

## **Anti-crisis plan for Belarus**

**What should be done for creating the new and retaining the best.**

**Freedom of choice and security for consumers, responsibility and competitive power for producers, liberation and innovation for entrepreneurs – well-being and prosperity for the country.**

**Instead of hiding from the crisis, eliminate it.**

Saving the country is a noble case, the case for real patriots and professionals. Today Belarus is in trouble. The economical and social fire is gaining strength. It's evident to everyone who goes shopping. Everyone in business feels it too. It's understood by those who deal with real numbers of receipts, expenditures and debts of the country, plants and banks. The crisis is widely discussed by those who've taken out a mortgage. Parents who are to educate their children-students look into the future with fear: costly and sad. At a loss are also those whose family members are diseased as irreplaceable foreign medicaments are getting more and more expensive.

Nowadays Belarus doesn't need ordinary fire-fighters. Our country is desperate for resuscitators and constructors. It's one thing to fight down the blaze, flood it and make the burnt-out object of no value, but it's another thing to put out the fire and quickly renew everything minimizing the costs. One thing is to create legal, administrative conditions for a small group of officialdom to amass a fortune and another thing is to liberate the entrepreneurship and creativeness of common people and to form a strong middle class.

The plan to save the Belarusian economy that we offer is an intensive therapy. It is both extinguishing the fire and restoring the best in the country instead of ruining the economy entirely.

It's not market reformers who have built the flammable construction of the Belarusian economy; not private market supporters who have depreciated the national currency and placed financial stability of national business in jeopardy. Not foreign investors or governments of other countries are to blame for having led the country to an alarming deficit of the balance of payments and trade in Belarus.

Unfortunately the Belarusian government has missed the best time for reforms. So irresponsibly they've lost the trust of people. For years and years they've been neglecting the burning of structural, financial and technological problems. They've been pretending the economy is sound, its foundation is strong and the reserves for growth are durable enough. But it hasn't worked out this way. The fire is raging. The socioeconomic crisis is aggravating now.

## **Our aim**

We offer a system-based solution of the problems within the strategy of creating a steady socioeconomic model corresponding to the following requirements:

- A small, responsible state in partnership with a big society of solidarity: the country's aggregate expenditures must not exceed 30% of GDP, the majority of economic decisions must be made by private entities within the framework of their own property.
- The institutions and the economic policy allowing to get into the top 30 countries with economic freedom: inflation of no more than 3 % a year, balanced budget, the country's aggregate debt of no more than 30 % of GDP, free movement of capital, goods and services, and work force.
- Favourable conditions for entrepreneurship: the quality of state control allowing to join the top 30 countries with the best business climate.
- The regulation of financial sector, foreign commerce and commodity markets according to the international standards, rules and regulations.

Belarus needs complex system-based market reforms as separate measures lifted out of the overall strategy of reforms can solve only some problems but instead they might cause the new ones. That is why we offer to create complementary and synergetic modern institutions compatible with individual freedom and responsibility, with effective government. Their foundation is consumers' freedom of choice and security, producers' responsibility and competitive power, entrepreneurs' liberation and innovation.

The majority of the measures we offer must be taken by the end of this year 2011. They can be put into effect by the Decree of the President or the Resolution of the Council of Ministers. The actions to do with the

organizing of privatization, the creation of new state managerial bodies and institutional reforms must be accomplished by 2013.

### **Why are radical reforms required for Belarus?**

The Belarusians of today are different from those they used to be in 1995, in 2000 and even in 2010. Most of them in those times were for slow and step-by-step reforms. Today more than half of them are ready for radical and revolutionary changes. For 17 years our country was in a vicious circle of Gosplan (State Planning Committee)/Gossnab (State Committee for Material-Technical Supply). The promised spiral of social and economic progress turned out to be the spiral against the prolificacy of the Belarusian spirit of freedom and entrepreneurship. That's why it is important and beneficial for Belarus to choose the quickest way to free market instead of continuing sluggish movements to save Gosplan and ineffective state sector.

1. We have run out of internal reserves to fight against crisis phenomena. Without reforms it is impossible to cope with the deficit of the balance of payments and the deficit of trade balance, foreign currency shortage and the problems with budget stability. State programmes of import substitution and export support are simply killing the economy and ready cash.
2. Those Belarusian enterprises that used to provide economic growth are now rapidly losing their competitive power. As a result of the officialdom's management "family silver" is getting rusty. Those few plants still remaining profitable are working to their utmost.
3. Ordinary people and officials are ready for the market that will support entrepreneurship and keen on the European lifestyle to replace an oligarchic mess and living in an authoritarian "dug-out".
4. There's no more credit of trust with Russia, the main donor for a 17-year-old Gosplan experiment. The Kremlin is turning to a pragmatic scheme of "asserts in return for credits and cheap energy supply".
5. Belarus is rapidly approaching the critical point of external debt service. The attraction of foreign currency loans is badly hindered. Without system-based forms we'll face the threat of default and the country to be sold out.

6. The lack of trust of external private investors has reached a crucial point, but without them it is not possible to modernize economy and regain competitiveness.
7. There is a rapid outflow of national capital, entrepreneurs and highly-qualified specialists.
8. People and businessmen are losing trust in the national currency and the government as the guarantor of security and social standards. The risks of poverty and the functioning of state enterprises to be blocked have risen sharply.
9. The world economy is undergoing the crisis of state interventionism. The country which is the first to create full-scale institutions of free market will significantly increase the chances to attract more investments, resources and future technologies.
10. Not a single country has achieved high social standards, competitiveness and long-term economic growth within the framework of Gosplan, the dominance of the government, state investments and foreign trade protectionism. The countries that ventured to believe in the institutions of free market are proving the opposite (South Korea, Singapore, Chile and to a great extent China). They've reached very high economic growth rate thanks to the increase in productivity of all the factors of production.

## **The package of actions № 1**

### **The stability of prices and the elimination of goods deficit.**

Belarus is a small open economy. The producers, entrepreneurs and consumers of our country must not adjust to the world prices. Any attempts of the government either to overstate or to understate the prices distort the information for the economic entities to make decisions. In return it increases the risks of more investment mistakes, the death of capital and the growth of unemployment. If the policy of severe regulation of prices and state investing is carried out for a long time, it can cause acute structural problems in the form of mono towns and ghost towns.

The goods/services deficit is a direct consequence of the state regulation of the prices in the market of goods and services, money and work force, the result of the discriminatory practice of the government and the limitation of freedom to enter the market. The history of the

development of different countries and civilizations has been a proof of that for thousands of years. The deficit disappears as soon as the government stops interfering with the process of price formation between sellers and buyers. There are no grounds to assume that the centralized model of total state control created by the Belarusian government is more successful, effective and stable than free market. That is why the strategic direction of the reforms in Belarus is aimed at free prices, intense competition, open trade and stable institutions of responsibility.

1. The change-over to the free prices formation: the abolition of the legislative acts that set the price and premium limits and the cost effectiveness of all segments of the market except those monopolized by the state network companies. The state regulation of the prices in the spheres of electricity, heating, gas and water supplies, railway and public transport services, post services, telecommunication services (certain lines), housing maintenance and garbage disposal services must remain until open competitive market is created.

2. The international full-scale audit of the production costs, the price formation and the management of the profit-making organizations providing housing and public utilities as well as electricity, heating, water and gas supplies, garbage disposal, housing maintenance and public transport services. The liberalization of the prices is to start together with the change-over from subsidizing producers to subsidizing low-income consumers. The most adequate social protection of pensioners is the indexation of pensions every 6 months taking into account the growth of the prices for housing and public utilities and inflation. There must be a complete transparency of the expenses, the compensation calculations and the list of those who receive budget support to cover the costs of housing and public utilities. Taking into account the results of the international audit of producers 100 % of the production costs must be covered by households as from 2015.

3. Demonopolization, no barriers for business entities including the foreign ones to enter the market of production and the market of the distribution of power resources, heating and water supplies, telecommunication, public transport and post services; the introduction of the laws against the state discrimination and monopoly, strict measures of responsibility for executives in case of discrimination and the violation of equal business conditions in the market.

4. No cross-subsidization in the sphere of electric and heat energy production, no practice of price discrimination for monopolistic companies in the sphere of electric and heat energy production, the supply of gas, water, agricultural and other raw materials for industrial production.
5. The abolition of all the forms of licensing and administrative procedures for retail trade (licenses, trading permissions), the practical realization of the principle of free entry into the market of retail services in order to provide open competition; the complete withdrawal of the state (via the privatization or liquidation of business entities) from retail trade, public catering and consumer services sphere.
6. Profit-making organizations must be given the right to determine their cost effectiveness, the time and the way of granting discounts and introducing premiums, conducting advertising campaigns and then including these expenditures into their production costs for taxation.
7. The state regulation of the private producers' prices in the sphere of education and healthcare must be cancelled. The prices of the state economic entities in the sphere of education and healthcare must be regulated by the Social Services Agency. This body must provide equal business conditions in the mentioned spheres of the market and promote the development of open competition.
8. The cancellation of the notion "socially important goods" and the regulation of the prices for them. The stability of prices, the range of goods and their availability must be provided by the competition of Belarusian and foreign producers. The majority of food commodities in the world are significantly cheaper than in Belarus. The effective measure for the elimination of goods deficit can be the reduction of customs duties (the introduction of flat import duty of 3-5 %), the simplification of customs procedures for import, and the recognition of the quality certificates of the EU, Russia and Ukraine.
9. The abolition of all administrative restrictions including those introduced by local authorities concerning retail and service entities and their sales quotas and sales amount of local goods, which will provide the guarantees for the functioning of the single domestic trade market of the country. Retail entities must be free to determine their business partners, leasing, payment and operating modes with them and so on.
10. The demonopolization of meat and milk purchasing state system, the withdrawal of the state from this market by privatizing / eliminating

producers, distributors, purchasing chain and retail entities; providing the producers of agricultural raw materials with the right to form their own prices, to determine their own quantitative parameters of production and sales, and to change the purpose of land using without coordinating it with the state managerial bodies.

11. The rate of labour remuneration in private business entities must be determined only by the contract between employers and employees. Pay rise / salary indexation for the state managerial bodies and budget sector must be carried out only after the increase in labour productivity in the economy and in case of available non-emission resources in deficit-free budget.

12. The demonopolization of the insurance market: the abolition of the laws granting state insurance companies the exclusive right to provide certain types of insurance services; the abolition of the administrative regulation of the insurance rates; the possibility for foreign insurance companies to enter the market freely.

## **The package of actions № 2**

### **The monetary policy and the elimination of currency deficit.**

There is a whole range of certain indicators of high-level monetary policy: the inflation of no more than 3 % a year, the stability of national currency in terms of free capital movement that is in terms of liberal current and capital accounts of the balance of payment, the liquidity and stability of financial institutions, the availability of credit resources, the deposit guarantees, varied instruments of savings and investments. The financial market of Belarus is very small in comparison with that of Russia, to say nothing of the world and European ones. That is why it is very important for Belarus to turn to the international rules and regulations of the monetary policy and the legal framework of banking and financial market in general. It concerns not only the requirements for the capital, reserves, accounts transparency and adequate risk assessment, but also the independence of the National Bank.

Therefore, the strategy of the monetary policy reforms in Belarus is aimed at achieving the exact quantitative parameters of inflation in the first place (not exceeding 3 % a year), free competition in the market of banking and financial services, the adaptation of the international rules and

regulations in banking sector and financial market in general, the demonopolization of financial sector by providing independence to the National Bank and the privatization of banks, insurance companies, currency and shares trading centres.

1. The changes in the Statute of the National Bank of the Republic of Belarus: the only purpose of this body must be to ensure the stability of the national currency unit. The ban on burdening the National Bank with the tasks that can put in jeopardy the accomplishment of its only purpose, including the tasks of economic growth stimulation and ensuring the involvement and access for certain enterprises, sectors and the government. The ban for the National Bank on financing the state programmes of investments and covering other expenses of the government and commercial sector.

2. The change-over to the inflation targeting regime. With the help of the open market operations and other available instruments the National Bank must carry out the monetary policy to ensure that the consumer price index will not exceed 5 % by 2012. The real institutional independence of the National Bank is necessary to achieve this target. The independence of the National Bank of Belarus can be achieved via appointing the Chairperson of the National Bank and the Members of the Board for 7 years by the Parliament, the withdrawal of the National Bank from the founder members of all profit-making organizations, annual reports on the monetary policy situation in the country to the Parliament; no emission support to cover budget expenses and so on.

3. The withdrawal of the National Bank and all state managerial bodies from the founder members of the Currency and Stock Exchange and the depoliticization of its activity, no discrimination of small businesses and individual enterprises concerning foreign currency buying and selling, no practice of special purposes for foreign currency buying; the creation of legal conditions for the development of competitive centres in the country's Forex market. No law on 30 % of earnings in foreign currency to be sold as from the 1<sup>st</sup> of June 2012.

4. The transfer of the National Bank stockholdings in commercial banks to the State Property Committee. The ban for the National Bank on acquiring the shares of other banks, financial institutions and other business entities.

