

BELARUS NATIONAL BUSINESS PLATFORM 2009

**ECONOMIC RECOVERY THROUGH BUSINESS DEVELOPMENT:
THERE IS NO OTHER WAY**

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INTRODUCTION

The Belarus National Business Platform (NBP) for 2009 proposes a comprehensive set of policies to promote economic recovery in our country. **These policies can significantly change the current economic relationships in the country.** Some of them may seem radical and revolutionary to some people, but it is the collective wisdom of the business community in Belarus that without comprehensive treatment, our economy will not return to health for a very long time. The causes of this economic disorder are both domestic and international. But there is no denying the fact that the economy is in a crisis from which it cannot recover on its own. After 52 quarters of uninterrupted economic growth (from 1996 to 2008), our economy is now entering a phase of contraction. Our traditional export markets are disappearing, and prices for exported goods are falling drastically. Domestically, the crisis of nonpayment is becoming exacerbated. It is becoming more expensive or impossible for the government to appropriate budget funds to support the real sector and the banks. The economic crisis is destroying old connections and production methods. Credit options are shrinking. The payment system and currency market are stressed. Hundreds of thousands of people in the country are at risk of losing their jobs.

In this situation, there is an urgent need for legislation to create a business climate that is more favorable than in neighboring countries, to provide real protection of property rights, and to uphold the principles of honest competition and free trade.

The government can rely on the country's business community. Under the right conditions, we could preserve existing jobs, create hundreds of thousands of new jobs, modernize the economy and take it to a new level of world-class growth, and actively integrate the younger generation into the economy to stop "brain drain" and capital flight.

The business community is ready to be involved in creative innovation, technological renewal, social programs, and other initiatives. To make this possible, the government must guarantee a stable macroeconomic environment, facilitate fast and inexpensive market entry for businesses, and provide effective protection of property rights. Key reforms include changing the system of audits, inspections, fines and sanctions, revising the licensing and permitting systems, reducing the tax burden, creating a tax administration system that is efficient and not overly burdensome for businesses, and reducing rents and interest rates. **The time has come for real, not merely rhetorical, public-private partnerships.**

In this situation, the implementation of the ideas of this Platform could be a crucial element in the systemic effort to promote economic recovery. The Belarus NBP proposes a comprehensive solution to four key problems: the need to stabilize the country's future revenues so it can respond to crises, enhance the competitiveness of the country's businesses, modernize the economy, and create new jobs.

The Belarus NBP-2009 offers proposals in six high-priority areas.

The document contains a list of key positive legislative changes enacted in 2008 and a description of the economic situation in Belarus and trends in the business climate. The ratings

Belarus receives from leading international organizations provide a perspective in which to consider the transformations we need in our country.

The Platform also describes the relationship between the business climate and factors like competitiveness, the level of prosperity in the country, and innovation. There is a high level of intellectual and political agreement in the business community on the need to create a favorable business community and apply a whole range of international norms and standards in Belarus.

The development of small and medium-sized business should be a top government priority in Belarus.

**Citizens of the Republic of Belarus!
Fellow business owners and our partners in government agencies!**

You have before you the Belarus National Business Platform 2009, the result of the efforts of thousands of Belorussian businesspeople. We are continuing the tradition of constructive, substantive dialog between the business community and government authorities. The goal of this dialog is to realize the creative potential of the country's citizens, promote sustainable economic growth, and achieve a high standard of living.

2009 is a unique year. The deep systemic crisis is forcing both business and the government to adapt to entirely new conditions. The time has come to take decisive action. Creating the conditions in which the people of Belarus can fulfill their potential is becoming a matter of national and economic security.

Belarus will have a prosperous future only if its citizens, the business community, and the government work together. The people need high-quality educational and health care systems. Businesses need protection of property rights and economic freedom. The government needs professionalism, openness, and accountability. And all of them need a culture of achievement, responsibility, hard work, mutual benefit, and solidarity. This is the environment in which innovative individuals, world-class business leaders, and true statesmen thrive.

This Platform is:

- A document created by practitioners and theoreticians, experts and businesspeople. Government officials and academicians provided input. We received thousands of comments and suggestions from business executives, auditors, accountants, lawyers, and economists.
- Not merely a list of recommendations for amendments to laws to improve the business climate in the country. It crystallizes the best practices and experience of other countries, takes the best practices from the application of the law in Belarus, and

applies the lessons learned from an analysis of the costs of administrative regulation. It represents the results of modeling the development of free enterprise in an environment of open competition and self-regulation.

- A part of the systemic effort to transform the Belarussian economy by unleashing the entrepreneurial talent of the Belarussian people, helping the country's small businesses overcome their constraints to becoming competitive, and integrating the regions of the country into significant financial, technological and commercial flows of domestic and international capital.
- A set of comprehensive proposals to build a strong, pro-business state, resist unaccountable bureaucracy, corruption, and cronyism, and support individual freedom, civil society, and mutual trust between government officials and businesspeople.
- A continuation of the tradition of advocacy by the business community. We have deliberately moved away from piecemeal, uncoordinated lobbying by individual companies toward supporting systemic proposals to improve the overall business climate. These ideas are generated by industry-specific, regional, and national business organizations and associations.

In 2008, the Platform served as a unifying document for the entire business community. But we are still at the beginning of the process. Of the 112 items in the 2008 Platform, 14 have been fully implemented. These include changes that eliminate the "golden" share, prohibit the confiscation of property and goods without a court order, and allow companies to engage in any lawful business, without the need to specify each type of business, including those for which a license is required, in the foundation documents and registration certificates and to notify the registration and tax authorities of changes in the type of business. There have been other improvements too.

We welcome the new procedures for registering and winding down a company (Decree No. 1, dated January 16, 2009), the suspension of audits and inspections, the reduction in the list of goods not requiring certification, and the plans to eliminate the licensing requirement for retail business and to liberalize prices.

Decisions are pending on 59 of the recommendations in the 2008 Platform. They have been incorporated either into draft documents or into the legislative agendas of various government agencies. No action has been taken on 11 recommendations in the 2008 Platform, and 28 of the recommendations are in the initial development stage.

The Plan of Top-Priority Measures to Liberalize Entrepreneurial Activity in 2009, which was adopted by the Council of Ministers and the Presidential Administration in early January, also contains several important, positive steps to emancipate free enterprise.

Significant changes have been made in the tax system. As of January 1, 2009, tax documents may be filed electronically. The Law on the Budget of the Republic of Belarus for 2009 introduced a flat personal income tax rate (12%), reduced the tax rate on retail sale of imported goods (from 15% to 5%), reduced the tax basis for the tax on real property, lowered the rate of

the agricultural fund fee from 2 to 1 percent of revenue, and reduced the automobile sales tax rate from 5 to 3 percent.

We support the government's plan to repeal the sales tax and the tax on services by July 31, 2009, and to repeal the 1% agricultural turnover tax, the tax on automobile sales, and various local taxes, as well as its intention to move toward a voluntary certification system, all in 2009.

The business community's proposals to ensure that the interests of small business are protected and represented were incorporated into the draft law on support of small and medium-sized private business. In September 2008, the business community presented its proposed legislative agenda for improving the business climate to many candidates for the House of Representatives in the National Assembly.

Top Priorities for Reforming the Business Climate

The Belarus National Business Platform 2009 identifies the following priorities for reforming the business climate:

- Protecting property rights, developing the institutions of a market economy, and privatization.
- Promoting competition and counteracting monopolistic practices.
- Enhancing the competitiveness of business and the efficiency of government, and creating public-private partnerships.
- Promoting transparency in government and social responsibility by businesses, and counteracting corruption.
- Simplifying the tax laws, tax administration, and accounting rules, and reducing paperwork requirements.
- Making information more accessible and government more open.

All of the proposals in the Belarus National Business Platform are important, interrelated, and comprehensive. However, there are certain key proposals, without which the other initiatives could not be fully implemented and systemic reform could not be achieved. We believe that the proposals in the Platform should be implemented in a coordinated and sequential manner, with the active involvement of the business community and experts in the field. The most urgent and important issues are:

1. Eliminating government price controls – item 1.
2. Introducing self-regulation mechanisms in the market – item 2.
3. Reducing the number and rates of taxes – item 104.
4. Reducing fines – item 83.
5. Simplifying paperwork requirements – item 103.

