

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 European and Central Asian (ECA) countries, Belarussian firms indicate that a large percentage of senior management time is spent dealing with the requirements of government regulations. 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 a large percentage of government or state ownership in firms with mixed ownership (figure 1).

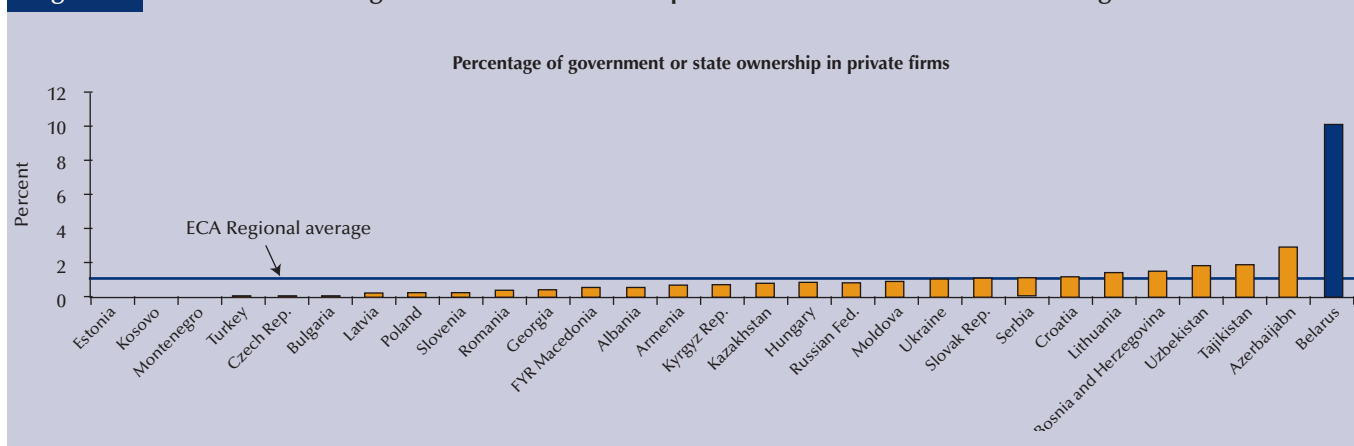
The Enterprise Surveys¹ use standard survey instruments to capture data on the business environment and its effect on competitiveness and firm performance, the relative importance of various constraints to employment and productivity, and the business perceptions of the biggest obstacles to enterprise growth. 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

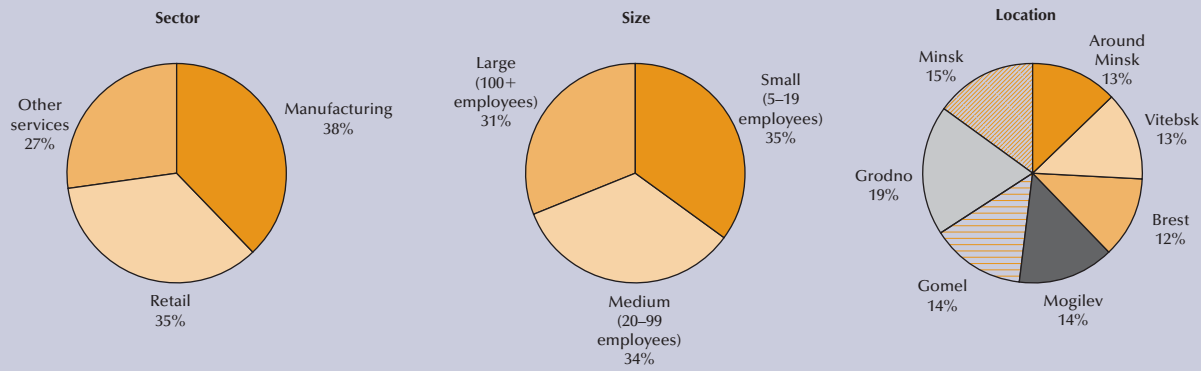
Figure 1 Belarus Has the Highest Government Participation in Private Firms across the Region^a



Source: Enterprise Surveys.

a. 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.

Russian firms have a higher average: 118. However, over 40 percent of the firms in retail and other services sectors in Belarus have fewer than 10 employees. Among large firms in Belarus, the average number of permanent full-time workers is 389.

Belarussian 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 govern-

Belarus is ranked third among ECA countries for female participation in firm ownership.

ment 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 50 percent of firms have been in operation 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

Table 1 How Does Belarus 2008 Compare with Eastern Europe and Central Asia?