5. No limitations for foreign capital to take part in the bank system of Belarus. No laws discriminating foreign financial institutions in Belarus.
6. The complete withdrawal of the government from the founder members of banks and insurance companies by 2015. The adoption of the legal framework providing open competition and the laws against monopoly and discrimination in the financial services market.
7. The banks must be given the right to determine the deposit and loan interest rates regardless of the refinancing rate of the National Bank.
8. The complete liberalization of the current accounts operations of the balance of payments by the 1<sup>st</sup> of January 2012. The preparation of the monetary market institutions for the complete liberalization of the account of capital transactions by the 1<sup>st</sup> of January 2015.
9. The elimination of multiple exchange rates, the unified exchange rate of the Belarusian ruble by the 1<sup>st</sup> of November 2011. No subsidization of the state managerial bodies and profit-making organizations via their access to foreign currency at lowered exchange rates. The unified exchange rate of the Belarusian ruble to other currencies must be the result of free from administrative measures of regulation demand and supply at the Belarusian Currency and Stock Exchange.
10. The profit-making organizations must be given the right to determine independently how to use currency obtained both in exchange and off-exchange markets.
11. The business entities must be given the right to determine independently the order, form, currency and time of payments with profit-making organizations both abroad and within the country.
12. The development of the market mechanisms for the risk-hedging of exchange fluctuations in the framework of the activity of the profit-making organizations owning currency trade centres; the creation of the legal conditions for the development of forward and swap operations between banks.
13. The increase of the compulsory bank reserving quota up to 10 % of loans by 2013 and up to 15 % by 2017 in order to maintain the bank system stability. The introduction of the requirements for the structure of assets and capitals of banks according to the Basel Committee on Banking Supervision of the Bank for International Settlements (Basel III).
14. The transparency of the financial flows of banks, a full-scale consideration of the risks of state banks from off-balance accounts

resources. Financial institutions' compulsory quarterly reports with detailed comments corresponding to the requirements of "Basel II" and IFRS.

15. No administrative protection of state banks and business entities from the requirement of creditors and suppliers by making changes to the laws on sanctions and bankruptcy. The creation of new legal mechanisms to protect the rights of creditors in the process of bankruptcy in order to stimulate mortgages and to protect proprietary rights in general.

16. The creation of the Agency on Regulation and Supervision of Financial Market and Institutions, the unification of the legislative framework of Belarus and the international rules and regulations of supervision. The development of the methodology and practice of supervision to be able to detect the problems of financial organizations at early stages.

17. More responsibility for the chiefs of banks and financial institutions in case of their maladministration, withholding and falsification of substantial facts and sharing the responsibility with creditors.

18. The nominee names' compulsory disclosure of the information on the shareholders of banks and the joint-stock companies that indirectly (via third party) influence the decisions made by the managerial bodies of banks.

19. The development of private loan offices which store and systematize the data on troubled borrowers in non-financial sector and on their loans; free access to this database.

20. To do regular (once or twice a year) stress testing of the banks to determine the capital adequacy and the rates of currency, loan, interest, commodity and operational risks.

### **The package of actions № 3**

#### **The budget policy.**

The budget policy reflects the real priorities of the government. The future government of Belarus must be People's, Responsible, Small, Effective and Transparent.

People's government (the word "government" as used here – the synonym of the notion "governmental authority"; in our country it includes the Administration of the President, the Council of Ministers, the National Bank, local authorities) – the government that is as close as possible to people. It is decentralized. The main expenses are carried out locally.

Responsible government – the government that fulfils its commitments in the framework of available resources, lives within its means, and doesn't shift responsibility on to the future generations' shoulders.

Small government – the government that directs its resources at providing life protection and appropriate living standards of people, protecting people's health from real threats, as well as fulfilling the commitments undertaken. In order to carry out these functions the country's aggregate expenditure should not exceed 30 % of GDP.

Effective government – the government that carries out its functions with minimum expenses, the same functions are not to be copied by different authorities. The quality of work is estimated according to the exact quantitative and qualitative criteria.

Transparent government – the government whose state bodies' financial operations (receipts and expenditures), mechanisms of making decisions, legislative acts, rules and procedures are available free of charge for citizens, mass media and non-governmental organizations.

The main principles of the new budget policy of Belarus:

- The unconditional accomplishment of the government's commitments to pensioners.
- During the system-based reforms the budget support of socially vulnerable groups via real budget receipts but not the emission resources of the National Bank or credits which result in the growth of the state debt.
- The budget balance.
- The non-sequestered financing of the state activity to protect people's life and health (army, police, courts).
- The financing of the state managerial bodies corresponding to the state functions and potential (local and republican authorities).
- The non-intervention of the government into the commercial investment projects, the elimination of benefits and preferences, budget transfers and special tax positions favouring certain sectors and enterprises out of the common conditions of market functioning.

The strategic direction of the budget reforms is aimed at the deficit-free consolidated budget, the effectiveness and decentralized character of state expenses.

1. The rates for the deficit-free consolidated budget of the country as from fiscal year 2014 must be introduced into the Budgetary Code of Belarus. Till this time the threshold level of deficit must be determined as not exceeding 3 % of GDP.

2. The threshold level of the country's aggregate expenditures in the amount of 33 % of GDP, the country's external debt equal to 15 % of GDP as from fiscal year 2014 must be introduced into the Budgetary Code of Belarus.

3. The threshold level of the country's aggregate debt equal to 30 % of GDP as from fiscal year 2014 must be introduced into the Budgetary Code of Belarus.

4. The introduction of the rate into the Budgetary Code of Belarus and other legislative acts, according to which the Minister of Finance is automatically dismissed in case of the budget deficit for two years on end and the breach of the country's aggregate expenditures and debt rates.

5. The introduction of the rate into the Budgetary Code of Belarus and other legislative acts, according to which local authorities must have deficit-free budget. In case of the breach of the deficit-free budget rate for two years on end the head of local authorities is automatically dismissed.

6. The change-over to the two-level budget system. The first level is the top-priority, permanent, non-sequestered expenditures of the budget: pensions, welfare payments, basic expenditures to support the spheres of education and healthcare, state managerial bodies, the infrastructure development and the bodies providing people's life and health protection. These expenditures are adopted for three years. The financing of these spheres according to the following: the bodies providing the state functioning – 4 % of GDP, infrastructure – 1,5 %, housing and utilities – 1 %, healthcare – 2,5 %, education - 4 %, pensions and welfare payments – 13 %, physical culture, sport and culture – 1 %. In total – 30 % of GDP. The second level of expenditures: annually approved expenditures in compliance with the deficit-free budget rate. These are the bodies providing the state functioning (1 % of GDP), healthcare (0,5 %), welfare payments (1 %), housing and utilities (0,5 %). The annual aggregate expenditures must not exceed 33 % of GDP.

7. The introduction of the exact quantitative and qualitative criteria for evaluating the effectiveness of state expenditures (the main types of budget expenditures). Each item of state expenditures must have exact goals and objectives. The realization of the principle n+2, when the budget resources of the current year can be used for the following two years in order to achieve goals and objectives. Their accomplishment within the framework of the provided resources is carried out by an independent audit company. In case of non-accomplishment of target indicators for three years this item of budget expenditures is excluded.

8. The formation of the reserve anti-crisis fund equal to 8 % of the receipts of consolidated budget within the framework of the budget for 2012-2013. These resources are for the emergency replenishment of the liquidity of banks or profit-making organizations suffering from the consequences of the realization of market reforms. Business entities can't receive support from the fund for more than two years. The formation of this fund is carried out at the expenses of the current receipts, and the receipts from privatization and using state property.

9. The introduction of the norms to calculate budget expenditures allowing to trace very accurately the expenditure, payments, debts and assets of all state managerial bodies.

10. The introduction of the legislative rule on annual publications of the results of an independent audit concerning the distribution and use of republican and local budgets.

11. The elimination of all off-budget funds including the Social Protection Fund of the Population. The change-over to the principle "all budget receipts are spent on the accomplishment of all state commitments".

12. The introduction of the legislative rule obliging the government to publish regularly the detailed information on the level and structure of internal and external state debts, the condition of financial assets and other significant state commitments. The budget documentation must reflect the fiscal position of every local authority, every state managerial body and republican budget.

13. The receipts from privatizing and selling community property are entered into the local budgets, 40 % of these receipts local authorities must transfer to the stabilization fund of the region. These resources can't be used to support profit-making organizations.

14. The receipts from privatizing republican property are entered into a separate account. 60 % of earnings from each sale is transferred to the Pension Reserve Fund, resources of which are then invested into the international market securities. Profits received must be spent only on pension increments. The rest can be used for current expenses within the limit of the country's aggregate expenditures (33 % of GDP).

15. The realization of the principle "the decentralization of expenditures along with the centralization of the tax collection system". The exact determination of the amount of monthly budget transfers from the republican budget into local budgets taking into account the number of education, healthcare, security and legal institutions of the region. 70 % of the unified social tax is automatically transferred to the local budget of the region.

16. The Ministry of Finance establishes the system to control the transfers from the republican budget into the local ones and back. On the sites of the Ministry of Finance and local authorities the info on the inter budget relationships must be available with the details of transfers received and the confirmation from the final beneficiary.

17. The amendments to increase budget expenditures can be introduced only after the approval by two-thirds of the House of Representatives and two-thirds of the Council of the Republic of the National Assembly.

## **The package of actions № 4**

### **The fiscal policy.**

New Belarus needs fair, effective, unified, neutral to economic entities and economic sectors fiscal policy. All citizens support the government with their money, in return the government provides citizens with the exact set of services, creates stable legal and economic institutions for self-realization of every citizen. The government can take charge of the resources received from taxpayers only. The government itself must not be involved in doing business. The function of the government is to create equal conditions of business for private and economic entities.

The new innovative fiscal policy is one of the main factors for the country's stable development as it significantly reduces tax burden, businesses' and natural persons' costs to do with tax administration, eliminates discrimination, creates equal working conditions for all market

segments and entrepreneurs. The changes in the structure of paying taxes increases the competitiveness of national business, stimulates export and brings out of shadow the significant part of economic activity including “salaries paid under the table”.

We'll eliminate the taxes that generate the government corruption and lots of problems for economic entities (first of all VAT and income tax for legal entities). We'll consolidate some taxes, for example income tax and contributions to the Social Protection Fund of the Population. The replacement of VAT and income tax by retail sales tax is an innovative solution which takes into consideration the peculiarities of both the Belarusian legal administrative institutions and the state of the Belarusian economy.

Successful system-based reforms are impossible due to a high tax burden and complicated tax system. Today the quality of social and legal institutions in Belarus does not allow to distribute effectively the big amount of tax resources via the budget. In other words the Belarusian system of administration, current formal and informal procedures, the attitude of legal entities and natural persons to the government lead to the conclusion that Belarus can't introduce the standard tax policy of the EU countries without serious distorting consequences for the financial system, real sectors of economy and the conservation of a big sector of “raw” economy. Moreover, nowadays the tax system of the EU countries requires serious reforms. That's why there's no need for us to copy the system that creates problems.

We consider that in current state of affairs the best solution for the distribution of resources will be to leave as much of monetary resources as possible at the disposal of economic entities. It will sharply reduce the risk of corruption, the abuse of power and the aggravation of recently created structural distortions in the market.

The new fiscal policy will provide the budget with necessary resources (max 30 % of GDP), with minimum of expenditures (the administrative costs of economic entities), with maximum effectiveness (minimized state expenditures to do with charging and controlling tax payments). The fiscal policy will be neutral that is the state will not favour certain sectors or enterprises by giving them privileges and tax concession.

So the strategic direction of the fiscal reforms is to reduce tax burden, to introduce light, understandable system of tax administration,

the elimination of tax advantages and preferences, strict control for taxes to be paid by all citizens and economic entities.

1. The introduction of necessary changes into the legislative acts and the change-over to the following taxes: a) retail sales tax: the unified rate of 20 % on all types of goods and services; b) excise tax for the producers of electricity, gas, mineral products, alcoholic beverages and tobacco at the rates used in the EU; c) contributions to the Social Protection Fund of the Population and income taxes are to be paid to the Salary Fund at the unified rate of 15 % for natural persons; d) the unified rate of import customs duty equal to 5 % on all goods except for crude oil, gas and electricity. The rates of import customs duties on crude oil, gas and electricity must be determined annually taking into account the prices of sellers and the obligations of the international contracts. All other taxes and duties are cancelled.

2. The retail sales tax must be paid by business entities monthly. Reports on tax payments must be submitted quarterly. It's necessary to consider the electronic way of submission. Necessary software and accompaniment services are provided at the expense of the government.

3. Local authorities can introduce a property tax and a land tax to finance their expenditures. Aggregate local taxes must not exceed 3 % of GDP.

4. The cancelation of a planning character for budget receipts in the form of fines, penalty fees and seized property.

5. On a monthly basis the Ministry of Finance must provide the information on the privatization account and its transactions. On a quarterly basis the Ministry of Finance must provide the information on the investments of the resources of the Pension Reserve Fund received via privatization.

6. On a quarterly basis the Ministry of Finance must provide the detailed information on non-tax budget replenishment. Annually the Ministry must arrange an independent audit to estimate the effective use of state property, including leased property. The results of this audit must be available on the site of the Ministry of Finance.

7. The elimination of the Ministry of Tax Collection and the transfer of its function to the Ministry of Finance.

8. The inclusion of the Tax Committee into the Ministry of Finance.

9. The inclusion of the Social Protection Fund of the Population into the Ministry of Finance. The Ministry of Finance takes over the state commitments on pensions and welfare payments.
10. The legislative rule obliging to interpret all contradictions of tax laws in favour of taxpayers must be introduced into the Tax Code of Belarus.
11. The introduction of the legislative rule according to which those citizens who submit and prove the information on the economic entities' trying to avoid tax payments must be paid from the budget 25 % of the sum of the debt covered by tax evaders after the intervention of tax authorities or court decision.
12. To conduct a tax amnesty from 2012 till 2014. Every citizen of Belarus will have the right to bring into the country and put into any Belarusian bank any amount of money in any currency without paying taxes. After obtaining shares, securities or property with this money, the state managerial bodies are prohibited to demand income declaration of the accounts in Belarusian banks.