6. Eliminating wage restrictions – item 46.
7. Counteracting monopolistic practices – items 52 and 53.
8. Accelerating privatization – items 15 and 16.
9. Reducing rents – item 64.
10. Simplifying the certification process – items 29 and 30.
11. Reducing mandatory payments to the Social Protection Fund – item 105.
12. Improving credit policy – items 37 and 38.

I. Protecting Property Rights, Developing the Institutions of a Market Economy, Privatization

We propose the following solutions:

1. Eliminate government price controls for all businesses except companies with a dominant position on the market.
2. Enact legislation creating mechanisms of self-regulation of the market; involve business associations, other self-regulating organizations, and market participants in the process of establishing rules and standards of market behavior and in the drafting of laws and regulations governing this activity. Create a system allowing representatives of business and industry associations and businesses themselves to participate fully in the crafting and implementation of governmental economic development programs and decisions regarding the economic competitiveness of various industries, cities, regions, and the country as a whole.
3. As an essential element in the protection of property rights and the country's ability to attract investment, establish an independent appraisal system based on self-regulation of the appraisal process consistent with international appraisal standards.
4. Give state-owned and private companies access to resources on equal terms; prohibit discrimination against private entities in all segments of the market, including government procurement, trust management of assets, and sales through auctions and tenders.
5. Amend the General Part of the Tax Code of the Republic of Belarus to establish a rule that all inconsistencies in the law be interpreted in favor of the taxpayer.
6. Set the parameters of a predictable monetary policy with low inflation (under 15% in 2009) and transparent and understandable mechanisms for formulating exchange-rate policy; accumulate gold and currency reserves sufficient to effectively neutralize macroeconomic threats.
7. Enact legislation permanently extending the right of sole proprietors to convert their businesses into legal entities on preferential terms.

8. Adopt laws and regulations and change the way they are applied to promote rapid and unconditional administrative procedures to collect debts from businesses in order to minimize the cost to companies of dealing with insolvent or unscrupulous market participants. Impose harsh administrative penalties, up to and including removal from office, on officials who fail to timely execute court orders.
9. Draft and adopt laws and regulations allowing businesses in Belarus to insure their transactions voluntarily. These legislative mechanisms should ensure the performance of contractual obligations to pay for products delivered or services rendered. Establish a rule that the cost of insuring such transactions is included in the production cost of goods, work and services.
10. Discontinue the practice of freezing funds in accounts without a court order and seizing funds without recourse on the basis of orders from government agencies.
11. Enact a set of laws and regulations to enhance protection of the rights of property owners, including recognition that the laws of the former USSR and the Belorussian SSR apply under the current laws of the Republic of Belarus to protect the rights of previous investors as well as new investors who participate in the privatization of state assets being sold in the Republic of Belarus.
12. Prohibit government agencies and other organization, regardless of ownership, from requiring businesses to purchase regulations and technical standards at prices higher than the cost of printing or to subscribe to any publications.
13. Prohibit retroactive amendments to laws and regulations, including retroactive increases in rents, tariffs, taxes, fees, and other payments.
14. Simplify the process of transforming, restructuring, or reorganizing businesses in any manner not prohibited by law.
15. Accelerate the privatization of state-owned companies, with a preference for purchase by domestic businesses. Improve the laws and regulations governing this process, adopt legal provisions guaranteeing transparency at all stages of privatization and accountability of organizers and purchasers for compliance with obligations established by law.
16. Amend the Law on Privatization to establish clear procedures for setting the initial price of property being sold, notifying the public of the privatization, determining who may participate, conducting the auction, selecting the winner, paying the purchase price, conveying the property rights, and appealing the transaction.
17. Enact legislation allowing the sale of land to domestic companies.
18. Develop and implement mechanisms for state-owned companies and organizations to be managed in trust by private companies.
19. Accelerate the process of reforming unprofitable and barely profitable companies through bankruptcy, trust management, sale with deferred payment, gratuitous conveyance, or clear determination of title.
20. Eliminate the restriction on the number of bankruptcy proceedings an anti-crisis manager may conduct simultaneously. Authorize the courts to determine whether a

manager may conduct a bankruptcy proceeding, depending on the qualifications, experience, and reputation of the manager, the results achieved by the manager in prior bankruptcies, and the specific circumstances of the company.

21. Decrease the cost and complexity of auction and tender procedures. Eliminate the requirement that companies in which the state owns less than a 50% share use competitive bidding to purchase goods, work, and services using the company's funds.
22. In order to create a level playing field for businesses, prohibit government officials who are directly involved in the regulation of an industry or who manage state assets or property in an industry from participating in the organization of auctions and tenders at companies under their control.
23. Create procedures and mechanisms to expedite the sale of unused or inefficiently used state property (real estate, equipment, and materials) to domestic small and medium-sized businesses.
24. Create a properly functioning real estate market for manufacturing, warehouse, and office property, including by offering more property owned by the national and local governments for sale. Discontinue the practice of administratively setting rents for commercial real estate.
25. Simplify the process of making the first floors of multi-story residential buildings and adjacent commercial space available to retail businesses.
26. Adopt laws and regulations allowing small and medium-sized businesses in Belarus to purchase property they have leased from the state for more than three years at a price equal to the residual value of the property.
27. Expand the right of businesses to use and sell pledged property.
28. Promote the rapid growth of private businesses in fields like small-scale energy production, utilities, construction of energy-efficient housing, roadside services, passenger and cargo transportation, information technology, and communications. Allow private companies to purchase internet traffic abroad and provide services at contract prices in Belorussian rubles. Discontinue the practice of tying rates and prices of goods, work, and services to foreign currency.
29. Transition from mandatory to voluntary certification of construction work, tourist and other services; assist in the creation of voluntary certification centers.
30. Establish a simplified procedure to certify products produced by small businesses for up to five years. The only criterion for certification should be the safety of the product for consumers.
31. Delete rules that are impossible or difficult to comply with, obsolete, costly, and excessive from the standardization laws on construction, public health, and fire protection; eliminate contradictions in the requirements of various laws and regulations that apply to a particular form of business.
32. Optimize the fire-protection and public health standards and rules for retail businesses and restaurants; simplify the rules for small businesses.

33. Maintain government regulation in the form of licensing and certification only in areas where there is a direct threat to human life and health. Eliminate licensing of retail businesses and services.
34. Adopt a rule recognizing the validity in Belarus of certificates issued by internationally recognized certification agencies of other countries without the need to obtain a certificate issued by the certification agencies of the Republic of Belarus.
35. Allow companies to conduct the mandatory tests for employees to engage in activity for which a license or certificate is required in the manner provided by the labor laws at the company's premises, except when the educational institutions in the Republic of Belarus do not award degrees in a particular specialty.
36. Prohibit a business from obtaining a license and certificate to engage in a type of business simultaneously.
37. Make long-term (2 years or more) loans available to small and medium-sized businesses by increasing competition on the financial services market, adapting rules and standards recognized in the European Union, and creating incentives for the public to invest their savings in various financial instruments (shares, commercial paper, bonds, etc.).
38. Make loans available to businesses at world prices (comparable regional interest rates on basic financial instruments) by integrating the Belorussian financial system into the world financial system.
39. Accelerate the development of the secondary securities market based on international standards, principles, and norms.
40. Adapt mortgage loan mechanisms to help the country recover from its structural crisis, accelerate the process of selling buildings, facilities, infrastructure, and land.
41. Adopt regulations allowing commercial banks to appraise land and make loans secured by privately held land as commercial real estate.
42. Create a system to allow the public to invest their savings directly (without going through banks) in private businesses, including through the stock market (preferred shares, commercial paper, bonds, loans, etc.).
43. Adopt the notice principle for businesses to close bank accounts.
44. Develop an alternative dispute resolution system to resolve business disputes (arbitration panels within business associations, etc.).

II. Promoting Competition and Counteracting Monopolistic Practices

We propose the following solutions:

45. Repeal the rule requiring businesses to exchange 30% of their foreign-currency earnings, eliminate the restrictions on the purchase and sale of currency by businesses,

reinstate the right to obtain foreign currency in order to make prepayments on import contracts.

