

Improving the business climate – Proposals from business

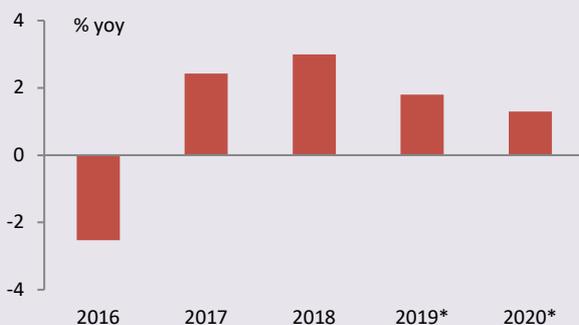
After the recession in 2015/2016, the Belarusian economy is back on a growth path. Nevertheless, more growth and investment of the private sector is required if Belarus is to catch up with the advanced economies. A joint study of GET Belarus together with three German business associations presents 35 proposals from German businesses on how to improve the business climate and unlock more private investment in Belarus.

The reform proposals focus on solving practical problems faced by business in their operations through concrete recommendations for reforms. Proposals focus on issues such as legal certainty and transparency, reduction of bureaucratic procedures and facilitated rules for employing foreigners in Belarus.

Need to strengthen GDP growth to converge

After facing a recession in 2015 and 2016, the Belarusian economy is growing again. GDP growth has peaked at 3% in 2018, the highest growth rate since 2012. Moreover, macroeconomic stability further improved through a significant reduction of inflation, combined with a conservative fiscal policy stance.

Real GDP growth in Belarus



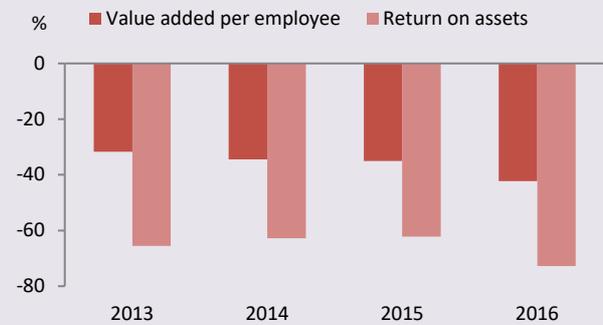
Source: Belstat; *World Bank forecast

Despite all positive developments, mid-term forecasts for economic growth remain capped at around 2%. Such a growth trajectory does not allow catching up with more developed economies and thus signals that the current economic model is facing its limits.

Private sector investment is key to more growth

In order to shift its growth rate upwards, Belarus requires more growth and investment of the private sector. While the state sector remains large, private companies sharply outperform state-owned enterprises (SOEs) both on labour productivity and especially on return on assets.

Productivity difference: SOEs vs. private companies



Source: IMF; *Return on assets calculated as operating profit divided by net asset value of the company

In order to unlock more private investment, it is imperative to further improve the business climate in Belarus. Significant progress has already been made here, with Belarus attaining rank 37 out of 190 countries in the World Bank's "Doing Business" Index. Yet more can and should be done to help business invest and grow in Belarus.

New study with proposals of German business

This is the aim of a new joint study by the German Economic Team Belarus, in partnership with the main associations representing German business in Belarus: the German-Belarusian Economic Club, the Representative Office of German Economy in Belarus and the German Eastern Business Association. In a unique bottom-up approach, the knowledge of business practitioners in the member companies of the associations was combined with the economic expertise of the German Economic Team.

In a standardised survey, member companies were asked to identify problems encountered in their everyday conduct of business and to propose respective solutions. The resulting reform proposals were then analysed by GET experts to ensure their suitability, effectiveness and consistency with broad reform objectives such as competitive and free markets. The overall aim was to identify proposals that could help to increase investment in Belarus, from foreign but also domestic investors, through an improvement in the business environment.

Focus on concrete, practical improvements

In total, 35 reform proposals in 6 categories such as immigration, labour law, or tax and accounting are made in the study. Each proposal clearly identifies a concrete problem together with its proposed solution, is addressed to the responsible government institution

and states the expected beneficial effect on Belarus if implemented.

The focus of this study is hence on practical, usually smaller-scale solutions to problems. This stands in contrast, but not in contradiction, to work on large-scale reforms in the economic policy sphere. Indeed, in order to fully transform the business environment, both types of work are required. But while larger reforms usually will take more time to be implemented, the suggested practical proposals of this study can be quickly realised and will equally quickly yield benefits on the business environment.

Three broad directions of proposals

Our proposals cover the entire range of topics faced by business, from sector-specific regulation issues such as tenders in facility services for public housing via tax and legal issues to the necessity of a new, modern labour code for Belarus. Nevertheless, some general trends emerge:

More predictability and transparency in the legal environment is needed

Among others, a database of judicial decisions and a code of work for state authorities are called for. The latter would include general standards for procedures such as hearings of parties and information rights and unified appeals procedures. Also, a number of proposals is directed at more equitable state-private sector relationships, for example in investment treaties.

Reducing regulation and bureaucratic treatment of companies by the state

A case in point are goods imports, where customs treatment currently requires a large file of information to establish the value of the import. The proposal simply recommends accepting the invoice as a standard document for determining the goods value, without prejudice to anti-fraud measures.

Facilitated rules for the employment of foreigners

It is evident that foreign companies operating in Belarus would benefit from extended terms and easier applications procedures for work and residence permits.

Ten “quick wins” suitable for rapid implementation

Ten proposals are singled out as “quick wins” at the end of the study for being especially quick to implement and to deliver benefits. These proposals include the accelerated VAT refund for imports, which are currently subject to a 60-day freeze, even if VAT on the final sale has already been paid, the aforementioned acceptance of invoices to prove the customs value of imports, abolishing a practice of excessive blocking of accounts

by the state in case of tax disputes and the aforementioned creation of the database on judicial decisions.

Presentation and assistance in implementation

Our new study should be seen as complementary to other work being done on further reforming and transforming the economy of Belarus towards a more open and competitive economy with higher growth rates. Solving practical problems of companies will allow a quick and visible improvement of the business climate, as most of the proposals in this study will only create winners and no losers after their implementation.

The study was first presented to Belarusian policy makers during the “10th Day of German Business” on 26th September in Minsk. Now, it is up to the government to carefully review these proposals and initiate their implementation. During the implementation phase, the German Economic Team Belarus and its partners – the German-Belarusian Business Club, the Representative Office of German Economy in Belarus and the German Eastern Business Association – are ready to support Belarusian policy makers with more detailed advice on how individual proposals can be incorporated into Belarusian law, as well as with monitoring and communicating progress.

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A more detailed analysis is provided in the policy study [Improving the Business Climate - Boosting Private Investment](#)

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GET Belarus has been engaged in political dialogue with reform-oriented decision-makers from the Belarus government since 2003. It is funded by the German Federal Ministry for Economic Affairs and Energy and implemented by the consulting firm Berlin Economics.



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