**Effects of Upgrading the Business Environment**

Over the last eight years, Belarus has made notable progress in improving various aspects of its business environment. Since 2004, Belarus—and only five other countries in Europe and Central Asia (ECA) region—reformed across all Doing Business (DB) indicators. The most progress has been made on ‘Paying Taxes’, as Belarus moved from the bottom of the list to the 99th place in the 2017 global ranking. Among other top ten reformers in ‘Paying Taxes’, only Ukraine is ranked above Belarus with the 84th place, moving from a relatively higher ‘Distance to Frontier’ score of 20.05 in 2011 to just 3.31 for Belarus. Another area of substantial improvement has been ‘Trading Across Borders’ as Belarus moved from the 128th place in 2011 to 30th place in the 2017 global ranking of 190 economies. In particular, processing time was reduced, among other measures, by introducing electronic declaration of exports and imports.

In 2016, Belarus remains one of the regional leaders in regulatory reforms. The 2017 DB ranking for Belarus is 37, an upward movement from the 50th place a year ago. Currently, Belarus remains above the Russian Federation’s ranking of 40, and Ukraine’s ranking of 80, but it is far below rankings of star reformers such as Latvia (14) and Georgia (16). Moreover, Belarus remained one of the regional leaders on the total count of reforms, implementing four reforms. First, Belarus streamlined the process of obtaining an electricity connection by establishing a one-stop shop utility service that fulfills all connection-related services. Second, Belarus made it easier to transfer property by improving the reliability of the land administration system. Third, the credit bureau has been created to provide credit scores, strengthening the credit reporting system. Fourth, minority investor protection has been strengthened by introducing remedies in cases where related-party transactions are harmful to the company.

The upgrade of the business environment created new economic opportunities for private sector growth. There is a strong positive association between better conditions for doing business and firm creation. These results also hold at the regional level. In particular, empirical analysis (2006-14, rayon-level data) show that growth in the number of private micro- and small-sized enterprises (MSEs) are more responsive to broader liberalization measures—captured by the progress in DB rankings—rather than specific regional policies, such as tax preferences for businesses operating in the rural and small urban localities.

Reforms to improve investment climate have had a positive impact on domestic investment dynamics. Quantitative analysis detects statistically significant and positive relationships between movements along the overall ‘Distance to Frontier’ indicator of DB and the dynamics of real investment. These relationships also hold at the regional (rayon) level. There is also a positive link between the number of MSEs at a rayon level and investment. Companies benefit from the location in the urban, densely populated areas and respectively larger market size. The latter is positively affected by higher wage levels, as they reflect the purchasing capacity of the region. These results remain valid for a period of 2006-2014.

**Strengthening Framework for FDI attraction**

Economies that provide a good regulatory environment for domestic firms tend to provide also favorable conditions for foreign-owned firms. Hence, higher DB scores are generally associated with higher inflows of foreign direct investment, as the DB indicators tend to reflect the quality of the investment climate at a broader level. When taking into account differences in income, inflation, population size, governance measures, and openness to trade and export of primary goods, the empirical analysis finds that a better ‘Distance to Frontier’ (DTF) score is significantly associated with larger inflows of foreign direct investment. At the same time, those economies closest to the frontier in regulatory practice receive substantially more inflows than those furthest from the frontier.
Despite the progress in DB rankings, Belarus continues to struggle to attract FDI. In the case of Belarus, the level of FDI per capita is not changing considerably over a period of 2010-2015, remaining around US$180, and consists mainly of reinvested profits. At the same time, there is a steady progress on the DB rankings (see Figure 1). This progress is related to the increases of the overall DTF score, from 51 in 2010 to 74.13 in 2017, as well as specific areas, such as in ‘Trading Across Borders’ from 34.57 to 93.71.

Creating a favorable environment for attracting FDI goes beyond mere improvements in DB scores. While addressing long-standing areas—such as access to finance and insolvency procedures—are important, other institutional barriers impede inflows of foreign investment. For example, the underdevelopment of business support services in Belarus holds back the growth in manufacturing and FDI. A large proportion of business services is still provided in-house, implying that local enterprises do not reap the benefits of specialization. Overburdened with a number of non-core activities, companies in Belarus tend to continue to be unattractive for FDI and therefore delinked from the powerful potential of the FDI technology transfer. In this situation, the WTO accession could potentially spur the development of the services sector and thus indirectly support FDI through the availability of high quality, sufficient variety and relatedly low-cost domestic services.

Long-term partnerships with strategic investors enable local companies with new growth opportunities. Multinational companies can be good candidates to become foreign ‘strategic investors’, also for Belarusian state-owned enterprises (SOEs). Their business processes, production processes and market focus complements and extends that of SOE counterparts. The value of SOE assets is greater for strategic investors than for other investors because strategic investors possess the “know how” as well as the “know who” to immediately increase the productivity and which SOE assets are put to use. Conversely, strategic investors understand not only the potential upside value, but also downside risks associated with SOE assets and, therefore, the solicitation of their interest as investors provides a real market test regarding the long-term viability and economic merit of specific SOEs.

FDI can help Belarusian companies—both private and state-owned—to be introduced to new markets and to manufacturing of new products. This can be achieved through matchmaking and brokerage of contract manufacturing projects. The contract manufacture has proved to be a notably effective approach to opening new markets and to developing marketing and market development competencies within enterprises that are stronger in producing quality products than they are in marketing them. Strategic weaknesses could be overcome by matching the strengths of local enterprise with the complementary strengths of other companies whose competencies are in wholesaling, retailing and brand management. This initiative can have a good demonstration effect, and other domestic enterprises may be willing to replicate that, creating a critical mass of successful projects.


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