

MAJOR PROBLEMS OF THE REGULATORY ENVIRONMENT AND POLICY PROPOSALS FOR ITS IMPROVEMENT*

P. Kozarzewski, G. Badei, J. Tarasevich, E. Rakova**

Summary

High administrative and legal barriers retard the development of small- and medium-sized enterprises (SMEs) in Belarus. Entrepreneurs denote such urgent problems as high taxes, complicated, contradictory and ever-changing legislation regulating entrepreneurial activity (ranging from high tax rates to price regulation), numerous inspections and unjustifiably heavy fines, laborious expensive and vague permission procedures, price controls, excessive paperwork, etc.

The publication suggests some directions towards the improvement of the regulatory environment related to the functioning of the SMEs. In order to develop the latter, active forms of support are crucial. These are the creation of market infrastructure, the provision of professional training and retraining as well as information and marketing support, etc. It could be expected that by making entrepreneurial activity less regulated and abolishing a number of bureaucratic rules the number of newly created SMEs could be increased, while the already existing ones could be developed. Overall, the policy measures proposed would facilitate the structural change in the economy, enhance competitiveness, promote labor market development and, finally, lead to growth of social and economic well-being of the Belarusian citizens.

Contents

1. Introduction.....	2
2. Major legal changes and shortcomings of existing registration procedures and other regulatory norms in 2005–2006	2
2.1. Registration	2
2.2. Licensing, certification, and ‘labeling’	3
2.3. Price regulation	5
3. Taxation	6
4. Conclusions and policy proposals.....	6

* This publication has been prepared within the framework of the project ‘Support for Development of Small- and Medium-Sized Enterprises in Belarus by Improving Entrepreneurial Climate and Developing Business Infrastructure’ supported by the Polish Ministry of Foreign Affairs. The views expressed in the publication are those of the authors and do not necessarily represent those of the IPM Research Centre, the CASE Foundation, the Belarusian Association of Entrepreneurs and Employers, and the Ministry of Foreign Affairs of Poland.

** Piotr Kozarzewski – expert of the CASE, the Center for Social and Economic Research (Poland, Warsaw), piotr.kozarzewski@case.com.pl, Georgyi Badei – the Chairman of the Board of the Belarusian Association of Entrepreneurs and Employers, Janna Tarasevich – the Executive Director of the Belarusian Association of Entrepreneurs and Employers, bspn-dir@nsys.by, and Elena Rakova – economist of the IPM Research Center, rakova@research.by.

1. Introduction

The major provisions of the Program for Social and Economic Development of the Republic of Belarus over 2006–2010 adopted by the 3rd All-Belarusian Assembly stress that ‘the state policy of support of small and medium entrepreneurship would be directed towards the creation of organizational, legal and economic conditions in order to promote the dynamic and sustainable development of entrepreneurship in small urban and rural settlements’. Also, the State Program for the Revival and Development of the Countryside’ adopted for 2005–2010 envisages the development of small-scale entrepreneurship as one of the factors leading to an increase of employability and incomes of the rural population. The government has planned that by 2010, the share of output produced by small and medium entrepreneurs in GDP would reach 20–22%.

All these plans require activation of entrepreneurship, including in the rural areas and its transformation into an important factor of social and economic development. In order to be successful, a range of measures of economic, financial, and organizational nature has to be implemented. These measures are supposed to create and to maintain a favorable environment for the private businesses, to stimulate business activity and to promote investment endeavors.

In various surveys conducted to reveal the factors facilitating the private business development, entrepreneurs claim that in order to support their activity, the Belarusian authorities have to reduce the tax burden and to make tax payment less complicated, to adopt transparent and invariable laws and regulations, to simplify registration, licensing and other procedures required for market entry, to develop a system of financial assistance to small-scale entrepreneurship, to abolish or substantially ease price regulation measures, and, finally, to protect entrepreneurs from the arbitrariness of various inspection bodies. However, it is in these areas some substantial changes have indeed been made over the last two years. Unfortunately, these changes have led to neither improvement nor simplification of the legal rules necessary to support SMEs’ development.