Ranking 1 assigned to the largest value	Descending ranking (out of 29 countries)
% of Firms Formally Registered When Started Operations in the Country	13
Private Domestic Ownership (%)*	29
Private Foreign Ownership (%)*	11
Government/State Ownership (%)*	1
% of Firms with Female Participation in Ownership	3
Bank Finance for Investment (%)	18
% of Exporter Firms	12
Domestic Sales (% of Sales)	15
% of Firms with Internationally Recognized Quality Certification	22
% of Firms with Annual Financial Statement Reviewed by External Auditor	10
Capacity Utilization (%)	15
% of Firms Using Their Own Web Site	18
% of Firms Using Email to Communicate with Clients/Suppliers	14
Ranking 1 assigned to the smallest value	Ascending ranking (out of 29 countries)
Value of Collateral Needed for a Loan (% of the Loan Amount)	11
Number of Power Outages in a Typical Month	4
Senior Management Time Spent in Dealing with Requirements of Government Regulation (%)	25
Average Number of Visits or Required Meetings with Tax Officials	10
Incidence of Graft Index **	13
Losses Due to Theft, Robbery, Vandalism, and Arson against the Firm (% of Sales)	17

Source: Enterprise Surveys.

Table 2 The “Average Firm” in Belarus 2008

	Belarus	ECA†	EU-10‡
Age (years)	14.9	14.0	14.1
% of Firms Formally Registered When Started Operations in the Country	98.5	96.8	98.7
Most Common Legal Form	Sole Proprietorship	Closed Shareholding Co.	Closed Shareholding Co.
Private Domestic Ownership (%)*	82.5	91.3	90.2
Private Foreign Ownership (%)*	6.9	6.2	7.5
Government/State ownership (%)*	10.2	1.2	0.5
% of Firms with Female Participation in Ownership	52.9	36.7	39.1
% of Firms with Female in Top Management Position	24.8	19.1	22.7
Experience of the Top Manager (years)	13.0	16.1	17.1
Average Number of Temporary Workers	3.3	5.7	3.4
Average Number of Permanent, Full-Time Workers	91.2	44.0	37.3
% of Full-Time Female Workers	49.3	38.7	40.5

Source: Enterprise Surveys.

be younger compared to purely domestic firms: 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 (25 versus 12 years).

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

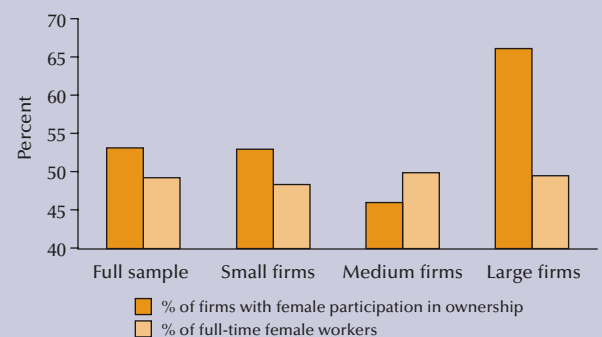
Compared to most firms in ECA, Belarussian firms rely less on bank financing for purchases of fixed assets. Even though more loans require collateral, the ratio of collateral to loan value is lower compared to ECA countries (table 3).

Belarus is more integrated in international trade than most countries in ECA.

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. Only Russia, Kazakhstan, and Uzbekistan have higher numbers 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. This percentage is comparable to that in Armenia and Montenegro. Not surprisingly, firms with government participation in ownership use significantly more domestic inputs compared to fully privately owned firms: 82 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.

Figure 3 Compared to Medium Firms, Large Firms Have Higher Female Participation in Ownership



Source: Enterprise Surveys.

Table 3 Choices by the “Average Firm” in Belarus 2008

	Belarus	ECA†	EU-10‡
Internal Finance for Investment (%)	66.0	62.2	62.3
Bank Finance for Investment (%)	21.2	23.8	26.7
Value of Collateral Needed for a Loan (% of the Loan Amount)	118.4	132.8	124.6
Loans Requiring Collateral (%)	86.4	81.1	74.3
% of Firms with a Checking or Savings Account	92.3	88.9	85.2
% of Exporter Firms	26.0	21.8	28.3
Domestic Sales (% of Sales)	91.1	91.0	88.6
Sales Exported Directly (% Sales)	6.9	7.0	9.2
Sales Exported Indirectly (% Sales)	2.0	2.0	2.2
Sales That Are Prepaid (%)	40.4	22.9	10.9
Sales Sold on Credit (%)	46.0	49.4	66.5
% of Firms with Internationally Recognized Quality Certification	13.9	19.9	25.6
% of Firms with Annual Financial Statement Reviewed by External Auditor	43.8	37.9	38.7
Capacity Utilization (%)	74.8	73.7	81.3
% of Firms Using Their Own Web Site	36.4	48.5	63.4
% of Firms Using Email to Communicate with Clients/Suppliers	81.0	73.2	88.5

Source: Enterprise Surveys.

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, email use to communicate with clients or suppliers is higher for Belarus than the ECA average. Firms with foreign participation in ownership have a higher usage of all three innovation and technology domains: quality certification, Web site, and email 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.

Taxes are the number one constraint for firms in Belarus.

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).