## **The package of actions № 5**

### **The reform of the state administration system.**

The most important element of structural market transformations is the administrative reform. Without a professional, high-quality administration of the state the success of the monetary, fiscal, social and trade policies is impossible. Without efficient functioning of the state managerial bodies it's impossible to carry out high-quality privatization, to manage the state assets and to provide reliable protection of people's life and property. Without effective management it's impossible to create the atmosphere of trust and solidarity in the country.

In order to create high-quality system of state administration it's essential to take into consideration the lessons of a 20-year-old history of transformational processes in the transitional countries of Central and Eastern Europe, Central Asia and the Baltic countries.

**Lesson 1.** It takes 3-5 years to carry out systematic market reforms relying mainly on the state employees of middle management. It means that subjective interpretations of officials must be kept to a minimum and legislative acts must exclude alternative versions and discriminatory practice.

**Lesson 2.** Market reformers didn't take into account a low quality of state institutions to manage effectively 40-50 % of GDP of the consolidated budget resources and 60-80 % of total amount of assets in the country. As a result under the slogans about "socially oriented" reforms, justice, creation of equal start-up conditions and prevention of the stratification of the society, the powerful self-reproductive self-regulative bureaucracy was created.

**Lesson 3.** One of the main sources of problems and the deceleration of market reforms is that the authors of the reforms didn't notice the need to separate conflicting sides by pulling them apart to different state authorities. The combination of the functions of a proprietor, inspector and regulator in one state managerial body resulted in corruption, the expansion of monopoly and discriminatory practice, the deterioration of business climate.

**Lesson 4.** In the legislative acts the authors of the reforms didn't spell out precise, simple and unambiguous instructions, rules and regulations for the officials of existing state managerial bodies. It caused a rapid growth of legal interpretations via different by-laws, instructions, resolutions and regulations. Bureaucracy successfully blocked good theoretical intentions of the reformers.

**Lesson 5.** The team of reformers often consisted of politicians, experts and officials with contradictory views. They didn't have a clear vision of a socio-economic model to be built. They didn't have a clear, precise programme of the reforms and often lobbied the interest of different companies and economic sectors. As a result the incentive to "to carry out successful market reforms", "to create the stable institutions of democracy" was replaced by the incentive "to redistribute the state property among the privileged at low prices".

**Lesson 6.** The reformers didn't take into consideration the depth of parasitic mood of the population, people's inability of self-employment and entrepreneurship. The fear of changes and the inclination to believe populists in the conditions of speech freedom significantly decelerated the pace of system-based market reforms. The situation was aggravated by the appearance of the first rich beneficiaries at the first stages of reforms. They created their capital mainly via redistribution instead of creating new productions which was viewed by people as the demonstration of injustice and fraud.

**Lesson 7.** The reformers didn't consider social reforms significant and delayed them. The reorganization of the systems of healthcare, education and pensions started long after the realization of the liberalization and macroeconomic stabilization measures. The copying of the standard European model of state management in the context of the population's legal nihilism, wide powers of bureaucracy and contradictions within the government led to a wide extension of the officialdom's powers and possibilities and the monetization of the administrative resource. As a result the population developed negative attitude not only towards bureaucracy but also towards market and democracy in general, considering them to be ineffective and antisocial models.

Belarus has restored the system of centralized management of economy. The domination of state property, the expansion of monopoly and discrimination by state authorities, no system of deterrents and counterbalances, severely restricted competition in the internal market, "manual management" of resources distribution and economic processes in general are the characteristics of the state management system in the country. As a result we have the state institutions and economic relationships that are the sources of: a) corruption, b) ineffectiveness of the state machine in accomplishing its tasks, c) the monetization of the administrative resource by the members of the officialdom, d) the exposure of business and citizens to the arbitrary actions of bureaucracy, e) the lack of unified game rules on the territory of the country, f) credibility gap between the business and the authorities, the authorities and the population. That's why in this situation the optimal solution for Belarus is the creation of the state administration system where:

- the possibility of subjective interpretations of the legislative acts by state officials is kept to a minimum;
- there's no copying of the state's functions by other governmental organizations;
- the agencies of economic planning and regulation that work according to the scheme and methodology of Gosplan and Gosstab are eliminated;
- the personnel of the main state managerial bodies is renewed;
- tough rules and regulations for the transparency of all financial flows of the government are introduced, including the obligatory publication of all state agencies' balance sheets, as well as the

declarations of income, expenditures and property of those citizens who receive state budget resources;

- there is a system of remuneration and social protection of state officials adequate to the goals and obligations undertaken.

The strategic direction of the administrative reform is aimed at the creation of the effective, high-quality, transparent, responsible system of state management.

1. The introduction of the changes into the legislative acts to change the structure, functions and powers of the Council of Ministers, Ministries and other departments. The change-over to a two-level structure of the government. The first level is the Ministries. The Council of Ministers consists of eight structures:

- The Ministry of Internal Affairs
- The Ministry of Defence
- The Ministry of Foreign Affairs
- The Ministry of State Property and Privatization Management
- The Ministry of Justice
- The Ministry of Social Solidarity
- The Ministry of National Security

The second level of the government is the Agencies. They are created in the framework of the Ministry of State Property and Privatization Management. Accordingly, in the hierarchy of the state management the status of these Agencies are below the Ministries. The following twelve Agencies are included into the Ministry:

- The Agency of Industry
- The Agency of Agriculture
- The Agency of Healthcare
- The Agency of Housing and Utilities
- The Agency of Energy Market
- The Agency of Ecology and Natural Resources
- The Agency of Architecture and Construction
- The Agency of Telecommunications
- The Agency of Transport
- The Agency of Statistics and Analysis
- The Agency of Anti-monopolistic Activity

Within the framework of the Ministry of Finance the following Agencies will be created:

- The Agency of Standardization, Metrology and Certification
- The Agency of Tax Collection
- The Agency of Licensing and Intellectual property
- The Agency of Customs

The Agencies have no right to create their own regional structures. Only the Ministries have this power. The Agencies don't have their own accounts and are financed from the budget of the Ministry they belong to, which means they are financed from the state budget and can't provide commercial services.

2. The introduction of the legal limit on financing the expenditures of the bodies providing the state's functioning – 4 % of GDP.

3. The elimination of industrial concerns and providing the enterprises with full business independence in the framework of the Civil Code.

4. The precise division of the functions and powers of the Presidential Administration and the Council of Ministers, no copying of the functions via the introduction of corrections into the budget of these state managerial bodies.

5. The introduction of the legislative rule on the compulsory publications of all the legislative acts of all state managerial bodies and management of different kinds on the sites and in mass media, mentioning the names of the authors of these acts, within the first two days after the registration in the state register.

6. The introduction of the legislative rule on the compulsory submission of the budget projects, the economic growth forecasts to be analyzed and assessed by businessmen and independent experts.

7. The introduction of the legislative rule according to which one person can occupy the position of the head of Ministry, Agency or Local Executive Committee for no longer than six years.

8. The introduction of the legislative rule obliging the state managerial bodies to conduct the events ( conferences, discussions, etc.) together with non-governmental organizations to analyze the effectiveness of budget expenditures in the framework of the precisely defined rates for each Ministry.

9. The reduction of the state's functions from more than 6 thousand to no more than 200.

10. The ban on the combination of the statutory regulation functions in one state managerial body with simultaneous status of the owner of this body in the sphere of its regulation.

11. The withdrawal of all the Ministries and the authorities of local executive committees from the founder members of all profit-making organizations, the ban on the establishment of new profit-making structures by the state managerial bodies. The management of all state property and assets is carried out by the Ministry of State Property and Privatization Management. The Ministry of State Property and Privatization Management enters to its balance sheet all the assets and property from other Ministries and departments.

12. The gratuitous transfer of all state assets in the form of state-owned property on the territory of a region or a city/town (except for infrastructure companies and enterprises-monopolists) to the local authorities' balance sheet.

13. Local authorities are granted the rights to make independent decisions on the restructuring of owned by them enterprises and on the transfer of the assets, land and other objects not connected with production activity to local authorities. The introduction of the legislative rule according to which local authorities must withdraw from the founder members of all profit-making organizations and privatize retail trade entities, the sphere of consumer services and real estate items by 2015.

14. The elaboration of the targeted social assistance of those citizens who are likely to become the members of property risk group (the unemployed, the disabled, large families) at the community level, the monitoring of social assistance programmes, the partnership of local authorities with civil society and religious organizations.

15. The support of the institutions and organizations of civil society and the registration of them in the form of simple notification.

16. The creation of legal framework for the full-scale partnership of the state with non-governmental organization providing citizens with the services in the educational, employment, social and cultural spheres.

17. The introduction of the law on the state purchasing according to which the institutions and mechanisms of state purchasing are created in compliance with the following principles: the accountability of all state authorities, honesty and straight dealing in conducting tenders and fulfilling

the conditions of them, the transparency of financial flows and making decisions, open competition in the production and selling of the goods and services requested by the state managerial bodies or state organizations, the unification of the procedures and practices for profit-making organizations. To conduct annual audits in order for the state purchasing to correspond to the requirements of legislation and value for money in the framework of the goals set by the state managerial bodies.

18. The introduction of the legislative rule prohibiting the participation of profit-making organizations and entrepreneurs in tenders if they can have the conflict of interests or kin relationships with ordering customers. The elaboration and introduction of the legislative rules to do with “the conflict of interests” and “the equality of business conditions”.

19. The introduction of the changes into the legislative acts and the laws on state purchasing and conducting tenders according to which the requests and participants of auctions of the same status must be given equal conditions regardless of their place of residence and political views. The law must not create special conditions and privileges for national suppliers.

20. The creation of the Analytical Consulting Centre, the structure consisting of the members of business, state and analytical society, to analyze the effectiveness of state investment programmes, state purchasing agreements, the quality of state assets management. This Centre must have the right to obtain all necessary information from the state managerial bodies, to elaborate the recommendations on improving the quality of state-private partnership and to take part in the elaboration of the drafts documents regulating economic activity.

21. The monetization of all privileges and services for state officials. The elimination of all privileges and benefits to do with medical and resort facilities, providing holiday houses, accommodation, transportation coverage, catering and communication facilities. The transfer of benefits granted to politicians, republican and local authorities into the equivalent of money.

22. The unification of the administrative procedures and requirements for the recipients of licenses, permits and other documents from the state managerial bodies.

23. The introduction of the legislative rule for every state official to give the oath in public and to accept the code of honour and ethical behaviour.

24. The elaboration and adoption of the criteria to estimate the effectiveness of republican and local authorities according to the following: a) economic growth; b) the effectiveness of the budget resources management; c) the promotion of competition; d) energy, water and heat supply, and other utilities; e) education; f) healthcare; g) physical culture and sport; h) the Belarusian language and culture.

## **The package of actions № 6**

### **The corruption resistance.**

Corruption is a complicated social and institutional phenomenon. It takes place when a corrupting person on the sly provides a service to a corrupt person or official in order to influence the decisions that can be beneficial to either a corrupting person or official and can be influenced by a corrupt person in power. Not only the ethic standards and religiousness of people influence the level of corruption but first of all the level of the governmental interference with the economy, the quality of state management and the reliability of legal institutions protecting proprietary rights. High chronic corruption is more likely to exist in the countries with limited political competition and limited freedom of speech in mass media, lack of independent judicial authority, widely spread discriminatory practices towards import and private sector. The country with no respect for ownership, no citizens' trust in their government, no equality of business conditions and open competition, but with the prevalence of state property and where the government redistributes via the budget over 40 % of GDP is very likely to be heavily corrupt.

The expenses that the economy and state run into because of corruption are very high. Corruption distorts prices and increases the risk of mistaken decisions made by investors and entrepreneurs. Latent corruption redistributes resources and wealth in favour of better-off citizens, destroys democratic processes and trust in the government, increases financial and commercial risks, demoralizes people and lowers ethic standards of the society.

The strategic direction of the anti-corruption policy is focused on a small, transparent state, the effective institutions of deterrence and counterbalances, the decommercialization of the state managerial bodies.

1. All structures of the governmental authorities must provide openly on their sites annual line-item reports on their receipts and expenditures. These reports must contain the estimation of the accomplishment of budget goals. All the Ministries must undergo annual audits and the results must be openly published on the sites of the Ministries.
2. A complete transparency of the financial flows of the state managerial bodies and enterprises with governmental share of more than 50 %. The introduction of the legislative rule on their compulsory annual audit with the publication of the results on the sites within one month after the audit.
3. The realization of the rights of public control over all the contracts and agreements between the state managerial bodies and the state or private enterprises. In order to do that the information on these contracts and agreements if not state secret must be available on the sites of the corresponding bodies.
4. The introduction of the ban on granting direct budget support to profit-making organizations regardless of their property types.
5. The introduction of the ban for all state officials on combining commercial activity with administrative activity within the framework of the state managerial bodies.
6. The introduction of the changes into the legislative acts to provide the appointment of judges and public prosecutors by election; the exact time limits of their service. The monetization of social services for judges and prosecutors that is to increase their salaries to the level giving them the possibility to obtain accommodation on an arm's length basis.
7. The toughening of criminal responsibility for state officials in case of their pressure on the court and office of public prosecutor, the abuse of power and fraud in distributing budget resources. The introduction of a 10-year ban on being employed by the state managerial bodies in case of being involved in criminal deals if proved in accordance with the established procedure, and in case of gross violation of using the state resources, the abuse of official position or damnification.
8. The precise regulation of the state assets, property and real estate being used by state officials including the highest officials of the state.
9. The elimination of the practice when politicians and state officials use cars free of charge, the change-over to providing the state managerial

bodies with transport services in the regime of outsourcing in favour of private companies.