This publication has several sections. The second section traces major changes in the registration procedures and some permission procedures. The third one analyzes taxation problems. The final section concludes and suggests some policy changes necessary to substantially simplify and to improve the regulatory framework for the functioning of SMEs in Belarus.

2. Major legal changes and shortcomings of existing registration procedures and other regulatory norms in 2005–2006

2.1. Registration

Over 2005–2006 there have been about 30 legislative acts adopted to a greater or lesser extent to supplement, or as it is often said, ‘to make’ registration procedures ‘better’. The principal document¹, namely ‘The Provision on State Registration and Liquidation (Termination of Activity) of Economic Units’, have been amended four times.

Frequent changes of the legal provisions are often affecting the quality of the general entrepreneurial climate rather adversely. At the same time, there have been some positive changes in the legislation regulating registration of new companies. For instance, a Decree No.6² has established a rule of ‘one-stop-hub’ for after-registration procedures and reduced both time and financial costs necessary for registration to be completed. According to the estimates made by the experts of the International Finance Corporation (IFC), the introduction of these improved registration rules since June 1, 2006 would lead to cost cutting by 21%³ (first of all, most likely caused by lesser notarization). As a result, the total revenue of SMEs could very likely grow by USD 25 ml because their the

¹ President’s Decree No. 11 ‘On Ordering of the State Registration and Liquidation (Termination of Activity) of Economic Units’ adopted on March 16, 1999.

² President’s Decree No. 6 ‘On Introduction of Additions and Changes in the President’s Decree No. 11 adopted on April 10, 2006.

³ <http://www.w-europe.org/?p=385>.

time for productive activity is made 16 days longer on average instead of being spent on paperwork and bureaucratic procedures. Nevertheless, these measures are still inadequate to simplify and to speed up start-ups.

However, the advantages of this new Decree have to be admitted. But, at the same time, a whole chain of problems have not been sufficiently addressed by this regulation. These problems are as follows:

- Preservation of the permissive registration procedure, while it has been claimed (at various levels of authority, including the top one) that registration could be made by announcement or a mere notification.
- An excessively broad list of documents that are required for a registration;
- Notarization of statutory documents that substantially increases registration costs;
- An unjustifiably large number of reasons to refuse registration;
- Registration is approved by the collective bodies (executive committees); and this extends the period of registration. Also, the Decree in fact discriminates against ownership. In particular, there is a possibility for economic units yet to be registered despite the existence of two formal reasons to refuse registration. This possibility is provided for the cases when either state or state-owned organizations are the founders of economic units.

2.2. Licensing, certification, and 'labeling'

According to the opinions expressed by entrepreneurs and experts, the permission system existing in Belarus covers up to 90% of SMEs. However, not a single entrepreneur is able to predict how many permissions he or she is supposed to obtain to start a business. Permits are required to begin entrepreneurial activity, to open retail and service firms, to organize production facilities, to utilize real estate, and so on. Permits are not only established by laws but also by the huge number of subordinate legislative acts and technical normative documentation (sanitary norms and rules, fire safety rules, construction norms, etc.). Their total number is probably above 200, but it is hard to make the exact calculation⁴. Apparently, to study and to abide all these rules and requirements set up by the permit-granting bodies are indeed impossible task.

Experts of the IFC estimate that in order to obtain 6 permissions required for opening a small-scale enterprise, it is necessary to study no less than 24 various legislative acts and to fulfill all the provisions provided by them. This task is far from being easy. Moreover, there is another hardship. Experts and lawyers claim that about 20% of these acts are not included in the National Register of Legislative Acts of the Republic of Belarus. Indeed, about 40% of the entrepreneurs interviewed within the framework of our project stressed that there is a problem to obtain or to find the necessary information on the procedures and requirements concerning permits⁵.

The absence of a systematic and detailed order for obtainment of permits is a serious impediment towards the development of entrepreneurship in Belarus. It also reduces an operating efficiency of the public authorities and often creates opportunities for arbitrariness so readily exploited by the public officials. Therefore, there are strong reasons to reform the system of permits provision in a comprehensive way.