46. Discontinue the use of the Unified Wage Scale for employees of companies in which the state owns less than a 50% equity share.
47. Repeal administrative restrictions on imports, and eliminate subsidies to import substitution industries.
48. Eliminate duplicative functions among government agencies, increase efficiency in the funding of government agencies.
49. Outsource certain administrative and management functions to increase efficiency in government agencies and narrow the scope of governmental regulation in order to reduce the number of employees of government agencies (thereby reducing expenditures).
50. Prevent total government debt from exceeding 20% of GDP.
51. Impose harsher administrative penalties on government officials who make oral or written demands or issue directives or orders that are not authorized by the law, including orders restricting the sale of domestic goods not produced locally, requiring the sale of locally produced goods, and other actions by which government officials use their official powers to interfere with business unlawfully.
52. Form a Government Antitrust Committee subordinate to the President of the Republic of Belarus, enact legislation creating mechanisms that allow effective governmental and public control of monopolies and counteract corporate raiding and unlawful seizures of property. Create a Public Advisory Council to resist monopolistic practices and promote competition.
53. Enact a law on competition, adopt laws and regulations implementing the constitutional provisions guaranteeing “equal business opportunities” and “free competition”. Eliminate the exclusive right of state-owned companies to provide certain services and sell certain goods, including on the market for insurance and pension services.
54. Reduce the scope and areas of government investment, discontinue the practice of squeezing private investment out of the financial sector and the real economy, focus government spending on social programs and efforts to protect public life and health and property rights.
55. Discontinue the practice of administratively selecting the so-called “most important investment projects” and financing them from the state budget.
56. Enact legislation requiring that procurement contracts for at least 20% of goods purchased by governments be awarded to small and medium-sized businesses.
57. Hold competitions for the most innovative investment projects by private businesses.
58. Eliminate administrative restrictions on advertising and marketing goods by private businesses. Adapt the tax laws to accommodate the high PR and advertising costs of introducing new goods and services and marketing efforts.

59. Modify the current procedure for verifying the country of origin of goods to allow the use of shipping, transportation, and other accompanying documentation containing information on the country of origin of goods as the declaration of the country of origin of goods.
60. Prohibit customs authorities from collecting fees from businesses for customs clearance services that the authorities are required to perform by the general customs regulations.
61. Lower the requirements for small businesses and sole proprietors to obtain the status of “Good Faith International Business Entity”.
62. In order to promote the development of a modern health care market and increase the quality and accessibility of paid medical services, adopt a package of laws and regulations that:
 - Allow individuals to deduct from taxable income their expenses for medical treatment for themselves and their immediate family and the cost of health insurance (tax deduction);
 - Remove from the definition of income the amount of profit spent by companies to cover the medical expenses of their employees and their immediate families or to provide health insurance.

Companies that pay for medical care for their employees and their immediate family members must have absolutely identical tax benefits with respect to payments they make directly to medical providers or to insurance companies for health coverage.

63. Eliminate the procedure of issuing license cards for vehicles.

III. Enhancing business competitiveness, government efficiency, and public-private partnerships

We propose the following solutions:

64. Reduce and optimize rents for commercial real estate owned by the government, including properties owned by companies in which the state has an equity share of over 50%. New lease agreements and extensions of existing agreements should be made in Belorussian rubles.
65. Apply a preferential reduction factor of 0.1 to lease rates for nonprofit organizations that support business and for the nonprofit sector as a whole.
66. Create the position of ombudsman in the office of the President of the Republic of Belarus to represent and defend the interests of small business and free enterprise. Allow the business community to appoint the ombudsman for a one-year term with the approval of the President.

67. Create a system to monitor the actions of government agencies to improve the business climate in the country and the state of the business environment (quantitative indicators, ratings, qualitative assessments).
68. Launch public-private partnerships. Create a registry, updated in real time, to track unused or inefficiently used state property (real estate, equipment, materials). Implement a program following the model of Kazakhstan to transfer this property to local governments, which then sign contracts with companies to use the property in business.
69. Establish a program to create, develop, and support clusters of industrial parks in each province and give small and medium-sized businesses access to industrial, transportation, and logistical infrastructure.
70. Establish production cooperative and subcontracting mechanisms. Adopt a law or regulation defining the term “subcontracting” and describing the functions of the contractor and subcontractor. Exempt subcontracting transactions from value-added tax in the process of manufacturing products or the production cycle.
71. In order to increase legal compliance by businesses, create incentives for officials of enforcement agencies to reduce the number of violations and thereby reduce the amount and number of fines by focusing on preventive and educational work. The performance bonuses paid to these officials should increase if the number of violations in their jurisdiction decreases. Require employees of government ministries, departments, and enforcement agencies to attend educational and training programs offered by nonprofit business associations.
72. Eliminate the deadline (90 days) for businesses in which the state owns less than a 50% equity share to complete international business transactions.
73. Eliminate the deadline (60 days) for manufacturers to fill government procurement orders (Order No. 66 of the Ministry of Finance, dated June 29, 2000).
74. Eliminate the requirement for retail stores and restaurants to obtain approval for their merchandise selection and menu.
75. Discontinue the categorization of restaurants by government agencies. Transition to a voluntary restaurant rating system.
76. Simplify the procedure for recycling and disposing of goods containing precious metals. Allow businesses in which the state owns less than a 50% equity share to determine the procedure for recycling and disposing of such goods for themselves.
77. Remove the restrictions, including restrictions on the amount of authorized capital, on the location, construction, and operation of automobile service stations and storage facilities for petroleum products.
78. Allow businesses to purchase small lots of goods, materials, and parts in the Russian Federation for cash, with subsequent payment of VAT to the Republic of Belarus (up to 10,000,000 Belorussian rubles per transaction).

79. Authorize nonprofit organizations, industry and business associations, and business support centers to conduct training programs on business topics and issue certificates of completion without being licensed as educational institutions.

IV. Promote transparency in government and social responsibility by businesses, counteract corruption

We propose the following solutions:

80. Build a system in which the tax and administrative burden is proportionate to the size of the business. The smallest businesses should be subjected to minimal government regulation, paperwork requirements, and tax burdens. The burden on big business should not suppress the entrepreneurial spirit and economic growth.
81. Enact an effective law on government support for small and medium-size business in 2009 based on the proposals by the business community (the full text of these proposals is available on the website www.allminsk.biz).
82. Impose a moratorium on audits and inspections of businesses for two years (the crucial phase of the economic crisis). Completely eliminate enforcement raids on stores, restaurants, service providers, and manufacturers.
83. Set the amount of fines for violations by businesses based on the severity of the violation and the actual income of the business or executive. Make appropriate amendments to the Code of Administrative Violations based on the consensus proposals of the business community (the full text of these proposals is available on the website www.allminsk.biz).
84. Review the time and cost of administrative procedures applicable to companies and sole proprietors and make them consistent with scientifically determined times and costs; make the sequence and terms of the procedures available to the public.
85. Adopt a rule requiring all payments for administrative procedures performed by government agencies and organizations authorized by them to be paid directly to the state.
86. Make the concept of “employer” consistent with international standards; replace the term “hiring entity” with the term “employer” in laws and regulations to be consistent with international practice. Provide adequate guidance on the social role of the employer.
87. Mandate complete transparency in the financial flows of all government agencies and companies in which the state owns more than a 50% equity share. Require annual audits of these agencies and companies, with publication of the audit reports on the websites of these agencies and companies within one month after the completion of the audit.

88. Implement public oversight of all contracts between government agencies and state-owned or private companies. Non-classified information on these contracts should be available on the websites of the government agencies.
89. Clearly delineate the responsibility of government agencies for proper management of government assets, including shares of stock in companies.
90. Provide information on the website of the Ministry of Finance on past, present, and future budgetary expenditures and fiscal risk analyses. Conduct annual monitoring and assessment of government investments in and support of economic, scientific, innovative, and social projects.
91. Conduct government procurement in strict compliance with established procedures. The results of auctions and other transactions involving state-owned property must be open and subject to public oversight.
92. Government agencies should post annual reports on their revenue and expenditures on their websites. The reports should contain an analysis of whether budgetary goals were met.
93. Establish a requirement that the draft national budget and forecasts be presented to the business community and independent experts for analysis.
94. Establish a rule that the total amount of all government subsidies, grants, and subventions to the private sector may not exceed 5% of GDP.
95. Attract investors and international grant-making organizations to support and develop small and medium-sized business and provide technical assistance to industry and business associations.
96. Eliminate the rule prohibiting persons with indebtedness to the government in business-related administrative cases from traveling abroad.
97. Repeal all provisions of law and regulations allowing the seizure of property from a business that does not own the property if the business has the right of economic management to the property, unless a court determines that the business acquired the property unlawfully.
98. Establish a rule that a fine may not be imposed on a business unless the law clearly states how the business is required to act in the situation.
99. Prohibit the performance of enforcement actions by government agencies and organizations on a contract basis.
100. Eliminate the minimum amount of fines for officials. In imposing fines, all mitigating factors should be considered. Establish a policy of giving warnings to a business (or official) instead of imposing fines for their first violation of an administrative rule.
101. Eliminate government agencies' quotas for collecting fines, issuing citations, and confiscating goods.
102. Eliminate the rule linking the amount of a fine to the value of the goods involved in the violation, because this practice is tantamount to confiscation.