10. The introduction of the ban for all politicians of republican and local authorities on receiving presents worth more than 20 USA \$, the elimination of discounts, bonuses and other forms of privileged access to goods.

11. The reduction of licensable types of activity to the short list of those that directly or indirectly can become the source of threat to life and health of a person, the recognition of the quality certificates of the countries that are the main commercial partners of Belarus, the change-over to the voluntary form of goods and services certification.

12. The privatization of mass media, including the electronic one, no barrier for foreign mass media to enter the market. The privatization or elimination of print media whose fonder members are local authorities. The ban for the state managerial bodies on creating the new mass media entities. The transfer of stockholding of republican state mass media to the Ministry of State Property and Privatization Management. TV channels must not be sold to foreign state companies during privatization. One company doesn't have the right to execute privatizing deals which can provide it with 25 % of the television services market.

13. The compulsory publication of the minutes of all the state managerial bodies' meetings, tender processes, state purchasing auctions and meetings with voters on the sites of corresponding bodies.

14. The introduction of the legislative rule obliging state officials, politicians of republican and local authorities, as well as their family members to declare their receipts and expenditures, property and stake in profit-making organizations for the last five years; the creation of the mechanisms to track the conflict of interests in the state managerial bodies and in the businesses that use budget resources or manage the state assets and property.

15. The right of each citizen to get free access to the information concerning all aspects of the state managerial bodies' activities must be provided by the law.

16. The elimination of the rates of budget revenues from fines, seizure and nationalization.

17. The elimination of informing profit-making organizations on the target indicators of production, trade and so on.

18. The creation of technical conditions to transfer all administrative procedures into an electronic format ( obtaining permits, licenses and so on), full-scale development of e-government.

19. The introduction of the legislative requirements for the sites of all state managerial bodies. The following information must be presented there:

- the detailed line-item budget with all the receipts and expenditures
- the audit conclusions regarding the results of fiscal year with the estimation of the qualitative and quantitative indicators
- the list of all state officials with their full names ( surnames, names and patronymic names), their income and the dates of receiving remuneration.
- the minutes of the meetings of the corresponding body
- the draft documents prepared by each state official
- the legislative acts controlling the activity of the corresponding body
- the history of citizens' requests and the results of dealing with their problems
- the control chart with all the officials' assignments
- the forum
- the exact time ( not less than once a week ) when every state official is available for citizens via Skype

20. The introduction of the legislative rule on the procedures of all auctions and tenders with their compulsory online broadcasting. The provision of full-scale information concerning profit-making organizations that win tenders/auctions, state purchasing auctions and placement of orders, as well as the reports on how the tender/auction winners fulfill their obligations to the state.

## **The package of actions № 7**

### **Privatization.**

We consider privatization not as a technocratic, financial and legal operation of purchase and sale only, but more as a significant for the society process of creating the most important social and economic foundation for a steady economic growth in the country – the class of private owners. For that reason the monetary estimation of privatization

without taking into account its influence on non-governmental organizations is not complete.

Privatization is the achievement of civil solidarity, social responsibility and economic practicality. It is the activation of economic creativity of millions of ordinary people, the creation of a powerful national middle class. It is the transfer of land, assets and property to those who value them the most. It is the acceleration of modernization and the renewal of the employment market. There's no alternative to privatization. However there is a risk of its' substitution by the officialdom's redistribution of the state property and the blockage of economic modernization.

It's our human nature to possess things. Without property a citizen can't completely realize the right to life, and other rights and freedoms. Only with the help of private ownership it's possible to reveal all diversity of talents and skills the Belarusians have. And finally, privatization is a real test for the state policy on social orientation, justice and effectiveness. It must result not in the concentration of 90 % of assets at the disposal of 5 % of very rich Belarusians, but in the creation of millions of proprietors. It must be them to create up to 80 % of GDP, 80 % of working places and 80 % of budget receipts. Not only investors and entrepreneurs must be proprietors but ordinary people as well. They must have the right to obtain shares of the best enterprises and to participate in the management of these enterprises as minority shareholders.

Therefore, privatization is essential for the Republic of Belarus in order to realize the fundamental rights and freedoms of citizens, to provide freedom, justice, peace and prosperity. Privatization is necessary to strengthen the national economic security of the country, and it corresponds to our strategic interests. The effective functioning of the institutions of private ownership is the most important condition for a successful integration of Belarus into the world political and economic system.

Dozens of countries gained rich experience in conducting privation. Summarizing both negative and positive experience can help us to learn the following lessons.

**Lesson 1.** The most successful form of privatization is selling of at least controlling parcel of shares of an enterprise to a strategic investor ( a foreign investor or a investment fund ). This form of privatization leads to the best results of restructuring. There is no doubt that it's beneficial for

the country if an enterprise is purchased by one proprietor that has the access to new markets, capital and know-how. This form of privatization is beneficial for both the enterprise and the country. The best results have been achieved by selling enterprises at open, transparent, public auctions where all interested parties could participate.

**Lesson 2.** The privatization of more than 50 % of an enterprise by many petty proprietors (via cheques, auctions or by the managerial and working staff of enterprises) didn't result in a successful restructuring of privatized entities. In the CIS countries the enterprises privatized this way worked worse than state-owned enterprises.

**Lesson 3.** In the countries with a high level of economic freedom and reliable guarantees of proprietary rights, privatized enterprises had better investment, export, salary and productivity indicators than state-owned enterprises.

**Lesson 4.** Privatization reveals a low quality of assets and state property management by the governmental authorities. It increases the quality of corporative management and reduces corruption.

**Lesson 5.** Privatization reveals real cost of the country's assets and eliminates the distortion of information and legal framework. The risks of investment, production and consumer decisions can be reduced only with the help of full-scale stock market, a lot of private proprietors, free prices and competition.

**Lesson 6.** The attempts of the government to determine independently the growth-drivers enterprises, to provide them with preferences and benefits and to protect them from competitors have proven to be unsuccessful. The management of officialdom has given the worse results of quality in comparison with privatized enterprises.

**Lesson 7.** The privatization in a closed regime , without the guarantees of equal access of profit-making organizations to the process, without the legal framework of transparency at each stage leads to a negative attitude towards privatization and market reforms in general, more risks of reconsidering the results of privatization and the nationalization of property privatized via infringing the procedures or in a closed regime.

The strategic direction of privatization is aimed at the creation of millions of effective private proprietors, the modernization of production facilities, the transfer of economic power (the right to make production,

investment and consumer decisions) from officialdom and appointed by them directors to shareholders.

1. The privatization of state property is based on the equality of state property buyers and open activity of state and local authorities. The equality for buyers means a non-discriminative provision of the information on the conditions of property selling, the unified assessment criteria of privatization offers, the way of selling property open for all buyers, equal possibilities to make appeals of decisions on privatization in court.

2. The following entities, assets and property must belong only to the state:

- specially protected nature territories (nature reserves and national parks, and their property);
- airspace of the Republic of Belarus;
- military and other property that is used solely to protect the country, including military equipment and special machinery;
- cold steel, fire arms, gas-operated arms and ammunition for them except for those that are legally allowed to be the property of natural persons and/or legal entities;
- chemical substances (toxins), microorganisms (viruses, bacteria), equipment and technologies that can be used for the creation and production of chemical and biological weapons;
- enterprises that produce, store and distribute drugs and psychotropic substances, enterprises (associations) and organizations that grow, reprocess and distribute substances containing drugs;
- enterprises that produce, store and distribute strong and poisonous substances that can cause the environmental chemical contamination and chemical threat for people, except for those enterprises that provide agricultural chemical services; strong and poisonous substances except for those that are legally allowed to be the property of natural persons and/or legal entities;
- explosive substances and equipment except for those that are legally allowed to be sold;
- radioactive substances and material including the items made of them, radioactive waste and wrapping material, as well as the technologies, devices and equipment to produce radioactive

substances, and other property with the radioactive hazard sign according to the legislation of Belarus;

- the sources of ionizing, acoustic and electromagnetic radiation as well as the equipment and devices connected with it and used for military purposes and targeting different objects, except for the equipment and devices that are legally allowed to be the property of natural persons and/or legal entities;
- ranges, premises, constructions and equipment for dumping household, production, solid and liquid radioactive, poisonous, chemical wastes and material, burial grounds of cattle; exclusion zones and evicted settlements that are on the territory contaminated after the Chernobyl nuclear power-station explosion;
- national standards of measurement units;
- the objects of engineering infrastructure for common use that are state-owned and those that are once more put into operation and the construction of which was carried out at the expense of republican and local budgets; the electricity and gas supply facilities, street lighting facilities, beautification of towns and villages, electricity supply networks and electric power substations, main heating and distribution networks, central heating stations to provide simultaneous heat supply to different consumer groups;
- public roads, as well as bridges and tunnels;
- railways;
- enterprises, systems and resources connected with air traffic management, airports and meteorology centres;
- the institutions of the National Bank providing national money printing, coinage, non-emissive money storage as well as the storage of printing plates and forms;
- movable and immovable property of historical and cultural heritage, included into the museum, library and archival funds of the Republic of Belarus and granted by the state to museums, libraries, art galleries and archives for permanent storage;
- archival funds and documents included into the State Archival Fund and the National Archival Fund of the Republic of Belarus;
- information, property and objects that are considered state secrets according to the legislation;

- the property of the National Bank, state managerial bodies and departments, local Councils of Deputies, executive and administrative bodies that are on the balance sheets of these bodies and that are directly connected with the functioning of these bodies; the resources of republican and local budgets, state non-budget and special purposes budget funds;
- the objects of customs infrastructure;
- enterprises and objects of medical and corrective labour institutions;
- cemeteries and crematoriums;
- the State Fund of Precious Metals and Precious Stones;
- enterprises (associations) and organizations in charge of state sanitary inspections.

3. Providing the Ministry of State Property and Privatization Management with the exceptional right to sell state property which is the property of the Republic. Providing it with institutional and financial independence. Total control over its' functioning which means the compulsory publication of all the minutes of meetings, the balance sheets of state enterprises and those enterprises where the government has got shares, complete reports on privatization deals, the information on how the tender/auction winners fulfill their financial and other obligations to the state after winning tenders/auctions and obtaining the property.

4. The precise quantitative criteria on privatization of assets and property. The selling of the property that is out of use within 12 months. The adoption of the plans on the privatization of republican and community property according to which by 2015 the share of private property must be 80 % of all the country's assets.

5. The list of economic entities to be privatized in each calendar year is approved by the Council of Ministers. The Ministry of State Property and Privatization Management independently makes decisions on the privatization of these objects without preliminary permission of the working staff of enterprises, businesses, leaseholders of state property, the Presidential Administration, the Council of Ministers or other state managerial bodies.

6. The privatization of rented republican and community property is carried out via leaseholders' selling it at depreciated cost of the 1<sup>st</sup> of January 2010 if they've been renting this property for more than three

years. The privatization of rented property must be completed within 18 months.

7. The introduction of the precise procedure of informing potential buyers of state property into the law on privatization. The information on the selling of state property is placed on the site of the Ministry of State Property and Privatization Management in Russian and English, in national and local mass media three months before the auction. In case of the privatization of business entities with nominal value exceeding 300 million dollars the information on privatization is placed in the foremost economic and business publications of the EU countries, the USA, Russian, China, Japan and South Korea. In addition to this there must be the direct mailing of this information to the quoted companies of London, New York, Paris, Moscow, Warsaw and Tokyo Stock Exchanges, 500 largest investment banks and other institutional investors. The information must be provided at least six months before the auction on state property selling.

8. The Ministry of State Property and Privatization Management must provide on its site the complete information on the balance sheet according to IFRS, on all the objects being privatized as well as the enterprises where the state has at least 25 % of assets.

9. All economic entities that are state or community property must be sold as property complexes together with land. During privatization land is evaluated and included into the deed of conveyance along with other objects. The privatization of buildings and structures, as well as the objects that are under construction but considered as independent items of property, is carried out simultaneously with the amortization of land occupied by such buildings and land necessary to use these buildings in favour of those buying such property.

10. In case of selling state enterprises with more than 500 employees the Ministry of State Property and Privatization Management carries out the gratuitous assignment of 10 % of shares of the enterprise privatized to the employees of this enterprise. In case of selling state enterprises worth more than 500 million dollars the employees of this enterprise are given the gratuitous assignment of 5 % of shares.

11. In case of the amortization of land the proprietary right does not cover the objects of engineering infrastructure that are state or community property and that are used to facilitate not only the property on this territory.

12. The Ministry of State Property and Privatization Management determines the price of land according to the following facts: the cost of land estimated by two unbiased evaluating companies not dependable on claimants to buy this land; published prices of similar property in the market if possible; published prices of similar assets in the markets of nearby countries. The cost of land that is part of the enterprise's property to be sold at an auction is taken into account while determining the initial price of shares of this enterprise. After the privatization of this land the owner has the right to determine independently the purpose of this land without going through licensing administrative procedures.

13. The Ministry of State Property and Privatization Management determines the nominal value of shares of a joint-stock company on the basis of the deed of conveyance, the balance sheet of the enterprise, the evaluation of the enterprise by two unbiased evaluating companies not dependable on this enterprise, published prices of similar assets in the market; published prices of similar assets in the markets of nearby countries. The restriction on the difference between the book value of shares and nominal price of shares is not determined. The determined nominal price of the shares of a joint-stock company is the initial price of state property to be sold at the auction.