Licensing: There have been some positive amendments made to the licensing legislation. In particular, a Decree No. 17 adopted on July 14, 2003 'On Licensing of Some Types of Economic Activity' has significantly reduced the number of licensable types of activity. Also, a new List of activities not requiring a special permit (license) has been adopted along with a list of authorized public bodies and organization responsible for the provision permits. In general, 49 types of economic activity now require license.

⁴ See 'Permission System in Belarus in Economic Sphere', available at <http://www.bel.biz/development/permits/?pid=5222>.

⁵ <http://www.bel.biz/analytics/research/?pid=5629>.

Although over the last a year and a half more than 30 legislative acts concerning licensing have been prepared and adopted, most of them have simply strengthened the requirements for obtaining a license and/or expanded the List of activities by including new types (or subtypes) of economic activity. For instance, the above-mentioned List has been expanded by adding 3 new types/subtypes of activity, while another 9 types have been amended by enlarging the number of works made and services provided within each of these types. In fact, only one item has been removed from the List.

The major shortcomings of the Belarusian legislation regulating licensing are as follows:

- Frequent changes (not along the lines of simplification or reduction of the burden) in the licensing legislation;
- Excessively wide list of licensable types of activity;
- Time-consuming procedure of obtaining licenses and the need to fulfill numerous requirements for that purpose;
- High costs of the procedures.

Certification and hygienic registration: Certification is still a significant problem that entrepreneurs are confronted with, although negative changes appear to be less sensitive in this area than in others. According to the decision made by the Committee on Standardization, Metrology and Certification, the List of goods, services, personnel and other objects of compliance estimate made according to the Belarusian standards, has been expanded by adding 6 new entries⁶. So their total number is now 111. Also, some substantial difficulties related to certification have not been removed.

As for the major shortcoming of the Belarusian system of certification, they are as follows:

- An unjustifiably huge number of goods and services: for instance, by the end of 2004, 576 different goods and services require certification, while by the end of 2006 this figure went up to 617. It is common in Belarus that products that are not posing a direct threat to life and health of people (like doors, windows, services of various kind) or made by reputable international companies (like mobile phone producers) have to pass certification procedure;
- Improper quality of the basic regulations (many standards are rather old, and have not been revised; while some standards have not been set yet);
- The virtual absence of documentation centers and insufficient information provision for entrepreneurs what concerns the content of and procedures for standardization and certification;
- Unjustified requirement to certify the same products (made for decades), and not the new ones;
- Separate certification procedures are established regionally; this is contrary to the current legislation;
- Expensiveness and a protracted length of the certification procedures; high tariffs on certification demand continuous and substantial expenditures, while these can be added to the prime costs only within certain limits (the rest has thus to be deducted from profits).

Besides certification, there is another time-consuming administrative procedure required to pass, that is, state hygienic regulation and registration. In order to obtain a special document on the state hygienic registration of a product made in Belarus, a producer is required to provide more than 7 documents, while for goods of foreign origin this figure is no less than 5 documents (depending on a good). Time costs required to obtain such a document can vary from 2 to 30 days depending on a type of hygienic expertise (15 days on average). The list of goods required to pass the domestic hygienic registration has been expanded. At the same time, it is often the case that certification and hygienic registration requirements are almost identical.

⁶ A Decree of the Committee on Standardization, Metrology and Certification of the Council of Ministers of the Republic of Belarus No. 16 adopted on March 31, 2006 and amendments made on October 20, 2006 to a Decree 'On the Introduction of Changes and Additions to the Decree of the Committee on Standardization, Metrology and Certification of the Council of Ministers of the Republic of Belarus' No. 35 initially adopted on July 30, 2004.

Labeling: One of the ways to limit the supply of inferior, low-quality goods is their ‘labeling’. This procedure is becoming more popular in Belarus. In 2005 and 2006, this requirement has been extended to include much greater variety of goods. In particular, since December 8, 2006 the list has been made lengthier by including such goods as coffee, tea, footwear, audiocassettes, CDs and DVDs, etc. Belarus is currently a ‘leader’ in its requirements to label goods across the majority of the CIS and the Central and East European (CEE) countries. Since labeling by using special control (or identification) marks has to be accomplished outside Belarus by importers themselves, this implies additional costs (financial and labor) for entrepreneurs and their employees. Although the price of an identification mark is only BYR 15, it is only at a first sight there are no reasons to expect cost or price increases. The issue is in fact more complicated. In order to label goods, special equipment has to be purchased, either manual or automated one. The price of the former is about BYR 300,000, while of the latter (depending on a type of the production line) starts from BYR 10 ml. It appears that the major shortcomings of labeling is the need to spend additional labor hours and resources, while the efficiency of this measure intended to combat ‘grey’ imports is low.

