Federation 2009, Serbia 2009, Slovak Republic 2009, Slovenia 2009, Tajikistan 2008, Turkey 2008, Ukraine 2008, and Uzbekistan 2008.
- ‡ EU-10 includes 2009 data from Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

The Enterprise Surveys measure the business environment in over 100 countries in the world. A standardized questionnaire, universe under study, and implementation methodology is used to make sure information is comparable across countries and time. The full data and documentation explaining the methodology are available at www.enterprisesurveys.org.

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