V. Simplifying the tax laws, tax administration, and accounting rules, and reducing paperwork requirements

We propose the following solutions:

103. Simplify accounting rules, reduce paperwork requirements, and transition to international accounting standards in accordance with the proposals submitted by the business community to the Ministry of Finance of the Republic of Belarus (the full text of these proposals is available on the website www.allminsk.biz).
104. Reduce the tax burden in Belarus by 10-15 percentage points, reduce total government spending to 35-40% of GDP in 2009 and 30% of GDP in 2010 in order to let businesses keep more of the money they earn.
105. Replace mandatory payments to the Social Protection Fund with a single social tax of 15-20% of wages, in order to enhance the competitiveness of domestic companies. Gradually transition to a system of voluntary pension insurance. Create various voluntary retirement savings plans.
106. Eliminate restrictions on classifying certain expenses as costs for tax and price-formation purposes in accordance with the proposals submitted by the business community to the Ministry of Finance.
107. Reduce the number and scope of statistical reporting requirements in accordance with the business community's proposals. Expand the use of scientifically based statistical sampling.
108. Simplify the procedure for calculating and paying the tax on the use of natural resources (the environmental tax).
109. Eliminate the required payments to the Republican Fund to Support Agriculture, Produce, and Agrarian Science.
110. Reduce the tax rates on dividends and business income for individuals from 15% to 12% (flat income tax rate).
111. Exempt high-tech companies from the tax on dividends for 20 years.
112. Eliminate mandatory payments by private businesses to the innovation funds in the Ministry of Trade, the Ministry of Architecture and Construction, and other agencies. To promote innovation and competitiveness, create incentives for the voluntary establishment of innovation funds, with transparency in the use of their money, tax benefits for contributors, and good corporate governance in the operation of such funds.
113. Repeal the tax on the purchase of vehicles by companies.
114. Repeal local targeted fees collected at rates of up to 3 percent of after-tax profit. Repeal other local taxes and fees.
115. Repeal the tax on sales and services.

116. Eliminate the requirement for private companies to obtain approval for usage rates of fuel and energy resources.
117. Reduce the frequency of payment of taxes and fees, including by transitioning to quarterly VAT reporting for small and medium-sized businesses.
118. Establish the following payment schedule for the profit tax: once every three months, except that businesses operating under the simplified taxation system pay once per year if they do not pay VAT and once every six months if they do pay VAT.
119. Establish a 3-year statute of limitations for tax violations.
120. Reduce reporting requirements and simplify accounting rules for the process of liquidating a company, reduce accounting, tax, personalized, and statistical reports and the frequency of filing. Allow such reports to be filed quarterly or upon completion of the liquidation procedure.
121. Reduce the use of numbered forms and simplify the procedure for issuing and maintaining records of numbered forms.
122. Transition to a voluntary procedure for maintaining tax ledgers.
123. Make the definition of production cost for accounting purposes consistent with the meaning of this term for price-formation and tax purposes. Include all business expenses in the definition of cost of production rather than listing certain types of expenses in laws and regulations.
124. Define the accounting procedure for non-manufacturing expenses. Establish a rule that allows accounting of expenses prior to the date of the original document to reconcile income and expenses (for example, in providing transportation services, etc.).
125. Eliminate the requirement that private companies maintain amortization funds.
126. Adopt a rule allowing initial accounting documents to be maintained and signed electronically. Develop a simplified procedure for documenting transactions by small businesses and sole proprietors.
127. Make all necessary forms and other standard documents available free of charge on the websites of various ministries.
128. Create a simplified taxation system consistent with minimal government regulation and paperwork requirements for small businesses and sole proprietors.
129. Draft technical regulations with simplified requirements for businesses operating under the simplified taxation system.
130. Develop and adopt a procedure to transition businesses that currently operate under the simplified taxation system without maintaining accounting records to a system in which businesses maintain accounting records, whether they continue to use the simplified taxation system or switch to the general taxation procedure.
131. Simplify and reduce the bookkeeping requirements for companies and sole proprietors using the simplified taxation system.

132. Reduce tax rates for companies using the simplified taxation system that provide roadside services in small towns and rural areas.
133. Allow sole proprietors operating under the general taxation system to hire an unlimited number of employees.
134. Simplify the VAT payment procedures for transactions with businesses in the Russian Federation.

VI. Improve access to information, ensure openness in government

We propose the following solutions:

135. Adopt a rule requiring annual public hearings on business development issues to be held in Parliament and in municipal and provincial Councils of People's Deputies. Organizations that represent and defend the interests of business and independent experts must be allowed to participate in these hearings.
136. Adopt new legislation and amend existing laws and regulations to make Belorussian law consistent with international norms and standards on the financial and commodities markets, investment, accounting, bankruptcy, and corporate governance.
137. Enact a law requiring all government agencies at various levels to publish all of their regulations on their websites and in the media within two days after they are officially registered. The publication should include the names of the persons who drafted the regulations.
138. Provide free public access to information on the registration of commercial and nonprofit organizations, assignment of taxpayer identification numbers, issuance of licenses, and other public information. Provide free public access to the primary information in the Unified State Registry, for example entity name, incorporators, address, telephone number, name of director, amount of authorized capital, and information on the formation of the entity and its ownership of equity in other legal entities.
139. Government agencies should make financial and statistical information available in strict compliance with international standards.
140. Provide interested businesses with free instant access to information on encumbered property.
141. Monitoring by government agencies and business organizations of cases in which fines and sanctions are imposed.
142. Adopt a regulation requiring public service announcements in the media on nonprofit organizations (industry and business associations, business support centers, small business incubators, credit unions) that support business development or provide training and employment services.
143. Create an online electronic library of information on economic development and all aspects of doing business in Belarus. This project should be financed by the

government and implemented by private businesses selected through competitive bidding.

144. Simplify the system of registering media outlets, increase efforts to create competition in television and radio coverage of business news and analysis.
145. Integrate courses on basic economics, business, and finance into the curricula of high schools and universities.

MECHANISMS AND TOOLS TO IMPLEMENT THE PROPOSALS IN THE BELARUS NATIONAL BUSINESS PLATFORM

Advancing the ideas and proposals of the Platform is just as important as drafting the Platform. Our task is to create a positive image for business among the public, promote mutual understanding and cooperation among business leaders, promote unity and mutual trust in the business community, and overcome skepticism and apathy among businesspeople. We recognize it will take hard work over a period of several years to turn the Platform into a real roadmap for business in Belarus. We are committed to this work, because we have no other way to make Belarus an entrepreneurial, dynamically growing, and modern country.

The following mechanisms and tools will be used to implement the Belarus National Business Platform:

- Organize a Coordinating Council to advance the Belarus National Business Platform;
- Provide information to support efforts to advance the proposals in the Platform, maintain records to chronicle the implementation of the Platform;
- Draft legislation and amendments to existing laws and resolutions, present them to government agencies;
- Consult with government agencies, contact members of parliament and officials in the government and certain ministries and departments;
- Work for consensus within the business community through consultations, roundtables, surveys, and dialog with businesses and the public;
- Convene “focus groups” and panels of experts to receive input from industry and business leaders on proposed legislation;
- Advocate for proposals supported by the business community at hearings held by government agencies on business issues and specific issues of economic policy;
- Organize permanent discussion forums for businesspeople, monitor issues affecting small and medium-sized business;
- Take action to reduce corruption, position the business community as an opponent of bribes, extortion, cronyism, and other forms of unlawful behavior;
- Perform expert review of draft legislation for anti-corruption provisions;

- Support business owners in litigation with government agencies over unlawfully imposed sanctions;
- Conduct a media campaign to support the business community's legislative initiatives;
- Make informational materials to support business interests widely available on websites and other information portals;
- Create partnerships with all business groups, government councils on business issues, and business associations in various regions and industries to advocate for the proposals in the Platform;
- Use international institutions to advance the economic interests of the country's business community, including both private and state-owned businesses.

The 2009 Belarus National Business Platform is a comprehensive list of policy recommendations to improve the business climate in the Republic of Belarus. Only the government can adopt a detailed plan to amend existing laws in the proper sequence, and the business community is prepared to assist in the creation and implementation of this plan.