14. In order to determine the nominal price of the shares of the enterprise with more than 2000 employees, with the book cost of more than 500 million dollars and the natural monopolistic enterprises (gas transmission sphere, railway, telecommunications, extractive enterprises, power engineering, heat supply, oil processing and oil delivery, metallurgy) it's necessary to have the report on the nominal value of shares from an independent foreign evaluating company experienced in this sector.

15. The sale price of the shares of a joint-stock company is determined according to the results of the auction and depends on a real demand expressed by potential buyers of the state property to be privatized. If the selling of assets was carried out in the form of a Dutch auction (an open descending price auction) the sale or market price can be lower than the nominal price. The decision on selling state assets in the form of a Dutch auction is made on the auction day by the auction chairperson if within the first hour of the auction the offer to buy shares of a joint-stock company at the price higher than the nominal price is not received.

16. Only private business entities are allowed to participate in the privatization of state property. Belarusian or foreign state enterprises as well as the enterprises with more than 25 % of state shares are not allowed to buy Belarusian state property.

17. The profit-making organizations that are on the balance sheets of republican and local authorities and with no more than 150 employees or with annual turnover not exceeding 50 million dollars are sold to the citizens or legal entities of Belarus with at least three years experience in the market.

18. City markets and the land they occupy are privatized at depreciated cost on the 1<sup>st</sup> of January 2010 by the entrepreneurs who have rented sales premises there for at least three years. The withdrawal of republican and local authorities from the founder members of all markets. The creation of joint-stock companies on the basis of all markets.

19. The acquisition of state property at an auction does not entail any extra obligations for a buyer in relation to this property. Such requirements as to preserve a certain amount of working places and a company profile, to invest a certain amount of money during a certain period of time are optional except for following cases:

- to preserve a profile of a privatized company in the sphere of natural monopoly (gas transmission sphere, railway, telecommunications, extractive enterprises, power engineering, water and heat supply, oil processing and oil delivery) including the following enterprises: Minsk Automobile Plant, Minsk Tractor Works, Belaz, Joint-stock companies "Grodno Azot", "Grodno Khimvolokno" and "Mogilev Khimvolokno", Byelorussian Steel Works, Belaruskali, Republican Unitary Enterprise "Svetlogorsk Production Association Khimvolokno", "Polymir" of JSC "Naftan", "Naftan" and "Belarusneft" in Gomel;
- to accomplish the obligations in relation to the objects of historical and cultural heritage;
- to accomplish the obligations concerning environmental standards of the Republic of Belarus.

20. Certain restrictions can be applied during the privatization of state property:

- compulsory utilization of privatized property for its intended purpose, first of all in relation to the objects of social, cultural and consumer services spheres;
- compulsory maintenance of the property that is not part of a privatized complex of a unitary enterprise but due to its technical characteristics and location related to it (for real estate);
- compulsory maintenance of the objects of civil defence, mobilization facilities, social, cultural, utilities and consumer services spheres.

21. The restricted utilization of privatized state property (including land and other real estate items) by other people can be imposed as a duty on the owner of this privatized property:

- to provide unobstructed access, pass-through, drive-through;
- to provide the possibility to install boundary, geodesic and other signs;
- to provide the possibility to built and use electric mains and pipelines, communication facilities, water supply, sewerage and melioration systems. The decision to impose these duties on the owner of privatized property is made simultaneously with making the decisions on the conditions of the privatization of the state property. All participants of all auctions must be informed about these imposed duties together with general information on the items to be privatized.

22. Minimum number of shares for sale at auctions is 50 % plus one. Minimum number of shares for sale if an enterprise has less than 500 employees is 65 %.

23. The purchaser of the state property must provide minority shareholders with the right to sell their shares at the price that was paid for the control packet of shares within the first three months after purchasing the state property at an auction.

24. In case of the privatization of economic entities with nominal value exceeding 500 million dollars the Ministry of State Property and Privatization Management makes a gratuitous assignment of 25 % of shares to the National Pension Fund.

25. The payment for privatized state property is made either at a time or in separate tranches within the first ten days after an auction. The payment for the objects of privatization is made in Belarusian rubles, USA dollars, Euros or Russian rubles according to the agreement of parties.

26. Monetary resources from the privatization of republican property are distributed in the following way: 20 % - to the republican budget for current expenditures, 20 % - to the local authorities' budgets for current expenditures, 60 % - to the National Pension Fund. Monetary resources transferred to the National Pension Fund are invested into highly liquid securities. These are state and corporate bonds as well as the shares of corporations and financial institutions with investment and long-term ratings from Aaa to A3 according to Moody's, from AAA to A- according to Standard and Poor's and from AAA to A- according to Fitch IBCA.

The receipts from this investment activity are used to increase pensions. The resources of the National Pension Fund can be transferred to the trust management of investment fund, bank or other financial institution.

## **The package of actions № 8**

### **The reform of the corporate governance system.**

Today the state is the main owner of assets and property. Due to the low-quality management the country loses hundreds of million dollars. In this situation state management synonymous with corporate governance as the state manages business via the ministries, corporations and appointed directors. The expenditures (in comparison with the countries that have conducted the reforms of the corporate governance system and created the institutions of free market) due to missed profits amount to billions of dollars. Neglecting this problem dramatically reduces the competitiveness of the country, blocks investments, creates favourable atmosphere for corruption, increases the cost of credit resources and undermines the trust in the national business. As long as in Belarus the state owns 75-80 % of all the assets, poor corporate governance undermines the trust in the state itself.

The privatization must be accompanied by the reform of the corporate governance system in order to finally form the institution of private property, to resist corruption and raider practice and to strengthen

the society's trust in entrepreneurship. The state can't handle the management of a large amount of assets it has.

According to the data of the State Property Committee of Belarus on the 1<sup>st</sup> of July 2011 the total area of state property items is 146,7 million square kilometres, 7,95 million square kilometres of which (5,4 %) is either rented or in gratis use, 20,6 % is republican property. Local authorities let out 6,3 million square kilometres. 2,93 million square kilometres is unutilized, 23,6 % of which is republican property, and local authorities do not use 2,24 million square kilometres of community property. In spite of possessing such a huge amount of share capital and property the share of non-tax budget receipts does not exceed 2 % of GDP. Not more than 20 % of foreign investments is used by state enterprises for the modernization of production facilities. Due to poor quality management there's the growth of "dead capital" (unutilized equipment, the holdup of constructions), the risk of structural unemployment and brain drain.

**The main principles and regulations of corporate governance:**

- The orientation to achieve results, which means to increase the value of investments for each shareholder with the help of the most effective use of available resources. The realization of this principle requires the mechanisms of communication and dialogue within a company, the involvement of employees into the process of making decisions, the retention of the most valuable employees and so on.

- The selection and retention of professional managers: clearly defined procedure of selecting directors and the board of directors, reporting standards, the amount and forms of remuneration, precise qualitative criteria to estimate the work of a director and the board of directors, as well as the precise mechanisms and procedure of their dismissal.

- The disclosure and transparency of information. Making clear decisions on when and how much information must be given to shareholders and published, risk assessment, the use of international reporting standards, clearly defined operating mode of audits and informing shareholders and investors on the results of audits.

- Independent audit. The creation of the body in charge of the internal audit of the management, purchasing, production and sales systems, clearly defined criteria of reports to shareholders.

- The code of behaviour clearly defined and adopted in a written form, concerning the activity of a company, its executives, relationship with employees, customers, clients and the state.

- The conflict of interests. To identify and resist real and potential conflicts of interests. The elaboration of the mechanisms to detect the information on the conflict of interests, the mechanisms to exclude the participation of an executive/employee in making decisions in this corporate situation/conflict. The description of all the conflicts of interests in annual reports.

- The code of conduct for the board of directors. Working rules and procedures of each body, the powers of this body, the mechanisms of compensation, the management of the information flows between the board of directors and employees on the one side and investors on the other side, everything must work towards one goal – to increase the value of the company for shareholders.

- The responsibility of investors. The adoption of adequate mechanisms of risk management, the monitoring of the financial, production and payments systems, the effective methods of communication between investors and the board of directors.

- The actions of the company management in crisis. In case of company's bankruptcy the management must have proactive attitude, avoid the discrimination of certain creditors and granting preferences to some others, prevent making deals that are not possible to fulfil due to the insolvency of the company.

The strategic direction of the reform of the corporate governance system is aimed at the management of assets and property to achieve the maximum value for shareholders, to increase the competitiveness of business via the use of all the potential of business executives and their employees and to resist corruption.

1. Providing the information to all the enterprises with more than 25 % of state shares on the exact quantitative and qualitative target indicators (the price of shares, the capitalization of a company, profit margin, investment profitability, the share in the domestic and foreign markets, export movement and so on) used to estimate the quality of the state assets and property management. These indicators are determined in compliance with available resources and assets as well as real possibilities

to achieve them. Reaching 6 % of consolidated budget from legal entities where the state has at least 25 % of shares.

2. The audit of the legislative acts to detect their influence on the corporate governance, to detect non-working acts, as well as those that encourage discrimination, monopoly, dishonest activity and raider practice, and become the reason of high business expenditures in accomplishing state requirements; the introduction of the changes into these acts or the elimination of them in order to realize the principles of a high-quality corporate governance.

3. The introduction of the legislative rule according to which every economic entity with at least 25% of state shares is obliged to have its own code of corporate governance with standards, rules and regulations of the actions for the management of a company, the board of directors, shareholders and investors, with the mechanisms and ways of information policy, the interaction of employees with executives, shareholders and investors, the principles of remuneration distribution and paying out dividends, the mechanisms to identify and prevent the conflict of interests, the responsibility of executives and the board of directors for achieving the quantitative and qualitative target indicators.

4. Clearly defined responsibility of executives, the board of directors, shareholders and investors. The introduction of the legislative rules protecting the rights of minority shareholders:

- providing the balance sheet of a company according to the IFRS;
- providing the results of external audit of a company's activity; the auditor must officially state in a written form that during the audit there was no conflict of interests with this very joint-stock company;
- providing the results of internal audit of corresponding to the quantitative and qualitative criteria, the code of actions for executives and the board of directors, as well as any existing conflicts of interests and the measures taken;
- providing the independent assessment of risks for a joint-stock company, their dynamics and the assessment of the actions of the head and the board of directors in order to minimize or eliminate them;
- the introduction of the procedure for a director to coordinate the decisions on big deals with minority shareholders (25 % of assets, 40 % of profit – every joint-stock company independently defines the

notion “big deal”); for this at least 5 % of minority shareholders must have a consolidated position and have their representative to stay in touch with the director and the board of directors;

- unobstructed regime of the registration of shares and operations with them;
- the introduction of the legislative rule according to which minority shareholders can include the questions supported by at least 5 % of them into the agenda of the meetings of the board of directors and the general meetings of shareholders;
- the introduction of the legislative rule according to which the decision on additional shares emission is made only if cleared and approved by at least 5 % of minority shareholders;
- unobstructed participation in the general meetings of shareholders, providing minority shareholders with the information on the place, time, agenda and possible resolutions of the meetings at least three months in advance; the board of directors or the director of a joint-stock company must not create any impediments or introduce restrictions for minority shareholders to vote;
- granting each shareholder the right to make questions to the director and the board of directors concerning all aspects of activity and the reporting of a joint-stock company, and to receive the answers within the following 15 days;
- the introduction of the legislative rule according to which the appointment of the director and the members of the board of directors as well as the amount and the form of remuneration can be approved only with at least 5 % of minority shareholders;
- the possibility for minority shareholders to delegate to their representative the powers to participate in the general meetings of shareholders and the board of directors;
- the introduction of the legislative rule according to which minority shareholders must have their representative in the board of directors in a joint-stock company if they express the viewpoint of at least 5 % of minority shareholders;
- providing minority shareholders with the information on the remuneration of executives of a joint-stock company indicating the exact amount given for achieving the qualitative and quantitative

results which determine the dynamics of value of a joint-stock company for shareholders;

5. Providing the potential investors with full-scale information on the conditions of assets, property, production facilities and finance of a joint-stock company. Mergers and acquisitions deals, the purchase of shares must be conducted in the regime of a complete transparency, without additional expenditures or concealing information from other investors interested in these deals.

6. Clear definition of the mechanisms to settle disputes between shareholders of one joint-stock company, between the director and the board of directors, between minority shareholders and the board of directors, between investors and the board of directors.

7. Granting all the shareholders (including minority and foreign ones) equal rights to participate in the management of a joint-stock company according to the existing legislative framework and the code of corporate governance of a joint-stock company. The elimination of all barriers for the shares of Belarusian profit-making organizations to move abroad (for foreign shareholders as well).

8. The members of the board of directors and the directors of companies must reveal the information on their direct or indirect interests in the profit-making organizations which make transactions with a joint-stock company and can influence the financial situation, reputation, quality of human capital, market position and management of this joint-stock company.

9. Free access to the information on the list of founders/shareholders of a joint-stock company with at least 25 % of state shares.

10. Annual publications of an independent assessment of the state assets and property management including the management of property and assets belonging to open joint-stock companies, the estimation of state representatives' participation in an open joint-stock company.

11. The introduction of the ban on representing state interests in joint-stock companies by sitting state officials employed in state managerial bodies. The Ministry of State Property and Privatization Management appoints state representatives in joint-stock companies on a competitive basis and elaborates the requirements for state representatives in joint-

stock companies. These positions can be occupied by legal entities and natural persons.

12. The elaboration and adoption of the legislative framework for the development of full-scale stock market strictly corresponding to the international rules and regulations to enter stock trading centres and their effective functioning.