2.3. Price regulation

Price setting is a considerable problem for private entrepreneurs since it constraints their activity in a number of ways. Despite the abolishment of some tools previously employed to control prices, there are still powerful regulatory instruments available for policy-makers. Among these instruments are the restrictions imposed on the profitability levels and regulation of prices of goods and services at consumer market. In spite of low inflation rate in 2006, the practice of setting up the limits to price indexes on goods and services is still in place. Moreover, the situation has become worse: according to a new regulation adopted by the Council of Ministers, controls over sale price indexes are now extended to cover prices set up by commercial organizations with foreign investment and those providing medical services, and private entrepreneurs rendering such services (in case these entrepreneurs are taxed at a uniform rate). Moreover, a new ‘wave’ of regulation has included new types and groups of goods and services.

It has to be mentioned that a violation of an established order of price registration and the absence of economic calculations (like the provision of full itemization and calculation of sale prices on imported goods) is punished by a heavy fine.

In addition, in 2006, further changes have been made to a ‘Regulation of the Order of Setting and Application of Prices and Tariffs’. Such frequent changes in the legislation and maintenance of tough administrative controls over price setting, regulation of extra charges, markups, profitability levels along with the requirement to provide justification for prices set up and to complete related accounting procedures all divert material and time resources available to entrepreneurs. Also, these measures feed uncertainty and inform the impossibility of long-term business planning, and simply increase the imputed and transaction costs. As a result, investment and innovation potential and competitiveness of the Belarusian SMEs are undermined in comparison with producers from abroad, where regulations and limitations are much less severe. Foreign producers seem to be much more flexible in price setting and, hence, are able to make investment much more efficiently. Besides that, price setting limitations make the quality of the domestic business climate inferior, especially in the eyes of potential foreign investors. At the same time, these formally tough regulatory procedures have almost no effect on sales prices of private companies. In fact, prices are determined by both the level of effective demand and the existence of various legal opportunities to manipulate with prices and costs in order to set up a level of prices desired by entrepreneurs.

It follows that *the major shortcomings of the current legislation of price setting for private SMEs* are as follows:

- Excessively tough regulation and complexity of price change procedures (in cases of both increasing and decreasing of prices);
- The need to register new prices with the authorities;
- Regulation of and setting the limits to profitability;

- Substantial time and labor costs to complete all necessary paperwork and accounting procedures;
- The absence of freedom and flexibility in manipulation with prices, and the need to seek for different loopholes instead;
- The lack of information about changes and amendments made to the price setting legislation.

3. Taxation

Tax system is one of the crucial factors that shape the business climate and also impact the success of business endeavor. The number of taxes, their rates, tax base, due dates, administration and charges for possible violations are important components of tax system.

Over the last several years, the tax system has not been substantially changed in Belarus. Some changes have been introduced into numerous lists that grant various preferences and tax benefits as well as legal provisions that regulate tax base. Most of all, amendments have been made to the VAT legislation. By July 1, 2006, this legislation consisted of 176 legislative acts, of which 48 had been adopted between January 1, 2006 and July 1, 2006.

According to the 'Law on the State Budget of 2006', turnover taxes have been reduced by 0.9 percentage points. Apparently, this is very small reduction. As for the local taxes, business has been probably affected in a negative way in 2006. The Law has introduced local taxes, including retail sales tax (with a rate up to 5%, but in fact the maximum rate is applied) and services tax (with a rate up to 10%, but in practice the rate applied is 5% on average). The picture is contradictory since, on the one hand, the state prioritizes the development of services sector, but, on the other hand, in fact constraints such a development by imposing an additional local tax. In 2006, tax rate was 5%, and in 2007 (according to some information obtained from the public authorities) the Ministry of Finance is intended to increase it up to 10%.