Most of the proposals in the Platform could be implemented in 2009-2010. Some of the proposals will take several years to implement due to the complexity and inertia. This situation is acceptable, so long as sufficient progress is being made.

It is especially important to implement a set of policies to reduce government regulation of prices, promote self-regulation of markets, and counteract monopolistic practices. These steps can be implemented only after the proper legal environment and institutions are established to govern these processes.

We recognize that the proposal to replace contributions to the Social Protection Fund with a single social tax of 15-20% of wages will have to be phased in over at least 10 years, but we believe it is important to begin this process this year.

There are other problems and limitations, including financial and time restrictions, that will affect the details and sequence of implementing the Platform's proposals. These problems and limitations must be taken into consideration in formulating the implementation plan. The business community is prepared to provide all possible assistance to the authorities in planning and implementing these proposals effectively.

ANALYTICAL BASIS

Major positive changes in legislation in 2008

In the course of implementing the 2008 Belarus National Business Platform, a number of positive policies were adopted that eased the regulatory burden on business, reduced costs, and improved the business climate.

The legislative changes that improved the business climate in Belarus and expanded opportunities for private business include:

- Decree No. 1 of the President of the Republic of Belarus, dated January 16, 2009, on the official registration and liquidation (closing) of business entities;
- Resolution No. 1903 of the Council of Ministers, dated December 9, 2008, adopting the Regulations on the procedure for the sale of goods, work and services at prices or rates determined by the free market in the Republic of Belarus;
- Decree No. 24 of the President of the Republic of Belarus, dated December 19, 2008, on certain issues involving the lease of permanent structures, buildings, and separate premises, which extended minimum lease terms;
- Order No. 1 of the President of the Republic of Belarus, dated January 3, 2008, amending Order No. 119 of the President of the Republic of Belarus, dated March 9, 2007, on the simplified taxation system;
- Resolution No. 1021 of the Council of Ministers, dated July 14, 2008, adopting the plan for privatization of property owned by the national government for 2008-2010 and the list of joint stock companies formed in the process of privatizing state-owned property in which the shares held by the Republic of Belarus will be sold in 2008-2010;
- Decree No. 8 of the President of the Republic of Belarus, dated December 17, 2007, adopting a new, faster, less expensive, and simpler procedure for registering and liquidating business entities;
- Order No. 329 of the President of the Republic of Belarus, dated June 13, 2008, on certain issues involving the recognition and writing off of bad debts;
- Order No. 318 of the President of the Republic of Belarus, dated July 16, 2007, on technical regulations;
- Resolution No. 16 of the Council of Ministers, dated January 8, 2008, on the national database of technical regulations;
- Order No. 40 of the President of the Republic of Belarus, dated January 28, 2008, creating the status of Good Faith International Business Entity;
- Order No. 113 of the President of the Republic of Belarus, dated February 25, 2008, allowed the sale of companies and property complexes with a zero or negative value for one base amount;
- Order No. 145 of the President of the Republic of Belarus, dated March 6, 2008, allowed quarterly payments of environmental, land, and real estate taxes;
- Decree No. 5 of the President of the Republic of Belarus, dated March 20, 2008, lowered the rate of the tax on income from stock and bond transactions from 40% to 24%.

Belarus is entering a systemic, structural crisis

Belarus entered a deep financial and structural crisis in 2009. With the global crisis, the worldwide economic recession, the rapid decline in economic capacity, a deep crisis of trust, great uncertainty, the “freezing” of the credit market, and the bankruptcy of millions of financial institutions and companies, the world has entered a period of dangerous institutional turbulence. It is highly likely that Belarus will experience a 3-5% contraction in GDP in 2009.

The boom is over, and a phase of economic decline has begun. Our country’s primary trading and economic partners are in crisis. The highly favorable foreign markets for Belarus’ export goods have been replaced by sharply falling prices for petroleum products, potassium fertilizers, metals, and chemical products. Demand for the products of the Belorussian machine-building and automobile industries has collapsed. Russia, our primary economic partner, is experiencing serious problems. As a result, Belarus will not be able to obtain oil and gas in 2009 on the favorable terms it had in previous years.

All of the factors that allowed Belarus to enjoy stable economic growth for the last ten years are working against us in 2009. The country may experience a shortfall in foreign-currency revenue of over \$10 billion. It will be much more difficult for companies and banks to repay nearly \$8 billion in short-term loans denominated in hard currency. The national debt is rising rapidly.

With GDP growth of 10% in 2008, the internal debt owed by the real economic sector to the banks increased by 55%.

The very high rate of inflation (13.3% in 2008) prevents macroeconomic stabilization and threatens the stability of the financial system. Even though industrial production grew by 10.8% in 2008, the level of production in December 2008 was 22% lower than the same figure for August.

In 2008 the deficit in foreign trade in goods was \$6.2 billion, an increase of 44.7% over 2007. This is more than 10% of GDP. The trade deficit with Russia was \$12.96 billion, up 55% from 2007. The balance of payments is just as alarming. In this situation the risks of devaluation increase dramatically.

In 2008, overall foreign-currency earnings increased by 37.6% (to \$37.86 billion), but earnings in December were \$2.69 billion, a decrease of 33% compared with the figure for July. Foreign-currency earnings were \$2.14 billion in November, down from a peak of \$4.02 billion in July.

Net demand for cash foreign-currency was nearly half a billion dollars in 2008. The outflow of ruble deposits is continuing. Belarus has a severe shortage of domestic and foreign investment. There is increased pressure on the labor market. With their shock-therapy devaluation, the National Bank and the Council of Ministers have failed to adapt the country to the new exchange-rate policy and the currency market. The country’s gold reserves were spent down, but the currency was not stabilized.

As of January 1, 2009, Belarus’ gold and foreign-currency reserves totaled \$2865 million (compared with \$3775 million on December 1, 2008). These reserves decreased by \$1759.2

million in the last five months of 2008. After the country received the first tranche of IMF loans for the first three weeks of January 2009, its gold and foreign-currency reserves declined by another \$900 million. Belarus still imposes many restrictions on the purchase of foreign currency by companies and on the payment for imports.

The growth in warehouse inventory provides further evidence of the problems in the economy. As of January 1, 2009, total inventory was Br4.96 trillion, or 61.1% of average monthly production volume, compared with 53% on January 1, 2008. Unsold reserves have risen sharply in the machine-building and metal products industries. The number of trucks in warehouses increased by 3.9 times, and the number of buses increased by 1.5 times.

A poor business environment exacerbates the economic crisis

The 2009 Platform is a special document. It represents the business community's systemic agenda for modernizing the business climate in a new institutional environment. The year 2009 is a time of new challenges. Our country has not faced problems like these in over 13 years.

Many people in Belarus are beginning to realize that without fundamental changes in monetary and fiscal policy and liberalization of domestic and foreign trade, it will be extremely difficult to modernize the economy, introduce new technologies and innovations, and attract the best human capital in the region.

This viewpoint is shared by the National Bank, which stated in a report published in June 2008: "... The increased risk factors could have a negative effect on the stable operation of the financial sector in the medium term." The National Bank expects a worsening of "certain macroeconomic risks involving the increasingly negative current account balance, the growth in the total foreign debt, and the greater burden on the banking system".

In 2007, expenditures in the consolidated budget increased by 27.5% over 2006, with growth in nominal GDP of 21.2%. This "led to an increase in aggregate demand and thereby heightened inflationary pressures and increased the current account deficit". The budget law of 2008, which was enacted in late 2007, forecast revenues to the consolidated budget to be 45.7% of GDP. The Ministry of Finance currently expects revenues of 50.5% of GDP for 2008. The difference between the actual and expected amounts is 5 percentage points of GDP.

The institutional and legal environment in Belarus is such that the country lacks the structures to provide long-term financial resources. This "causes an imbalance in the terms of banks' assets and liabilities, increases risks to banks and the financial system as a whole, and threatens to reduce the rate of economic growth and lower the standard of living".

The insurance sector is "highly concentrated and dominated by state-owned companies, it gives preferences to insurance companies controlled by the government, and there is insufficient competition on the insurance market".

The growth in prices for raw materials, energy resources, and parts has “worsened the position of companies in the non-financial sector. The increase in inventory of unsold products, cash-flow problems, and low profit margins have forced companies in the non-financial sector to rely more on borrowed funds to finance current operations and capital expenditures,” according to the National Bank.