## **The package of actions № 9**

### **The pension reform.**

The population of Belarus is aging. The demographic situation is deteriorating. The brain drain is undermining the reproduction of high-quality labour-power and the creation of middle class in the country. The National Pension Fund is getting weaker. For each pensioner we have 1,6 workers. Income tax burden is very high and its growth only aggravates the problem of “payments under the table” and activates “grey” economy. The Social Protection Fund of the Population is using its current receipts and has no resources for long-term investments. The level of pensions on the one hand and the level of prices for food commodities on the other hand shift more than half of pensioners below the poverty line, and 80 % of them have to spend most of their pensions on food commodities only.

The situation is aggravated by raging crisis, low attractiveness of investment and business climate in the country, inadequate quality of the state management and lack of possibility to modernize production facilities. Belarus still has got low labour productivity. Savings have dropped to a crucial point. More and more popular economic lifestyle of today is life on credit and consumerism while non-reformed state sector is dominating in the labour market. The state hasn't created proper conditions for reliable instruments of savings in the market. Due to the absence of professional growth prospects, low salaries and unprotected worker rights about 800000 of Belarusians are working outside the country, they are helping their families but not contributing to the Social Protection Fund of the Population.

The current pension system in Belarus has a built-in mechanism of generation gap. It represents a national financial pyramid.

The pension system in Belarus is unjust, ineffective and immoral. It's unjust because it destroys the essential link between the money paid into

the system and the money received when retired, because it deprives people of the right to manage their own money when retired and nationalizes pension contributions paid throughout all life in case of death, because it distributes the state resources in favour of the better-off at the expense of the needy.

The pension system is ineffective because it's not able to manage the resources profitably, to provide high degree of liquidity, high pensions and normal standards of well-being. It increases tax burden for enterprises, creates the conditions for the development of "grey" labour market and unemployment.

The system is immoral because it promises working people a certain level of well-being on retirement and then disappoints their expectations. It deprives working people of the right to plan their own receipts in their old age and activates destroying mechanisms for the institution of family and relationships between people.

All these factors and conditions put on the agenda not just cosmetic repairs of the current pension system but profound reforms, the reconsideration of the relationships between the state and employers, employees and the state, employees and pension funds. These are the main reasons that necessitate system-based pension reforms:

- financial instability of the Social Protection Fund of the Population, the absence of a long-term strategy of investments and a real plan to fulfil obligations to the present and future pension system participants;
- the reduction of financial possibilities of the state in the fulfilment of the obligations to the present and future pensioners;
- negative demographic tendencies ( the aging of the population, unfavourable migration flows );
- low quality management of the pension system as a result of both objective and subjective factors ( a great number of beneficiary categories and the absence of exact and clear legislation depriving the Social Protection Fund of the Population of independence in the investment policy, the absence of modern problem solutions in the pension system);
- a weak link and correlation between the amount of contributions made into the pension system and the amount of pensions received, a lot of reasons for earlier than stated in the system retirement;

- the absence of guarantees to receive a certain amount of pension regardless of salaries, the turning of pension contributions into taxes and the loss of their insurance character.

The following factors and institutions are the main presuppositions for the pension reform and the functioning of accumulative personal pension accounts:

- open competition in the market of financial services, equal conditions of competition for foreign financial organizations in the stock and financial markets of Belarus;

- the liberalization of current and capital accounts of the balance of payments, institutional and legal guarantees for free capital movement;

- the functioning of the monetary system in the regime of positive rate of interest, the financial institutions that function according to the international standards of audit, transparency and reporting;

- low inflation ( not exceeding 3 % a year ) and the compatibility of the main parameters of the monetary and fiscal policies;

- effective internal stock market and/or no limits to transfer the resources of private pension contributions into highly liquid securities of the international financial market;

- flexible labour market, the infrastructure to create new working places, the procedure to quickly free the market from unprofitable enterprises.

The alternative to the pension reform and the depoliticization of social security system in general is: a) to increase pension age, which is not popular in Belarus due to a short life expectancy, b) to increase income taxes and reduce the competitiveness of the national producers, c) to increase the risks of bankruptcy for the current pension system.

The strategic direction of the pension reform is to create the effective system providing unemployable age people with a stable income and preventing the fall of their living standards when retired. The goals of the pension reform are:

- a stable financial position of both the current distributive system (the first level) and the accumulative system of personal accounts (the second level);

- the creation of the mechanisms that guarantee the link between the pension contributions of each person and the amount of his pensions;

- the creations of the system motivating labour market participants to make pension contributions into the system regularly;

- to reduce the amount of distortions and discriminatory practices in the current state system that cause the development of “grey” labour market, high unemployment and saving reductions;

- to provide real equal possibilities for different age, social, sex and professional groups, to eliminate the mechanisms of redistribution in favour of better-off citizens, the neutralization of lobbying activity of the representatives of different economic sectors;

- the neutralization of political risks to do with giving certain groups the guarantees of high pensions not supported by any resources;

- the neutralization of demographic risks to do with the reduction of labour market participants and the increasing number of pensioners.

1. The change-over to the three size types of state pensions: 35 %, 40 % and 45 % of the average monthly salary in the country depending on the amount of pension contributions made; the elimination of the sector and industry privileges, the unified pension age for different social groups including state officials and the deputies of the National Assembly. The amount of pensions must be calculated by taking into account any 15 years of working activity.

2. The introduction of the minimum social pension equivalent to 75 \$ USA regardless of the length of working activity and the amount of contributions made into the state pension system. The social pension is to be granted to men and women at 62 years old.

3. The introduction of the legislative rule according to which the pension of a citizen is automatically increased by 30 % in case of having three or more children when retired.

4. The increase in pension age within the framework of the state pension system can be carried out only when the average life expectancy in Belarus reaches 70 years. The increase in pension age by three months will happen every six months until it reaches the new pension age within the framework of the state pension system.

5. The pension contributions must be non-sequestered. The realization of the principle “all state receipts are spent on the accomplishment of all state commitments”. The introduction of the Social Protection Fund of the Population into the budget, the fulfilment of the obligations to pensioners at the expense of all budget receipts. The pension payments must be the priority payments.

6. The substitution of the contributions into the Social Protection Fund of the Population and the income tax for natural persons by the unified tax of 15 %. This tax is every citizen’s income tax, excluding pensions, welfare payments and other state transfers. This unified tax is paid in case of a citizen’s income exceeding the equivalent of 100 \$ USA.

7. The introduction of one-time payment in case of a citizen’s death (funeral expenses) equivalent to 2000 \$ if this citizen has made the contributions into the National Pension Fund for at least 20 years, 1500 \$ - for 15-20 years, 1000 \$ - for less than 15 years.

8. The principle of a voluntary transfer from the National Pension Fund to the private pension fund, excluding the citizens who have no more than 10 years left before their retirement on the day of the introduction of this law. Each citizen must open his accumulative personal pension account in one of the private pension funds or financial organizations authorized to manage these accounts as soon as he gets employed.

9. If a citizen opens his accumulative personal pension account the half of the 15 % unified social tax is transferred to the state budget, and the other half is transferred to this accumulative personal pension account. A citizen can increase his contributions into his accumulative personal pension account up to 15 % of his monthly income.

10. Sole proprietors make independent decisions on opening their accumulative private pension accounts. In case of their withdrawal from the state pension system their state pensions are calculated in compliance with their real contributions made into the state system, but must not be below the social pension amount.

11. Within the framework of the private pension system every citizen chooses himself his pension age, the amount of his pension and one-time payment (annuity) depending on the cumulative sum of money, the average life expectancy on retirement and taking into account individual consumer needs.

12. The citizen of Belarus has the right to choose the pension fund himself. The guarantee system of pension contribution safety in private pension funds consists of the following elements:

- a citizen's voluntary choice of the most effective fund, the legal restrictions on the investing of the resources of accumulative personal pension accounts; every citizen has the right to change his pension fund freely at any time without any losses of his cumulative resources and interest;

- the introduction of the following restrictions on the investing of the resources: 60 % of pension fund resources must be invested into bonds, shares and other financial instruments of states, corporations and financial institutions that have long-term ratings from Aaa to A3 according to Moody's, from AAA to A- according to Standard and Poor's and from AAA to A- according to Fitch IBCA; 40 % of pension fund resources must be invested into bonds, shares and other financial instruments of states, corporations and financial institutions that have credit ratings from Baa1 to Ba3 according to Moody's, from BBB+ to BB- according to Standard and Poor's and from BBB+ to BB- according to Fitch IBCA; the restrictions on investing regarding countries are not allowed.

- the separation of the pension fund assets and the fund's management: the management of the pension fund and the pension fund itself are two legal entities;

- compulsory annual audits of the pension funds;
- the introduction of the liability to provide a minimum return on the contributions of accumulative personal pension accounts; if the fund hasn't provided a minimum return for three years on end it must be eliminated; all the resources of the citizens together with interest are transferred to other pension funds.

13. Full-scale information on the pension reform: to spell out all the elements of the reform to the citizens, including the procedure of opening an accumulative personal pension account, the control over the management of pension contributions, the peculiarities of the state pension calculation and the investment activity of pension funds.

## **The package of actions № 10**

## **The adjustment of the targeted social support system.**

Belarus is deprived if the targeted social support; 20 % of the low-income population receive less support from the state than 20 % of the well-to-do. About the half of all households receive the state support one way or the other. About 30 groups of welfare recipients get about 100 different benefits and subsidies. It means the current state system is not adjusted to support to a maximum those who really need it.

The second serious defect of the system is that it's aimed at financial and administrative support of the commercial sector (subsidies, budget investment resources, tax credits, preferential terms of lease and purchasing raw materials, debt amortization) instead of the targeted social support. As a result there's damage to both the economy and the society.

The first negative consequence – the distortions of the economic structure, the expansion of discrimination and monopoly, the capital blocked in storage facilities, the hold-up of constructions and unutilized production facilities. A socially dangerous consequence of unsuccessful long-term investment projects of the state is mono towns that are completely dependent on the functioning of one plant.

The suppliers of housing and utilities, education, healthcare, public transport and telecommunication services, medicine and food commodities are limited in their production and pricing policies and can't get adjusted to the requirements of the market, including the market prices for energy resources. As a result of such policy well-to-do people and households that use the administrative resources receive more support from the state than the needy.

The second form of a negative impact is that in crisis and during the formation of the market economy institutions people are deprived of the state support as it doesn't fulfill its commitments to them. Moreover, it hinders the self-organization of the citizens to express solidarity and create public network of social support.

The third drawback of the current social support system - a big part of the state support in a natural form, that is in the form of goods and services but not money. As a result the producers suffer from the regulation of prices and rates. Under the slogans of social protection there's a support of ineffective, noncompetitive Belarusian producers while private business is deprived of the access even to the domestic market of the country. The Belarusians have to buy most of the manufactured goods and

food commodities at the prices that 1,3-2 times higher than in the near-by countries.

The fourth drawback is the neglect of internal and external challenges Belarus faced in XXI century. The system of social support is not ready for a quick and effective adaptation of the citizens to the integration into the regional labour market. It creates the distorted incentives for the organizations providing education and healthcare services. The state spends significant sums of money on these sectors but doesn't achieve the goals. As a result the adaptation of the young, women and large families to the labour market and financial self-sufficiency is hindered. The questions of renting or buying accommodation and the retraining in order to obtain the profession in demand are still acute.

The definitions of the notions "poverty", "poverty line", "needy" and "low-income" are very subjective. It depends on many factors that determine people's living standards. There are many different variant to define poverty. In the world there's a widely spread criterion which is the income of 1-4 dollars per person a day. Taking into account the real situation of the prices, income and well-being level of households in Belarus the poverty line is monthly income of 75 \$ USA.

The adjustment of the targeted social support system in Belarus is the monetization of all benefits and services provided to different groups of people. The cancelation of non-monetary social support is necessitated by the following reasons:

- the change-over to the market prices for oil, electricity, mineral products, the necessity to provide the stable functioning of housing and utilities and transport spheres, the system of water supply and the basic elements of the systems providing energy security and financial security of the country;
- the necessity to eliminate serious structural distortions in the production sector, they were cause by a long-term interference of the state with the price formation of enterprises, the fixing of prices, expenses and profits;
- the principle of social justice and solidarity: the concentration of social support for the citizens who are in need of the state support most of all during the structural reforms; the elimination of benefits for better-off citizens, the minimization of the risk of abuse and fraud in the social system;

- the creation of the conditions for the development of competition in all economic sectors, which will provide the access of the population to a maximum selection of goods at the prices as low as possible;
- more responsibility for the beneficiaries of the state financial support, the creations of the conditions for their complete reintegration into economic and social life of the country;
- more responsibility for politicians and official towards the society, the neutralization of social populism and the reduction of the risks of groundless increase in the state expenditures under the pretext of proving social support to people;
- the elimination of the discrimination of households, those who live in the countryside, the regional factor to be taken into account in the system of social guarantees;
- the increase of the state management quality and the concentration of the budget resources on the priority directions that provide Belarus with a complete integration into the world system of the labour distribution;
- the promotion of the respect towards the state and the law and the government's prestige by means of clearly defined state commitments and the accomplishment of them.

The new targeted social support system is only a part of the institutional state system of people's social protection. The country becomes prosperous and provides a stable long-term development based on new achievements of science and technologies, involves human and nature potential into the process of wealth generating, creates the conditions for self-realization, self-sufficiency and public solidarity, encourages humanism, patronship, honesty and responsibility if:

- it protects life and property, and provides a high level of economic freedom;
- it provides open competition and free access to any market of goods and services, including the land market;
- it guarantees the freedom of speech and the transparency of all state managerial bodies' activity;
- it provide a favourable business climate for creative self-realization in the sphere of economy;

- it guarantees just legal investigations in court and the compulsory fulfillment of all economic entities' obligations.

