

Belarus

In BEEPS V, the top three obstacles identified by firms in Belarus were workforce skills; access to finance; and competitors' practices in the informal sector (Chart 1). Large and manufacturing firms found access to land particularly difficult, while firms in the service sector were hampered by electricity-related issues. Workforce skills and electricity are persistent obstacles as they also topped the list in BEEPS IV.

Migration of qualified workforce and reliance on internal funds

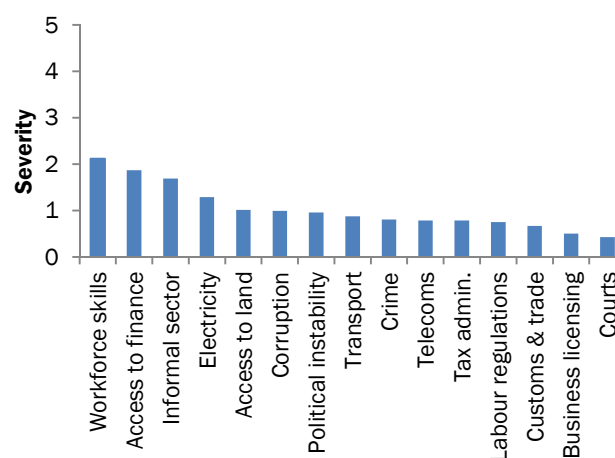
Inadequate workforce skills remained the biggest obstacle faced by Belarusian firms. The country continued to suffer from a drain of qualified workforce, mainly into Russia, especially after the liberalisation of labour migration within the Common Economic Space in 2012. With average wages in Belarus being 40% below those in Russia in 2013, this phenomenon is not surprising. Even more important are the wage differentials across qualifications, which are very narrow (only 50% of returns in Russia), limiting the returns to investment in education and training. However, following the recent devaluation of the Russian rouble, the outflow of highly skilled workers to Russia has somewhat slowed.

Regarding **access to finance**, the share of Belarusian firms with a loan or a credit line declined significantly from almost 50% in BEEPS IV to 30.4% in BEEPS V. Firms also faced on average shorter loan durations than their counterparts in eastern Europe and the Caucasus (EEC): 26.6 months compared with 29.7 months. Of the 58.6% of firms who needed a loan, 45.1% were credit-constrained; most of them were discouraged from applying for a loan due to high interest rates. SMEs and young firms were the most affected by the lack of bank financing: 49% of SMEs and 64.1% of young firms that needed a loan were credit-constrained, compared with 17.5% of large and 39.6% of old firms.

In line with the downward trend in EEC, the prevalence of **competition with the informal sector** in Belarus has become less of a concern since the previous BEEPS round. Of the firms surveyed, 50.4% reported competing against firms in the informal sector in BEEPS IV compared with 42.8% in BEEPS V (Chart 2).

Belarus inherited one of the highest standards of scientific and technical potential in the former Soviet Union. This is reflected in the share of innovative firms: new processes were introduced by 21.7% of firms, while 18.1% of firms introduced new products. Both shares were well above the BEEPS averages of 8.9% and 10.8%, respectively. Belarus has several well-known innovative companies, such as Polimaster (radiation detection equipment) and Izovac (thin film coating technologies for touch screens).

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Competition from the informal sector

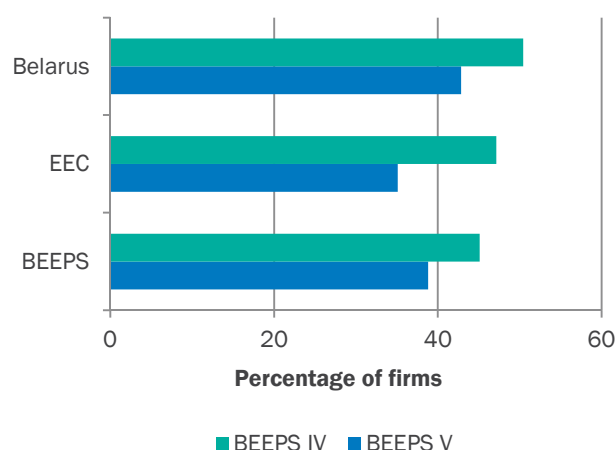


Chart 3. Engagement in innovation activities