The harbinger of the very predictable recession of 2009 was the trend in earnings from the sale of goods. In January-November 2008, this indicator rose by 35.8% over the corresponding period in the prior year. But the amount of these earnings in November was 21.7% less than in August.

The rapid deepening of the economic crisis in Belarus is demonstrated by the trend in growth of earnings and production cost. In the first 11 months of 2008, in comparison with the same period in 2007, for enterprises under the Ministry of Housing and Utilities, production costs increased by 26.7% and earnings increased by 24.5%. These figures were 15.5% and 13% in the Ministry of Communications, 38.2% and 38.3% in the Ministry of Agriculture, 26.8% and 25.8% in the Ministry of Energy, and 30% and 27.8% in the Ministry of Industry, respectively.

After stable growth in profit margins during the first eight months of 2008, the fourth quarter was a crucial turning point. Growth in profit margins was 8.7% in November 2008, compared with 18% in August. There is a similar trend in realization of profit. This indicator for January-November 2008 increased by 60% over the same period in 2007, but the level in November 2008 was 59.8% lower than the level in August. The amount of net profit in November 2008 fell by a record 73.3% as compared to August. This means that in 2009 it will be very difficult for companies to service their debt, especially their foreign-currency debt, because it will be much harder for them to earn profit.

The growth in credit and loan debt is cause for concern. On December 1, 2008, the amount of this debt was Br36.2 trillion, which is 38.1% higher than on the same date in 2007. Past-due indebtedness totaled Br5.8 trillion as of December 1, 2008, and grew by 20.9% over the prior 12 months. Most of the past-due debt is overdue accounts payable (91.6%). In 2009, as credit becomes much more expensive, these negative processes will worsen.

Another challenge in 2009 is the danger of unfair privatization for the benefit of elites, fraudulent bankruptcy of state-owned companies, corporate raiding, greater discrimination against sole proprietors and small businesses, and the formation of monopolies within certain departments or sectors. The bureaucracy may create an oligarchy that would suppress the entrepreneurial potential of the Belorussian people for a long time.

The work to make systemic improvements in the business climate is crucially important in the context of these new threats and challenges. This is the greatest opportunity for business and the government in 2009. Taking action in this area does not require international agreements. Unleashing free enterprise can compensate for the losses from the financial crisis and the decline in foreign trade and investment. Elements of a favorable business climate include effective mechanisms to protect property rights, low taxes and an understandable system for calculating and paying them, free trade, easy market entry and exit, free access to information, impartial courts, effective methods of enforcing contracts, and various institutions to finance business.

According to the Strategy Analytical Center, implementing the Platform's recommendations to improve the business climate would reduce administrative, regulatory, and financial costs to Belorussian business by 15-20% of earnings.

The main contributions Belorussian business can make in the context of the financial and structural crisis are creating new jobs, stabilizing tax revenue, making a wide range of goods available, and alleviating social tensions.

Hundreds of thousands of people are facing the threat of unemployment today. The ability of the public sector to grow the labor market has reached its limit. Implementing the provisions of the Platform will significantly expand the opportunities of private business and the government. They will be able to earn profit, create new jobs, and expand their presence on foreign markets more easily, more quickly, and less expensively. There will be greater opportunities for self-employment. As a result, unleashing the potential of small and medium-sized business on the labor market will save the government at least \$1 billion.

Changes in the Belorussian business climate in 2008 **Trends in the business climate**

As noted in reports by numerous international organizations, Belarus made some progress in 2008 in improving the business climate. According to the World Bank, Belarus rose from 115th to 85th place in the ratings of business climates. Rising 30 places in this ranking is certainly a good result. However, 85th place is clearly unacceptable for a country that needs to take action to neutralize external shocks and implement structural reforms.

Belarus has created a Unified Registry to record rights and transactions involving real property. The time for registering property in Belarus was reduced from 231 to 21 days. On this factor, our business climate ranks high – 14th place in the world. Our rankings on the number of procedures and the time and cost of registration are above the average for countries in the Organization for Economic Cooperation and Development. One important note should be made in this context. Surveys of businesspeople indicate that registering property is not in the top ten problems faced by Belorussian businesses. We still do not have a properly functioning market for real property and land. These segments of the economy are strictly regulated, and the creation of a unified registry is only the first step in establishing a real free market in this area.

The World Bank gave Belarus positive marks for establishing official deadlines for issuing approvals and permits. This has saved businesses an average of 140 days. For this criterion, we improved our ranking by 28 places, from 93rd to 65th.

The World Bank also rated the government favorably on the issue of obtaining credit. Our ranking on this factor rose from 126th to 109th place. The requirement to file reports with credit registration agencies on loans for minimal amounts was eliminated. Unfortunately, the rates for these loans and the term for which they are issued (up to one year) make them inaccessible for small businesses.

Belarus improved by 24 places (from 121st to 97th) on the quality of the procedures to start a business. Clearly, the adoption of Decree No. 1 on January 16, 2009, will further raise the country's rating on this factor and significantly improve the overall business climate.

The creation of the unified registry and the reduction by half in the minimum amount of authorized capital were proposed by the 2008 Platform. Despite the official declarations on the need to reform the tax system and broaden the presence of private business in the economy, the tax system is the weakest element of the business climate. This conclusion is supported both by surveys of business owners and the analysis of the World Bank. In 2008, Belarus was the last among 181 countries. In 2007, the ranking included 178 countries, and Belarus was in last place as well. The stagnation in the tax system overwhelms all of the modest progress made by reforms in other areas. When the government takes 117.5% of a business's profit, reasonable doubts arise about whether the government is serious about creating a favorable environment to unleash and realize the entrepreneurial potential of the Belorussian economy.

Status of property rights

Even with the elimination of the "golden share", Belarus lags well behind the world leaders in the area of protecting property rights. In 2008, our country was in 106th place among 115 countries on the index of protection of property rights. In the countries where property rights are most vulnerable, per capita income is only \$3817. This is 9.3 times less than in the leading countries in this category.

Violations of property rights take many forms in Belarus. Imposing planned growth rates on private companies, fixing prices, setting quotas, prohibiting or restricting imports, requiring payment under contracts in cash or noncash transfer, setting profit margins, assigning cost rates, interfering with credit, wages or hiring, dictating standards at every stage in the production, marketing and sale of goods and services, requiring permits and licenses, confiscation, nationalization – all of these practices indicate that institutional protection of property rights does not yet fully exist in Belarus. It has been declared *de jure*, but *de facto*, property is severely restricted in the country, so it cannot play its proper role in the economy and society. In this context, the provisions of the law on financial investigations, under which the State Control Committee has the right of unrestricted access to a business's premises at any time of day or night, support this conclusion.

When the regulatory burden is so high, the infrastructure for supporting business cannot function effectively. At the end of 2008, forty business centers and seven small business incubators were operating in Belarus. They conduct training sessions and seminars and provide other services, but they could do much more if the institution of private property was adequately protected in the country.

Audits, inspections, and fines are still among the biggest problems for businesses in Belarus. The government's system of controlling business indicates that it does not trust the country's business community. The powers of enforcement agencies are still too expansive. The tax authorities are still able to seize funds without a court order. With the extremely convoluted

accounting rules, the risk of making mistakes is very high. Businesses face significant fines even for minor violations. The regimentation and regulation of business can become absurd. For example, there is a provision governing which employees can have “senior” in their title, and a business can be fined for violating this rule. Every form is controlled, and the authorities can impose fines for failing to prepare documents in the prescribed form. A business can be punished or even lose its license for an advertisement that does not comply with the current requirements. The amount of fines is not commensurate with the severity of violations. The tax authorities may attach property for noncompliance with tax obligations, which deprives the business of the ability to meet these obligations.

In 2008, the business community and the government continued their efforts to resolve their differences on price formation. The conflict over Order No. 179 of the Ministry of Economy, dated August 27, 2008, and the adoption of Orders No. 183 and 184 of the Ministry of Economy on September 10, 2008, reveal the significant differences of opinion on issues involving price regulation and restrictions on profit margins and retail markups. The government continues to favor broad administrative price regulation. Yet official statistics demonstrate the ineffectiveness of this policy. The inflation rate was 14.8% in 2008. Food prices rose by 17.7% over 2007. Vegetables increased in price by 20.6%, vegetable oil by 51%, gasoline by 17.1%, paid services by 18.2%, and utilities by 31.4%. Free competition and a responsible monetary policy are the best ways to keep prices low. To improve the business climate and really reduce prices, the government should counteract monopolistic practices and prohibit local governments from discriminating against non-local goods.