Social orientation of the Belarusian state will be expressed in the following:

- a flexible and dynamic labour market, low contributions to the Social Protection Fund of the Population, unemployment compensation providing unemployed people with the possibility to live and look for a job;
- the development of the infrastructure for training and retraining, the adaptation of the country's labour force to the requirements of the market;
- easy and cheap access to the market, as well as low administrative expenditures for business as means of a complete integration of the most vulnerable social groups (the young, women, large families, villagers) into the society ;
- unlicensed right to provide consumer and retail services, that is the traditional types of the self-employment of those people who are more than the others likely to lose a job;
- low taxes and a simple tax system, which guarantees low expenditures for profit-making organizations and natural persons, and ensures a full accomplishment of economic entities' obligations to the state;
- unobstructed access of each citizen to the legal and regulatory framework and the information on the activity of all state managerial bodies;
- the fulfilment of the state current obligations to pensioners with a simultaneous adjustment of the pension system to the life conditions and demographic challenges;
- a free access of all the citizens to the basic medical services;
- the elimination of budget support for unprofitable enterprises and certain sectors;
- the guarantees of low inflation and the development of financial market, providing access of domestic households and profit-making organizations to the instruments of saving and crediting;
- a developed market of insurance services, provided by private organizations in the conditions of open competition;

- the support of non-governmental organizations providing people with different types of social services and help with the integration into the society via humanitarian projects; church, humanitarian organizations, different societies for women and the young helping the society via such projects as hospices, orphanage, programmes supporting talented young people, working women and so on;

The measures to create the new targeted social support system include the accomplishment of the following actions and arrangements.

1. The list of those natural persons who are entitled to monetary budget support. The beneficiaries include:

- Heroes of the Soviet Union, Heroes of Social Work, Heroes of Belarus, full Cavaliers of the Order of Glory and the Order of Labour Glory, the Orders of the Homeland of all three degrees, war veterans;

- People awarded with the Orders and Medals of the USSR for valiant labour and for impeccable service in the home front during the Great Patriotic War;

- The participants of the Great Patriotic War;

- The families of perished military men and disabled in the Great Patriotic War;

- Labour veterans;

- The parents of military men and partisans who perished (died) as a result of wounds, injuries, contusions or diseases acquired during the Great Patriotic War;

- The parents of military men, commanding members, rank and file members of the Internal Affairs Bodies who perished (died) in the line of duty in Afghanistan or other countries with the conduct of warfare, and those who die as a result of wounds, injuries, contusions or illnesses acquired during the war operations;

- The parents of military men, commanding members, rank and file members of the Internal Affairs Bodies, the departments and agencies for emergency situations, the bodies of financial investigations in the State Control Committee of the Republic of Belarus, who died in the line of duty, during their military service and as a result of wounds, injuries, contusions or diseases connected with their military service;

- People who got disabled during the Great Patriotic War and other wars on the territory of other countries;

- People with disability groups I and II regardless of the reasons of disability;
- Disabled children;
- The citizens with the diseases included into a special list;
- Large families;
- The citizens with radiation sickness and disabled as a result of the Chernobyl nuclear power-station explosion;
- Underage children who live in the areas contaminated with radiation;
- Prisoners of fascist concentration camps or other places of detention;
- Studying young people;
- The citizens whose monthly income is equivalent to 2,5 dollars USA per day and whose housing and utilities expenses exceed 25 % of domestic household expenses.

2. In order to receive the targeted social support a citizen must fill in the application form in a written or electronic form containing the following information: Surname, Given name, Patronymic; age; address; the amount of income; health condition (disability if applicable); non-monetary income (agricultural products from the countryside house or garden); dependants; education, for students - the place of training; the amount of savings; property. The state managerial bodies must consider the application within one month and inform the applicant on the results. Depending on the reason for the monetary budget support a citizen applies for the extension of state support every 6-12 months. Within 30 days a citizen must inform the state managerial bodies on the new circumstances that can be the grounds for canceling further support (in a written or electronic form).

If the state managerial bodies have reliable information on those citizens who are automatically entitled to the monetary targeted social support (for example, the participants of the Great Patriotic War, people who got disabled during the Great Patriotic War, prisoners of fascist concentration camps, people with disability groups I and II), the targeted social support is provided without any application. For every citizen receiving the targeted social support there must be a social card with the detailed history of the monetary budget support.

3. If a citizen is entitled to the targeted social support according to more than one category (for example, disability, medication, the Great patriotic War veteran) , he can receive the maximum monetary transfer of 200 dollars of USA. The budget transfers to those who are entitled to them according to 4 or more categories are considered non-sequestered. In case of the state budget deficit other transfers can be sequestered by no more than 10 %.

4. The budget monetary transfers can be one-time payments or carried out on a monthly basis. One-time payments can be given to obtain goods and services in the sphere of healthcare and education, as well as to buy special equipment and electronic devices that can significantly help people in need to reintegrate into the society. The maximum amount of one-time payment received by one person is equivalent to 200 \$ USA, except for the case of birth. In this case one-time payment is equivalent to 1000 \$ USA. One person has no right to receive one-time payment from the budget more than once a year.

5. The determination of the exact amount of monetary budget transfer to each person depending on the needs. The following factors must be the criteria used to determine the amount of transfers:

- The amount of income (salary, pension, scholarship);
- The amount of non-monetary income (agricultural goods, the help from relatives);
- Accommodation (rented or owned, hall of residence);
- Health condition (chronic ailments, traumas; illnesses, injuries and traumas in the line of duty, the necessity to take medicine regularly, the existence of guardians and dependents);
- Age (for children and people older than 65) and the existence of dependants (children and disabled);
- The level of education, the type of occupation, skills and the possibility to get retrained for the reintegration into the society;
- The existence of other monetary transfers from relatives or other people.

6. The amount of monthly monetary transfer from the budget to the disabled group I is equivalent to 150 \$. In the following cases the amount of monthly monetary transfer can be increased up to 200 \$ USA: the participation in the Great Patriotic War, the execution of the

international duty in Afghanistan, the participation in the liquidation of the Chernobyl explosion consequences, the existence of dependents, chronic ailment, the total amount of income of 2,5 dollars per day, the housing and utilities expenses exceeding 25 % of domestic household expenses.

7. The amount of monthly monetary transfer from the budget to the disabled group I is equivalent to 100 \$. It can be increased in case of some substantial grounds up to 160 dollars.

8. The amount of monthly monetary transfer from the budget to children-orphans is equivalent to 160 \$. It can be increased in case of some substantial grounds up to 200 dollars.

9. The amount of monthly monetary transfer from the budget to the disabled children is equivalent to 120 \$. It can be increased in case of some substantial grounds up to 200 dollars.

10. The amount of monthly monetary transfer from the budget to the children up to 3 years is equivalent to 80 \$. It can be increased in case of some substantial grounds up to 120 dollars.

11. The amount of monthly monetary transfer from the budget to large families (three and more children) is equivalent to 50 \$ per child. It can be increased in case of some substantial grounds up to 200 dollars per child.

12. The amount of monthly monetary transfer from the budget for those who have radiation sickness as a result of the Chernobyl explosion consequences is equivalent to 80 \$. It can be increased in case of some substantial grounds up to 200 dollars.

13. The amount of monthly monetary transfer from the budget for the schoolchildren is equivalent to 30 \$. It can be increased in case of some substantial grounds up to 60 dollars.

14. The amount of monthly monetary transfer from the budget for students of higher education establishments is equivalent to 20 \$. It can be increased in case of some substantial grounds up to 50 dollars.

15. The amount of monthly monetary transfer from the budget for those who participated in Afghanistan war or other countries with the conduct of warfare is equivalent to 40 \$. It can be increased in case of some substantial grounds up to 100 dollars.

16. The amount of monthly monetary transfer from the budget for those whose monthly income is 2,5 dollars USA per day and whose housing and utilities expenses exceed 25 % of domestic household expenses, is

equivalent to 20 \$. It can be increased in case of some substantial grounds up to 50 dollars.

17. The amount of monthly monetary transfer from the budget for the citizens with the diseases included into a special list approved by the government of the Republic of Belarus is equivalent to 40 \$. It can be increased in case of some substantial grounds up to 100 dollars.

18. A pregnant woman receives monetary transfer equivalent to 100 \$ from the 6<sup>th</sup> till the 9<sup>th</sup> month of pregnancy.

19. The creation of an e-database and its allocation on the site dedicated to the targeted social support for citizens. This database must indicate all the recipients (their names, age, address, occupation), the reasons for support, the amount of support, the period of support. This information must be provided in an open regime.

20. The creation of the system to monitor the beneficiaries of the targeted social support, the control over the targeted social support to be correctly distributed, the publication of the monitoring results on the site. In case of a citizen's abuse or fraud he is deprived of the right to get the targeted social support for 3-5 years depending on the sum of money received dishonestly.

21. The expenses of the targeted social system are financed by all budgets receipts.

22. The targeted social support is paid in cash or transferred to the beneficiary's account. State targeted social transfers are made till the 28<sup>th</sup> of each month.

23. All work to do with the targeted social support is carried out by the Ministry of Social Solidarity. The Ministry creates regional departments in every region/town as a part of local executive committees, housing and utilities administration centres or post offices depending on the size and infrastructure of a settlement. The structure, operating mode and budget are established by the Council of Ministers of the Republic of Belarus. Citizens and the representatives of non-governmental organizations have the right to participate as observers in the meetings of the departments to do with the distribution of the targeted social support.

## **The package of actions № 11**

### **The reform of the education system.**

In the XXI century the demand for information and knowledge has risen sharply. We live in a global information space, in the intensive flows of facts, images, interpretation and analytics. We are in the regime of constant dialogue with a great number of people in real life and cyber space. We are surrounded by computers, smart phones, cars, robots, sophisticated production technologies and household appliances. The nature of the labour market has changed significantly. The competition for prestigious, well-paid positions has become global. There are significant changes in the relationships between employers and employees, the state and its citizens. In order to get fast and cheap services the knowledge of computer and information technologies is required. In the XXI century it's not enough to finish school and graduate from the university, lifelong learning is essential.

Nowadays it's important to find objective information and differ it from subjective interpretations. A successful person of the XXI century needs to understand the difference between scientific facts and deductions and the set of random numbers and events. In order to make precise and adequate decisions we need to understand clearly the cause-effect links of the nature world and a human, and to be able to establish them and adjust to them.

High-quality education increases the chances for a professional success, civil self-realization and full-scale private life. For a healthy childhood, dynamic youth, life plans realization and happy old age we need up-to-date knowledge and precise information. The system of education is a key institution to prepare a person for the challenges and requirements of the modern world. The providers of education services, first of all secondary and vocational schools, colleges, institutes and universities, to a great extent predetermine the competitiveness of a person, company and the state. The peculiarities of the production process of education services (a long term of training, state financing and monopolistic practice, high costs for private entities to enter the market, high financial and social costs to change one producer by another) predetermine the deceleration of the education system reform and indecisiveness of the state in the development of competition in this market segment.

Today we acknowledge the following problems in the market of education services:

- the inconsistency between skills and knowledge acquired in the state system of secondary and higher education and the requirements of life and labour market; the Belarusian secondary and vocational schools, colleges and institutes teach the wrong things and in the wrong way;
  - the deterioration of the teachers' professional level, the emphasis on the gross quantitative but not qualitative indicators;
  - excessive ideologization of the organizations in the secondary, vocational and higher education systems, the breach of the principle of higher education establishments' autonomy;
  - wide-spread discriminatory and monopolistic practices of the state and state education establishments;
  - a low participation and restricted possibilities of stakeholders (students, their parents, graduates' employers) in determining the parameters of the education services supply;
  - extremely high costs of the creation and functioning for a private education establishment, the imposing of teaching techniques, curriculum, working regime with pupils/students and requirements for documentation of the teaching process;
  - a double payment for education services: in the form of taxes, tuition fee in private and state education establishments;
  - discrimination at entrance exams regarding the place of residence and training (different admission points for countryside and city applicants); this system blocks the achievement motivation and success culture and destroys the equality of conditions of intellectual activity;
  - the state system of assigning students after graduation; this practice speeds up the process of brain drain, encourages the outflow of specialists from their specialization sphere and ineffective use of budget resources;
  - low quality of state forecast and planning of future demand in the labour market which creates the imbalance of supply with the overproduction of specialists in one sphere and lack of specialists in another sphere, the state's interference with the sphere of education services leads to the death of capital, increase in costs of personnel retraining and the block of possibilities for private education establishments to forecast independently the dynamics of labour market in future;

- the functioning of the Belarusian education system regardless of European standards (the Bologna Process) and competent international systems of assessment of the education quality (for example PISA) sharply reduces the export potential of education services of the country;
- inadequate financing of education establishments, restricted powers of education establishments in relation to the resources distribution, lack of control and transparency of budget; state higher education establishments have no clear division of budget and private financial flows and a full-scale control over their distribution;

The strategic direction of the reforms of education services market is aimed at creating open competition of international standards and equalizing the interests of education services buyers (the state, students, parents, business) and their producers (state, private business, non-governmental and religious organizations). The goal of the reform is to create the infrastructure and institutions for obtaining knowledge and skills throughout all life.

1. The autonomy of higher education establishments via the following measures: a gratuitous transfer of all assets, land and property to the balance sheet of the state higher education establishments, the reorganization of higher education establishments into open joint-stock companies, granting them the powers of monetary assets distribution, the right to do business, independently determine the rules of enrolment, curriculum, attendance regime, the regime of combining work and studies, taking exams without attending classes.