At the same time, the Belarusian authorities have no plans to adopt any other document, e.g. a special section of the Tax Code (this section has been in preparation since the end of the 1990s) that could simplify or seriously adjust the country's tax law in a positive way.

In general, *the taxation system* of Belarus has the following negative characteristics:

- Large number of taxes, duties, and charges;
- High level of centralization of financial resources (measured by per cent of GDP);
- Uneven distribution of tax burden, the existence of numerous branch and individual tax preferences distorting market competition and undermining market mechanisms that allow efficient production facilities to spread and activities to grow. Also, these conditions imply the necessity to apply different methods of calculation of the same tax across various economic units and sectors of the economy;
- Numerous limitations concerning the size of tax base; these limitations are not transparent (because they are established, as a rule, not by the taxation law, but via regulations of different aspects of economic unit's activity, such as wages, traveling and related expenditures, and so on). As a result, accounting tends to be more complicated, causing a number of unintentional mistakes.
- The complexity of tax administration that leads to substantial accounting and payments costs. For instance, there is a time-limit set for a VAT payment (no later than 60 days after shipment is made). This implies the need to control the payments side of every single deal. Also, there are ten-day or five-day frequencies of VAT payment related to the volume of the tax itself, while legislation allows its monthly payment, etc.

4. Conclusions and policy proposals

Small and medium business in Belarus plays a certain role in socio-economic development of the country. However, the total number of SMEs (and individual entrepreneurs), and the share of their output in GDP, retail trade turnover and employment remain low-profile. Even worse, over the last

five years no positive changes in this direction have been recorded. Nevertheless, the government is rather ambitious in its plans to increase the share of SMEs in both GDP and total employment. In our view, these plans could only be implemented after a consistent policy aimed at creating a proper environment for the SMEs' functioning is applied.

Without the assistance of the government and the Parliament, private business in Belarus remains largely a small-scale, not even a medium-sized one. Accordingly, it has not acquired a desired 'margin of safety' and is subject to a devastation risk in case of domestic market disturbances (like sharp price increases of imported raw materials or inflow of foreign capital, especially of the Russian origin).

Also, the sluggish dynamics of startups and low number of SMEs per 1,000 of population (in comparison not only with the developed market economies, but also with the neighboring CIS countries) imply low intensity of competition at the domestic market. This, in turn, leads to high prices for consumers, lower quality of products made by SMEs, and weak dynamics of their innovation and investment activity.

The analysis of various aspects of regulatory and legislative environment that SMEs is faced with along with the account for the opinions of entrepreneurs themselves have revealed the existence of two sets of problems:

I. Shortcomings of the domestic regulatory environment (regulatory and legislative shortcomings and barriers); the most significant barriers are, in our view, as follows:

1. *Registration procedures* require the use of considerable material and labor resources. The permissive registration has not been abolished and still requires a lengthy list of registration papers along with the notarization of statutory documents, all increasing the costs of registration.
2. *The system of permits and licenses provision* is still far from the standards of the market economies; it is inconvenient, time-consuming and expensive;
3. *Price regulation* is inflexible and extensive; reduction of prices (like sales, etc.) is a problem for business as well as their increase;
4. *Taxation*: for SMEs, tax rates (tax burden) and complex, unstable, and often contradictory tax legislation are the problem as well as the insufficient information provision along with the need to spend time and resources in order to fulfill all necessary accounting procedures;

Two additional problems stem from the above-mentioned ones. In turn, these additional problems have many aspects and exist in all spheres of the regulatory activity, ranging from taxes to wage regulation:

5. *Excessive paperwork and complicated administration* – any area of regulation requires lots of documents, certificates, mutual agreements, copies, etc.
6. *Considerable number of inspections and heavy, incompatible with violations, fines*; entrepreneurs often denote a biased attitude of inspectorates towards private sector enterprises and their relative legal defenselessness against the background of rather broad powers of inspection authorities (that are even capable of suspending firm's operation), whose representatives are sometimes displaying ignorance of some important legislation provisions.