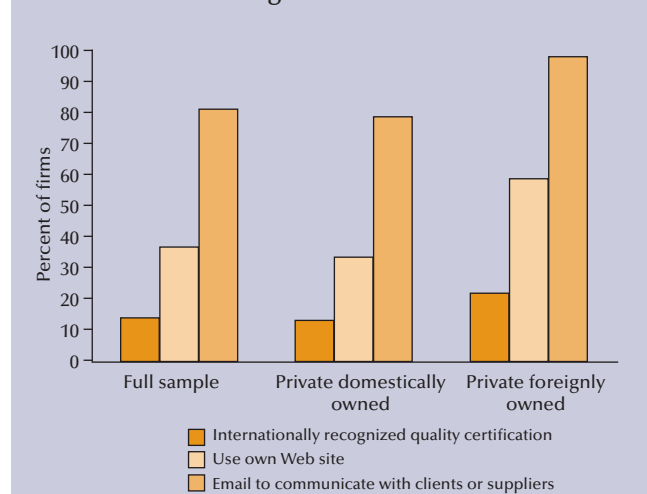
Regulations are time consuming in Belarus. Only four other ECA countries report more senior management time spent in dealing with requirements of government regulation than Belarus (13.6 percent): Macedonia (14.5 percent), Albania (17.0 percent), Russia (19.9 percent), and Turkey (27.1 percent). In Belarus, foreign-owned firms report significantly more senior management time spent on regulation than domestically owned firms (26 percent versus 12

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 25 percent of firms chose tax rates. Thirteen percent of firms chose business licensing and permits, and another 13 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

Figure 4 Innovation Gap between Domestic and Foreign-Owned Firms



Source: Enterprise Surveys.

Table 4 Constraints on the “Average Firm” in Belarus 2008

	Belarus	ECA†	EU-10‡
Number of Power Outages in a Typical Month	1.4	5.8	2.5
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	1.7	1.1
% of Firms Expected to Pay Informal Payment to Public Officials (to Get Things Done)	13.5	16.8	7.4
Incidence of Graft Index**	5.7	9.9	4.7
Losses Due to Theft, Robbery, Vandalism, and Arson against the Firm (% of Sales)	0.4	0.5	0.4
% of Firms Paying for Security	61.0	57.7	62.0

Source: Enterprise Surveys.

percent). An example of regulatory burden is the long wait Belarussian 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).

The survey yielded little evidence that firms are burdened with corruption. Only 14 percent of firms indicated that firms are expected to make an informal payment to “get things done” regarding customs, taxes, licenses, regulations, and services. Small and medium-size firms indicated this type of bribery with public officials; no large firms reported such bribes. Of the 57 firms that indicated they had secured, or attempted to secure, a government contract, only three firms reported that, in general, a bribe is necessary to secure the contract. It is unclear whether these data refute Transparency International’s poor ranking of Belarus or whether firms simply shied away from reporting the 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 (table 4). Only Latvia, Serbia, and Estonia report fewer power outages per month (0.7, 1.1, and 1.2 respectively) (table 1). Similarly, only firms in

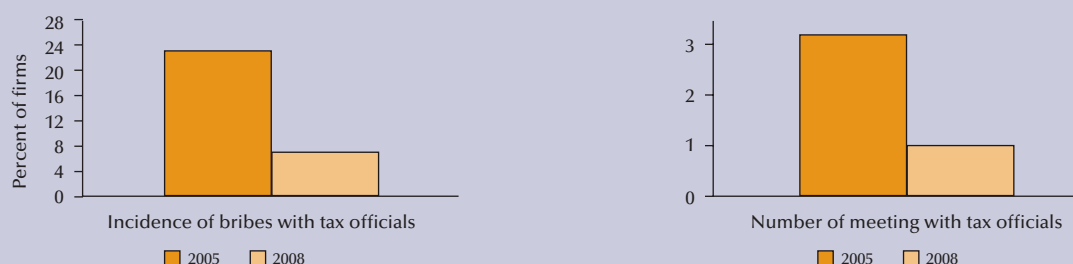
four other ECA countries report fewer number of incidents of insufficient water supply.

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 retail firms (2 percent) than for manufacturing or other services firms (0.7 percent and 0.5 percent, respectively). 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 0.03 percent for firms with government participation in ownership.

The number of visits or required meeting with tax officials decreased significantly between 2005 and 2008.

How Has the Business Environment Changed over the Past Three Years?

The Enterprise Surveys data provide the tools to monitor business environment progress across different rounds of

Figure 5 Meetings and Incidence of Bribes with Tax Officials Has Decreased over Time

Source: Enterprise Surveys.

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 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 meeting with tax officials decreased significantly between 2005 and 2008 (3.2 versus 1.0). 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's 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 $p=0.09$.

† 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 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 proportion of instances in which firms were either expected or requested to pay a gift or informal payment over the number of total solicitations for public services, licenses, or permits for that country. The Graft Index is defined in Gonzalez, Alvaro S., Ernesto Lopez-Cordova, J. and E. Valladares, Elio, *The Incidence of Graft on Developing-Country Firms*. World Bank Policy Research Working Paper Series, 2007.

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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