2. The autonomy of primary and secondary schools: the reorganization of them into open joint-stock companies, the right to determine working rules, relationships with teachers, parents and sponsors, curriculum and books, the system of knowledge assessment. The transfer of 100 % of primary and secondary schools shares to the balance sheet of local authorities. The creation of the mechanisms to sell 50 % of shares to private entities. The right for schools to do business. Education services outsourcing for private education establishments, when one company can provide services to several primary and secondary schools, create education nets with their own standards, working rules and teaching techniques, to patent this approach and to distribute it in the form of franchising.

3. The extension of powers for the supervisory board of primary and secondary schools: the introduction of the shareholders' representatives, parents and if possible sponsors into this supervisory board. The supervisory board appoints the principal and the headteacher, controls annual reports on academic and commercial activity, raises the question about the dismissal of the principal in case of his/her contract breach. The supervisory board approves the staff schedule, remuneration of teachers and office workers depending on the quantitative and qualitative criteria. The supervisory board provides the principal with the right to determine special working conditions and remuneration for certain teachers in case of their contribution to the educational process and the attraction of pupils. The state has no right to determine the amount of remuneration at private educational establishments, planning, the selection of pupils and text books, teaching techniques, the form of control over the teachers' activity and commercial activity.

4. The extension of powers for the supervisory boards of higher education establishments, the introduction of the shareholders' reps into this supervisory board. The compulsory introduction of 30% of students or their representatives into the supervisory board. The supervisory board appoints the head of a university and commercial director, controls their annual reports on academic process and finance. The supervisory board approves curriculum, the regime of knowledge check-ups at entrance exams and during training, tuition fee, the regime of attending classes and taking exams, the relationship parameters with teachers (the amount of remuneration, teaching load, social package) and other important aspects of academic and commercial activity of higher education establishments. The supervisory board grants the powers to determine special working conditions and remuneration for certain teacher to the head of a higher education establishment.

5. The elimination of the Ministry of Education, the creation of the Agency of Education Services, the transfer of the state property from the Ministry of Education to the Ministry of State Property and Privatization Management. The Agency of Education Services will function as an independent regulator of the education services market, its main function will be to ensure the equal business conditions for all types of economic entities. The Agency of Education Services will also determine the education standards for primary and secondary schools and higher

education establishments. Higher education establishments have the right to introduce their education standards though.

6. The Agency of Education Services elaborates and introduces the state education standards for primary and secondary schools and higher education establishments. They must correspond to the international standards for the participants of the Bologna Process. Private higher education establishments have the right to introduce their education standards at the same time they provide state-recognized diplomas.

7. The elimination of the State Commission for Academic Degrees and Titles. The transfer of the right to give academic degrees according to the international rules and regulations of the EU countries to the academic councils of higher education establishments. The transfer of scientific work to the universities' prerogative. The distribution of state grants for scientific research on a competitive basis for exact projects of chairs, groups of scientists and experts, and scientists on their own. Each grant is given to achieve exact quantitative and qualitative results. The state will provide the resources to train the Candidates of Science based on the guarantees of content scientists employed by chairs of higher education establishments or employed in other spheres.

8. The introduction of education vouchers: the transfer from financing schools to financing learners, the realization of the principle "money follows a student". Parents of all schoolchildren receive vouchers of the same value. These vouchers can be used at any education establishment regardless of ownership type. These vouchers from parents provide schools with budget resources. Preserving state financing of primary and secondary education will be accompanied by the creation of open competition of education establishments. The state guarantees the resources for vouchers to all children regardless of the budget condition.

9. On behalf of the state managerial bodies the Agency of Education Services places orders to prepare the personnel for the state managerial bodies on a competitive basis. The Agency of Education Services signs with the winners of the order the agreement on the preparation of specialists and covers these expenses. The education establishment that won the order on providing the state with education services takes the responsibility to give the specialists the set of certain skills and knowledge. The validity period of the contract between a graduate and a state establishment, working conditions, the termination and compensation

procedures are stated in the contract between a student and an education establishment. The discrimination due to the type of ownership in the preparation of the specialists for the state managerial bodies is not allowed. The Agency of Education Services can terminate the contract with the supplier of education services if the results of knowledge check-ups reveal inadequate level of skills and knowledge.

10. The Agency of Education Services conducts the contest between education establishments to provide education services in certain area. Private education establishments, the teaching team and executive committees can participate in these competitions. The Agency of Education Services determines the requirements for the participants of the education market, including such requirements as technical facilities of premises, personnel, security measures and students' health protection and other things. The contests are carried out in an open regime. After the contest the Agency of Education Services signs the agreement with the supervisory boards of schools on education services maximum for 5 years.

11. The practice of distributing the education loans must be extended. Higher education establishments can function as a guarantor of the higher education loans for students. They can set different types of scholarship. In the agreement with each higher education establishment the state determines the amount of scholarship for preparing the specialists.

12. The determination of the state scholarship for the best students to study abroad. In this case scholarship is given according to clearly and in advance defined criteria on the basis of an open competition. The winners of the republican subject contests receive the state scholarship to study in one of the best universities in the world in case of corresponding to all the entrance exams requirements. If the higher education establishment gets into the top 500 universities of the world according to the tests of education services' quality the state provides it with the bonus of 5 million dollars a year.

13. The adoption of the plan to privatize all higher education establishments. The privatization of all higher education establishments will be accomplished by 2017. The state will have 25 % of shares of the following higher education establishments: The Academy of the Ministry of Internal Affairs , The Belarusian State Medical University, The Belarusian State University, The Belarusian National Technical University, Brest State

University named after A.S. Pushkin, Vitebsk State University named after P.M. Masherov, Gomel State university named after Fr.Skaryna, Grondo State University named after Yanka Kupala, Mogilev State University named after A.A.Kuleshov. At the same time there must be free entry into the market of education services and free functioning for private commercial and non-governmental organizations including the foreign ones.

14. The state provides all education establishments with free access to broadband internet at its own expense.

15. The elimination of the ban on home education. The possibility to receive voucher for home education. Giving domestic households providing home primary and secondary education the right to provide their services to other families. In this case they will have the right to get education vouchers from the budget resources.

## **The package of actions № 12**

### **The reform of the healthcare system.**

The system of healthcare in Belarus does not correspond to the modern, technological, financial, managerial standards and requirements. The prevailing state monopoly in this sphere is the main reason of a low quality management, high costs, the degradation of facilities of hospitals and outpatient departments, as well as the creation of unfavourable system of incentives for private investors, medical workers and consumers.

The elite model of healthcare financed by taxes leads to chronic deficit of high-quality services, queues in hospitals and outpatient departments, artificial encouragement to consume national, but not always modern and effective medicine. It's characterized by ineffective use of budget resources, acute deficit of investments into the infrastructure of medical services and human resources. The state regulation of prices for medical services and medicaments with declared to be free of charge medicine leads to the majority of budget support given to well-to-do people instead of low-income people.

Low salaries of doctors and medical workers, excessive workload, low-level social protection of this sector's employees – all these factors lead to the profession of a doctor and medical worker losing its prestige in Belarus. The emigration of highly qualified medical workers is being

intensified. The number of the graduates from medical university not willing to work according to their speciality is growing. Along with declared to be free of charge medicine, the informal payment for medical services is going up. The old Soviet principles to finance the suppliers of medical services have become obsolete, but the new ones based on insurance and reconciling the interests and incentives of consumers, suppliers and the state have not been introduced.

The Belarusians are deprived of the possibility to buy affordable, high-quality medicaments. At the same time the state carries on supporting the discriminative and monopolistic practices towards the suppliers and importers of medicaments and medical equipment. The market of medical services and the production of medicaments and pharmaceuticals is too expensive and too much regulated to enter. It's nearly completely closed for private investors, who have no possibilities to use the administrative resources of the Ministry of Healthcare.

Belarus is in need of a profound, structural reform of the healthcare system. At the same time it's important to take into account the lessons of reforms and the functional peculiarities of the insurance medicine in developed countries. The cost of medicaments and medical services will sharply increase if we integrate into the relationships between consumers and suppliers an intermediary presented by an insurance company with a simultaneous preservation of the fixed state prices and the restriction of competition. It leads to the growth of budget burden and insurance costs for consumers. This kind of institutional regime is not for Belarus.

The strategic direction of the healthcare reform is aimed at the creation of solidary targeted system of healthcare based on the market mechanisms. In this system the state and the citizens jointly pay for the services of the suppliers, and the suppliers work in the conditions of free competition without the limitation of prices and areas and other discriminatory practices. The financing is carried out jointly by the state and a citizen taking into account the health condition and income of a citizen. The targeted system means the individual medical insurance account for a citizen where his contributions are accumulated, as well as annual transfers.

1. The change-over to the system of individual accumulative medical accounts. The resources of these accounts are formed by monthly contributions of a citizen (3 % of the salary) as well as

annual budget transfers. The resources can be spent only on medical services of hospitals and outpatient departments. These resources are accumulated throughout all life and then can be inherited. A citizen can increase the amount of contributions up to 6 % of the salary. The amount of contribution is determined while making an agreement.

2. The amount of budgetary monetary transfers to individual accumulative medical accounts depends on the following factors: the health condition, income and savings of a citizen, lifestyle (smoking, consuming alcohol, doing sports), the type of a job, and the budget possibility of the country. The state will cover 100 % of the medicaments cost for those who have diabetes and other diseases on the list approved by the Agency of Medical Services. The amount of budget transfers to those who have a healthy lifestyle , non-smokers, non-drinkers and live in full families will be increase by 10-40 %. The amount of indexation is determined in every individual case while making an agreement.

In case of overdraft of an individual accumulative medical insurance account and spending all budget resources provided for a certain period, in case of emergency the additional resources can be provided - 80 % of average annual sum in case a citizen has been paying 25 % of medical services himself. The limit of additional financing is equivalent to 200 dollars a year.

3. The Agency of Medical Services determines the criteria of need to have state subsidies for obtaining medical services, as well as the standard set of services citizens can rely on with the help of state subsidies.

4. The restructuring of state bodies of healthcare system (hospitals, outpatient departments, laboratories, scientific medical centres) into open joint-stock companies. Their shares are transferred to the balance sheet of local authorities. The shares of national medical centres and specialized hospitals are transferred to the Ministry of State Property and Privatization Management. All medical establishments receive complete business independence and the right to do business. They compete with other medical establishments for the right to provide their services to consumers throughout the country regardless of their location. Local authorities can sell up to 75 % of shares of medical establishments that are on their balance sheet within 5 years. A complete privatization of all medical establishments that are on the balance sheet of local authorities must be accomplished within 10 years.

5. Local authorities sign an agreement with a medical establishment to provide the population with free medical services among which there are ambulance services, emergency services, medical services for children. The choice of medical establishment to provide these services is carried out on a free competitive basis, according to precisely defined and open criteria. The introduction of the legislative rule prohibiting all medical establishments regardless of their ownership type to refuse people in providing emergency services. The elaboration and approval of the procedure of budget or insurance compensation to cover medical establishments' expenses for providing emergency services.

6. Local authorities determine at an open auction the suppliers of medical services to the low income groups of people. In the agreement the parameters of providing services, the amount of remuneration, the financing order, threshold costs for each citizen a year, quality assessment criteria and other necessary parameters of the relationship between a customer and a provider are determined. In areas with small population the agreement on medical services is made with a doctor or a medical establishment providing these services to the population.

7. Local authorities provide insurance to schoolchildren and students at the expense of the state resources. Every schoolchild / student will have an individual accumulative medical insurance account. The state makes up for 70-100 % of the costs of medical services depending on the type of disease and its extent. The rest is covered by a schoolchild / student. The limit of insurance transfers for one person is equivalent to 200 % dollars a year.

8. After the change-over to the system of individual accumulative medical accounts the changes to do with financing methods of medical services and the creation of open competition for the suppliers of medical goods and services are free. The state managerial bodies have no right to regulate them. The state is deprived of the right to fix the prices for the medical goods and services provided by private medical establishments.

9. The Agency of Medical Service elaborated and approves the system of quality assessment of medical goods and services. The results of tests and check-ups are provided in an open regime. The assessment,

audit and rating of the suppliers of medical goods and services can be executed by private companies.

10. The Agency of Medical Services carries out the licensing of a supplier of medical goods and services. The licence is given for 10 years and automatically extended if there are no serious complaints from the consumers of medical goods and services.

11. The Agency of Medical Services carries out the monitoring of the market of medical goods and services and provides the consumers with the information on the prices of different suppliers of medical goods and services, the cost of treatments and used medicaments in an open and free regime. There must be a feedback in the information on the suppliers of medical services.

12. The suppliers of medical goods and services must provide full information on the prices of their services and goods, the producers of medicaments and other medical goods, quality certificates, the education and qualification certificates of their medical staff.

13. The elimination of import duties and VAT on import medicaments and medical equipment, the recognition of the quality certificates of medicaments and other medical goods given by the corresponding authorities of the EU countries, Russian and Ukraine.

14. The creation of the State Medical Fund. This body must finance all the state commitments to the citizens in the sphere of medical goods and services. The Fund establishes its own departments in all territorial units of the country. The Agency of Medical Services presents the nominee for the Head of the Fund to the state. The State Medical Fund undergoes annual audits and places the results on its site. The working hours, administration budget and the amount of remuneration for executives are determined by the Agency of Medical Services.

15. The receipts of the State Medical fund are based on the contributions from the republican and local budgets. The expenditures of the Fund are approved by the Parliament of the country on the basis of detailed, line-item expenditures for insurance coverage of citizens, free and subsidized services, logistics and the functioning of the Agency of Medical Services.