II. Organizational and informational barriers:

1. *Legislative shortcomings* – complexity, inconsistency and instability make law-abiding a very complicated, if not impossible, task;
2. *Excessive regulation* – a very detailed and tough regulation of all spheres of enterprise's activity does not allow to choose among the most efficient strategies and tactical decisions.
3. *High costs* of various stripe, both material (expenditures required to cover taxes, fines, dues, extortions, bribes, and wages of employees dealing with fulfilling all control, reporting, and permissive requirements, etc.) and non-material costs (time and effort sacrificed to fulfilling the requirements set up by the legislation and various regulatory bodies), and of formal and informal character;
4. *Insufficient access to information and low employee competence*, working for control bodies of the public administration; as a result, it is almost impossible to track all of the amendments

made to numerous rules and requirements related to company functioning or to obtain correct and up-to-date information.

Given the existence of all these shortcomings, it seems possible to suggest some *policy recommendations*; their implementation would stimulate the development of small business:

Registration: It is necessary to stabilize and to improve substantially the quality of the legislation regulating startups and registration. Accordingly, the development and adoption of a number of new, more adequate laws are required. These laws could be ‘On Supporting Small and Medium Entrepreneurship in the Republic of Belarus’ (a revised version); ‘On State Registration and Liquidation (Termination of Activity) of Legal Entities and Individual Entrepreneurs’, ‘On Employers Associations in the Republic of Belarus’.

There are other important measures that could be used in order to make registration procedure more convenient:

- Shift to an informative registration principle, except some of areas of economic activity (e.g., production and sale of alcoholic beverages) that require state controls or concession agreement. These activities have to be included in a exhaustive list;
- Full implementation of a ‘one-stop-hub’ registration principle;
- Reduction of a number of documents required for registration of legal entities and individual entrepreneurs;
- Abolition of the necessity of notarization of some of registration documentation; alternatively officials can be granted a right to certify copies of the documents demanded by a given public body they represent (this rule is actually adopted in Poland and some other CEE countries);

Taxation: In order to improve the situation in this area, the following measures can be suggested:

- Reduction of the overall tax burden at least to a level existing in the Russian Federation (or even lower) in order to set up the uniform ‘rules of game’ for the Belarusian and Russian enterprises; this could increase competitiveness of Belarusian products;
- Simplification of the taxation system via decreasing the overall number of taxes and charges (such as abolition of some taxes and unification of some taxes sharing tax base; better management of collection of local taxes and charges) and extension of the list of economic units allowed to use a simplified taxation procedure;
- Adoption of measures aimed at reduction of tax burden on the wage fund;
- Reduction of local tax rates and charges deduced from profits to a 3%-level;
- Cancellation of all preferential taxation regimes for any sectors and enterprises of the Belarusian economy; in fact, this means the compliance with the constitutional provision of equal opportunities for all economic units;
- Adoption of a legislative provision that amendments to the tax legislation are coming into effect after one month of their official adoption and publication; in addition, all changes could only be applied since the next financial year;
- Abolition of the requirement to report on taxed uncharged;
- Extension of the tax reporting period up to once per quarter.

In order to stimulate the development of entrepreneurship, further reforms of a simplified tax system is required. Measures could be focused on reducing tax rates as well as narrowing and simplifying the tax base in order to create favorable business opportunities for the majority of small enterprises and individual entrepreneurs. Specifically, our research team has developed a number of policy proposals in this area.

Measures suggested are not supposed to substantially reduce tax revenues. This is because of the planned increase of the budget revenues due to the abolition of special tax regimes and preferences and overall improvement of tax collection (by simplifying and increasing the transparency of the tax system writ large) against the background of the general development of SMEs sector. This development is expected to emanate from the increase in the number of SMEs and growth of their profitability that are very likely to result from the implementation of the measures proposed above.