Belarus’ position in international indexes and ratings

The assessments of Belarus made by international organizations in various indexes and ratings demonstrate that our country takes an excessively conservative and even orthodox approach to institutional change, innovative management, and modern technology. The modernization of the Belorussian economy is proceeding slowly and inconsistently, and more from the top down than through motivation and initiative from below.

On the index of economic freedom, Belarus is ranked 167th out of 183 countries in 2009. Last year we were in 150th place out of 157 countries. The World Bank continues to rate the quality of government administration in Belarus very low. Of the six criteria by which their experts assess the quality of government administration, our country was in the red risk group (the lowest ranking; on a scale from -2.5 to +2.5, we score minus 1 or lower) in four. For “political stability”, we are in the yellow group (+0.2) in 112th place, and for “controlling corruption”, we are in the pink group (-0.88) in 171st place.

For the factor of “public participation in government and government accountability”, Belarus rose from 204th place to 202nd among 212 countries. On “quality of government regulation”, we moved from 204th to 201st place. For the factor of “rule of law”, we rose from 192nd place in 2006 to 186th. In 2007, Belarus dropped 11 places in the rating of fighting corruption. Government effectiveness also became worse (from 190th to 193rd place). In the period from

1996 to 2007, our country has been consistently ranked in the “red” or, in the best case, the “pink” zone.

In the annual rating of countries on the index of perceptions of corruption, Belarus was in 151st place in 2008. Last year, we were in 150th place. According to surveys of analysts, economists, businesspeople, and consultants, our country is in a very unfavorable group of corrupt countries. With a score of 2.0 points (the least corrupt countries score 10.0), Belarus is in the group of countries with a negative investment rating.

The Belarus National Business Platform and competitiveness

The new prosperity index created by the Legatum Institute ranks 104 countries on a combined index of economic competitiveness and relative livability. Under this analysis, the foundations of a good life are effective work, comfort, safety, raising children, and self-actualization. Belarus was ranked 78th on the prosperity index. In economic competitiveness our country was in 70th place, and on the sub-index of relative livability or life satisfaction, we are in 81st place.

The leading organizations that assess the country’s competitiveness are the World Economic Forum (WEF) and the IMD business school in Lausanne.

The challenges of innovation

We have no choice but to innovate in the economy, the management system, and technology. Without modernization, our country is doomed to the status of chronically developing nation. Belarus has the potential to join the club of developed countries, of which there are 31 today. They produce 56.3% of the world’s GDP and 66.2% of exported goods and services, even though they have only 15.2% of the world’s population. Belarus produces 0.08% of world GDP (at market exchange rates). Our exports constitute 0.18% of the world total. Accumulated foreign direct investment in Belarus is 0.1% of total world foreign direct investment. The amount of Belorussian capital officially invested in other countries is 0.0002% of the total.

One of the key indicators of innovation is high-technology exports as a percentage of total exports of manufactured goods. In Belarus this indicator is only 3%. In the leading innovative countries, up to 80% of investment in R&D is made by private business. In Estonia, for example, where private companies provide up to 90% of investment in science, hi-tech exports constitute 17.6% of total manufacturing exports. In China, this figure is 30%, in Singapore 56.6%, and in Malaysia 54.7%.

In Russia, Estonia, and Lithuania, more people are employed in R&D (per 1 million population) than in Belarus. In the period 2000-2005, spending on science in this country amounted to only 0.6% of GDP. In Sweden, this figure is 6.2 times higher, in Finland 5.8 times higher, and in Israel 7.5 times higher. Royalties and income from license fees are virtually unknown in our country.

Belorussian business has the potential to modernize the economy. But the government's policies in the area of innovation seem to be designed to block private initiative. Innovation priorities are determined administratively. The so-called "growth points" are identified without input from the business community. Bureaucracy has paralyzed Belorussian science. Scientific discoveries and innovations cannot be commercialized. We still have not only brain drain, but a shortage of qualified employees overall. The policy of excluding private business from innovation is one of the main reasons for this state of affairs.

The government's innovation plan has not been a catalyst for modernization, but rather yet another source of administratively allocated resources for projects with highly doubtful potential for innovation. For example, a vegetable cultivator and nitrogen-phosphorous-potassium fertilizers for sugar beets are projects for individual companies, not national priorities. The list of innovation projects also includes "production of new types of special sausages for pre-school and school-aged children to prevent anemia from iron deficiency", "production of processed ground meat and vegetable foods containing bioactive substances and nutritional additives", and "production of an agent to delay hardening and accelerate strengthening of plasticized concrete".

The list of hi-tech priorities in Belarus includes hybrid digital televisions, LCD televisions, vacuum cleaners, microwave ovens, air conditioners, heaters, and DVD players. Projects categorized as innovative include the development of chemical reagents to use as security features on numbered forms, technologies to help shoes keep their shape, recipes for new types of baked goods containing fillers, and even methods of using lasers to store information on livestock identification tags. There are even projects to "develop a measuring topology for the feet and legs of various gender and age groups to provide more comfortable shoes to the public" and to "manufacture and use Belorussian folk instruments and arts-and-crafts kits".

This approach to economic modernization and innovation will clearly not meet the challenges of the global economy, the demands of technological competition, and the need for tight fiscal policy as the cost of credit rises and investment activity cools. Belarus needs advanced technology, not projects of questionable quality. The Samand assembly plant was supposed to produce 60 thousand cars per year. In 2007 they produced 232 cars, and only about 100 in 2008. This is a total failure. The Ford plant showed similar results. Capital and serious companies are leaving Belarus because of the extremely high degree of government regulation of business.

Every year, the government invests more money in the economy, squeezing out private capital, but it can demonstrate no effective results. For example, agriculture is one of the government's highest investment priorities. This sector receives \$3-5 billion every year from all funding sources. According to S. Shapiro, the minister of agriculture, the government's program to increase agricultural efficiency by financing a group of key producers selected in 2003, has been a failure. Only three of the 59 producers have reached the point where they earn enough to finance their own operations.

Small business is very concerned with the way privatization is being conducted in Belarus. This vitally important process lacks transparency, there are no clearly defined and uniform rules, and

the interests of the country's business community are not given due consideration. Decree No. 7 of the President of the Republic of Belarus, dated April 14, 2008, has taken effect.

Discrimination against Belorussian businesses is apparent in the sale of the state's shares in Velcom, the cell phone operator Best, the Brest Household Chemical Plant, the Elma Textile Plant in Brest, and the Lidskoye Brewery, and in the privatization of several banks and the sale of real property and the selection of investors for real estate development projects. The lack of clear rules and procedures for conducting privatization creates the threat not only that the state will not receive as much revenue from privatization as it could, but also that unwise or even dangerous investment plans will be selected.

Small and medium-sized businesses in Belarus should play a much larger role in investment and innovation. After nearly 20 year of doing business, the country's entrepreneurs have enormous experience. Putting this experience to use is the key to successful systemic reforms in the country. The goal of the Platform is not only to "unfreeze" assets (land, manufacturing capital, real estate), but primarily to unleash human capital and the entrepreneurial spirit. This is our common task, on which business, the government, and the civil society must work together.

The government and business agree on the need to promote free enterprise

Top government officials in Belarus have spoken about the need for greater efforts to create a favorable business climate in the country. In October 2008, President Lukashenko said: "It is not true that a free market economy, in which there is competition and people are free to fulfill their potential, is a bad thing. There is nothing bad about the fact that we will have a economic freedom, without unnecessary burdens and restrictions. There is nothing dangerous about that."

The government's Comprehensive Plan for Economic Modernization, drafted by government experts, gives a fairly objective assessment of the situation in the country: "... One of the reasons for the lack of sufficient competition in the Belorussian economy and the high transaction costs is that we still have an unfavorable economic environment, the institutions of a market economy are underdeveloped, and the system provides insufficient incentives. In Belarus today, there are virtually no competitive advantages in areas like developing the financial markets, protecting property rights, freedom of investment (protecting investors' rights), freedom from corruption, starting and closing a business (high procedural hurdles and costs), tax administration and price regulation, high taxes, and tax preferences for certain individuals."

Michael Klein, vice president of the World Bank/IFC, echoes the statements by President Lukashenko and many other Belorussian government officials: "Economies need rules that are efficient, easy to use, and accessible to all who use them. Otherwise, businesses are trapped in the unregulated, informal economy, where they have less access to finance and hire fewer workers and where workers lack the protection of labor law."