Licensing and permission provision system: In this area, the following proposals seem to be necessary for implementation:

- To adopt a ‘Law on Licensing of Certain Types of Economic Activity’; this Law could establish a clear and exhaustive list of licensed types of economic activity and licensing procedure;
- To abolish the need to license all types of economic activity (including retail trade) that are not posing a direct threat to life and health of citizens and environment;
- To reduce the number of documents necessary for obtaining licenses and permits;
- To adopt an exhaustive list of documents that are required for obtaining licenses and permits;
- To establish a uniform – for all public bodies – procedure of provision of licenses and permits;
- To abolish notarization requirement or grant a right to officials to certify copies of documents required (by a given public body) for obtainment of permits or licenses;
- To extend the duration of licenses and permits granted to company up to 7 years and automatically to renew it (by the same period) in case no violations are registered over the initial period;

Inspections, fines, and penalties: in this area, the following measures to support entrepreneurship seem to be applicable for the Belarusian economy:

- To reduce the rates of fines applied in case of violation of economic rules, especially unintentional violations;
- To exclude the possibility of appointment and conduct of unscheduled inspections, except those connected to criminal investigation;
- To limit the power of inspection and controlling bodies related to confiscation and out-of-court asset-taking;
- To abolish the right to freeze bank accounts, except the cases of criminal investigation;
- To establish a clear legislative procedure of assessment of and compensation by controlling bodies of the state of injuries produced after wrong or illegal decisions are made by mistake.

Price regulation: Authors of this publication suggest that it is reasonable to reduce government intervention into price setting. In particular, SMEs development requires the abolition of the following shortcomings:

- Upper margins of price indexes set up by the government;
- The necessity to make planned and reporting calculations;
- The limitations on inclusion into the prime costs of consulting, audit, information and marketing services as well as the advertising costs;
- The regulation of profitability level as well as the upper limits of both wholesale and retail markups;

Accordingly, the need to apply sanctions in the case of violation of ‘price discipline’ would cease to exist.

Other measures: there are also other measures that can be provided for by the state:

It seems that active measures to support entrepreneurs are required, following the example of the most developed countries. ‘Laissez-faire’ policy (that is currently often supported by the Belarusian entrepreneurs claiming that ‘the best form of support is non-intervention’) seems to be in a way an inferior policy option. Without a doubt, the consequences of the lightened regulatory burden would be notable in the short run. However, over the longer term, entrepreneurs are likely experience more troubles caused by new, unexpected challenges to their development. This is because Belarus has an open economy sensitive to the influence of international competition. As development based on favorable terms of trade with the neighboring countries would reach its limits, domestic producers are likely to loose their competitive advantages. The support of domestic entrepreneurs should however not be equated with protectionism. Rather, measures to improve innovativeness and competitiveness both at home and abroad are required. These measures include, for instance, a system of skills upgrade for managers and ordinary employees, technology transfer, loan provision, support for creation of innovation networks and the adoption of the best entrepreneurial practices, and so on.

For this purpose, the following measures are necessary:

- Revision of approaches, contents and significance of the programs of state support for entrepreneurship devised on an annual basis; these programs have to be filled with specific measures aimed at creating and organizing the working of centers for entrepreneurship, establishing the equal opportunities for all economic units and promoting free competition among them as well as cooperation of large and small enterprises. The policy proposals in this area are provided in a separate publication;
- Stirring up of the functioning of the Inter-Departmental Commission for Support and Development of Small Entrepreneurship, and also related special commissions of regional executive committees; For that purpose, it is necessary to examine the legislation (both the current and the one planned for approval) to ensure that administrative barriers are eliminated. This requires the participation of employers associations and the Council on the Development of Entrepreneurship in the Republic of Belarus.

Improving the access of SMEs to credit and real estate would also help small business to grow and develop. The following measures are necessary:

- To simplify procedures and to encourage commercial banks, including by relaxation of reserve and statutory funds requirements, to provide loans for small enterprises;
- To create preconditions for the development of credit unions, guarantee and insurance funds (see a separate publication dealing with this aspect);
- To simplify the access to and costs of rent of industrial premises for private companies;

In general, the government should signal both society and entrepreneurs that small and medium that a green light is on for small and medium-scale entrepreneurship and that its development is one of the crucial aspects of broader socio-economic policy. In particular, it is necessary to reveal and to break with any manifestations of repression of private initiative, administrative pressure and arbitrariness.

It has to be stressed that shortcomings that exist in the regulatory environment of Belarus are complicated and interrelated. Accordingly, they could only be dealt with by comprehensive policy measures. The policy proposals made above could only ‘work’ if implemented consistently and *in corpore*.