Russian President Dmitriy Medvedev's remarks in his message to the Federal Assembly on November 5, 2008, highlight the importance of systemic, conceptual reforms like those proposed by the Belorussian business community: "... Just as it did 20 years ago, government bureaucracy

still distrusts free people and freedom of action. This logic causes it to hold dangerous views and take dangerous actions. The bureaucracy occasionally harasses businesses to prevent them from doing something the “wrong” way. It takes control of the media to prevent them from saying the “wrong” thing. It interferes in elections to prevent voters from electing the “wrong” people. It puts pressure on the courts to prevent them from handing down the “wrong” verdicts. And so on.

“As a result, the government apparatus in our country is the largest employer, the most biggest publisher, the best producer, a court unto itself, a party unto itself, and ultimately, a people unto itself. This system is absolutely inefficient and can lead to only one thing: corruption. It gives rise to legal nihilism, it goes against the Constitution, and it impedes the emergence of economic innovation and democratic institutions. A strong government and an all-powerful bureaucracy are not the same thing.” Although the situation in Belarus is different from Russia, most of this analysis certainly applies to us.

Raising the prosperity index and the Belarus National Business Platform

Implementing the proposals in the Platform will dramatically increase the competitiveness of Belorussian manufacturers and lay the foundation for sustainable development. The prosperity index produced by the authoritative Legatum Institute defines prosperity not merely as the accumulation of material wealth, but as a process in which quality of life is given equal weight with material factors. The prosperity index is based on eleven principles. The goal of the proposals in the Belarus National Business Platform is to implement these principles to the extent they relate to competitiveness and the business climate. These are the principles of building a prosperous country:

Freedom of choice is crucial.

The government must be efficient, honest, and have a limited role in regulating business.

Income growth should be the priority in poorer countries.

In richer countries, prosperity means more than money.

Promoting free enterprise is a reliable path to material wealth.

Growth in capital investment is essential for long-term economic growth.

Economic openness can help poor countries rapidly catch up to rich ones.

Climate and the environment affect our level of happiness.

Develop your own talents and share them with others.

Geography is not destiny, it is not your cross to bear.

The government and the people must work together to create a prosperous country.

The 12 factors of competitiveness

According to the World Economic Forum, the twelve pillars of competitiveness are:

1. Institutions
2. Infrastructure

3. Macroeconomic stability
4. A health care system
5. A system of elementary education
6. A system of higher education and retraining
7. Efficient markets for goods
8. A financial market
9. Technological preparedness
10. Size of the market
11. Business experience
12. Innovation

The Platform seeks to develop institutions, enhance macroeconomic stability, boost the efficiency of markets for goods, develop the financial market, increase technological preparedness, and expand business experience and innovation. The business community is proposing a road map to prosperity and a high standard of living. Liberal, market-based transformations are the guideposts along the way. We propose not an oligarchic model with all-powerful monopolies, but democratic capitalism with millions of prosperous property owners.

We have chosen this strategy in the Platform because in the modern world, the successful countries are those that build all twelve pillars of competitiveness. According to the World Economic Forum, these principles are “not just interrelated, they reinforce each other. For example, innovation is impossible in a country that lacks institutions that protect intellectual property rights or that has a poorly educated and untrained workforce. Innovation cannot happen in a country with inefficient markets or underdeveloped infrastructure”.

The IMD business school in Lausanne reached similar conclusions in its 2008 Annual Report on Competitiveness. In this context, competitiveness refers to the ability of a country to create and maintain an environment in which competitive companies can emerge, not the ability of the government itself to create businesses at taxpayer expense. The authors of the report emphasize that wealth is created at the level of individual companies, not by a syndicate between the government and the labor unions.

Necessary rules and standards

It is in Belarus’ interests to enact legislation as quickly as possible that incorporates international rules and standards for financial and commodities markets, investment, and accounting. This will accelerate economic modernization, help business adapt to the modern competitive environment, rapidly increase foreign investment, and enhance the world’s trust in both the business community and the government of Belarus. These are the international standards the country needs:

Macroeconomic policy and transparency:

Standards for distributing information;
Standards of transparency in monetary policy;
Standards of transparency in fiscal policy.

Institutional and market infrastructure:

Standards of bankruptcy and creditors' rights;
Accounting standards;
Audit standards;
Standards of corporate governance;
Standards to counteract money laundering;
Standards of the payment system.

Financial regulation and oversight:

Banking oversight standards;
Standards for regulating the securities market;
Standards of oversight in the insurance industry.

Definitions

Advocacy – Actions to represent and defend the interests of the entire business community in areas like taxes, property rights, licensing, monetary and trade policy, finance, labor, etc. The purpose of advocacy is to bring about changes in the government's policies that affect business, by drafting new laws and amendments to existing laws and by creating the institutions of a market economy. Advocacy can take the form of organizing campaigns in support of particular provisions of (or amendments to) legislation or, on the contrary, rallying the business community, civil society, and political parties to work for the repeal of anti-business laws and regulations. An important aspect of advocacy is educating the business community and policy-makers, distributing information on the business climate, the government's response to proposals by business associations, and the positive experience of other countries. Advocacy includes efforts to increase the likelihood that decisions favorable to business will be made.

Lobbying – Efforts and campaigns to obtain preferences for a specific business or industry. Lobbying includes political, administrative, and media actions to “carve out” preferential credits, subsidies, and other forms of non-market support for specific businesses.

Belorussian business community – All businesses, regardless of type of entity, that produce and exchange goods and services. The Belarus National Business Platform is a document that is intended to represent the interests of all businesses.

Business climate – The set of institutions, legislation, administrative procedures, and legal norms that comprise the rules of the game for businesses. The main parameters of the business

climate are guarantees of private property rights and the rules for starting and closing a business, obtaining licenses, hiring and firing employees, recording property rights, obtaining loans and other types of financing, mechanisms to enforce the rights of investors and other property owners, the tax system, import and export transactions, the enforcing contracts.

Economic freedom – The freedom to engage in business and trade, use stable means of payment, move capital, perform financial transactions, define the scope and terms of employment; protection of property rights; freedom from excessive government regulation and the “gray market”.

Competitiveness – The skill and ability to choose a realistic goal that is consistent with internal values and priorities, to identify the mechanisms and monitoring methods for reaching the goal and correcting errors, to determine whether an idea is promising and realistic, to select the best methods for reaching the goal and/or implementing the idea, and to reproduce success in the same or other fields by flexibly and properly adapting to the dynamically changing external context and the internal conditions.

Competitiveness of a country – The ability to ensure the long-term stability and transparency of formal institutions on the basis of generally accepted international standards and rules, fundamental rights and liberties, primarily economic freedom, and to guarantee property rights and contract enforcement, in order to strengthen traditional markets and expand into new ones.

We define the competitiveness of a country as the ability of politicians, bureaucrats, the business community, and the intellectual elite to create a legal environment and establish institutions and rules of the game that, in comparison with other countries, reduce the costs to individuals, neutralize the risks they face when choosing goals, ideas, and the methods of achieving them, guarantee access to objective information (in the form of freely set prices) on the preferences and choices of other people, protect life and property, resolve disputes quickly and fairly, and allow transfers of property rights by contract.

Competitiveness of a company – The company’s ability to manage all factors of production in the short term and the long term (financial resources, raw materials, labor, and entrepreneurial motivation) in a way that creates a stable or growing niche for its goods or services in its target market. The art and science of management, choosing the right combination of resources, offering the right product at the right time to the targeted group of consumers over the long term – these are the things that make a company competitive.

Innovation – The ability and preparedness of a country to integrate new scientific advances and technologies into manufacturing processes, to commercialize scientific discoveries, and to use information and telecommunications technologies in the service of sustainable economic development and create an information environment in which all economic actors can make good decisions. Innovation is the ability to generate scientific products, protect rights to intellectual and physical property, and remove the barriers to nondiscriminatory access to the high-technology market. Finally, innovation is the ability of academic and research programs, institutions, and specialists to adapt quickly and flexibly to advances in science and technology.

Outsourcing – The practice of using outside organizations to perform certain functions. Outsourcing by government agencies may be defined as delegating a certain function or type of work to an outside organization by contract while keeping general responsibility. Successful outsourcing requires a competitive environment, transparency in the transactions, and enforceability.

Subcontracting – A form of cooperation that allows small, medium-sized, or large industrial enterprises to increase the productivity of labor and capital by applying the principles of division of labor, specialization, efficient use of available manufacturing and technological capacity, and optimizing the use of all resources.