



## CONCLUSIONS AND RECOMMENDATIONS

The gradual pace of reform has made it possible to avoid the most extreme social costs of economic transition. However, as this Report suggests, serious imbalances still remain in the economy and society, all of which can impede progress to sustainable human development. Addressing such human development objectives as poverty reduction, improvement of education and health care, reducing the rural-urban gaps in living standards, and many others, requires substantial resources, which can be generated only through sustainable economic growth. Sustainable economic growth, in turn, is unachievable without accelerating economic reforms aimed at addressing economic imbalances, such as diminished international competitiveness and efficiency, and shortage of investments.

The close link between sustainable human development and sustainable economic growth has been emphasised in a number of Global Human Development Reports, including those of 1996, 1997, 1999, among others. Indeed, advances in human development can happen in times of declining rates of economic growth and even during a period of economic decline. However, sustainable improvement of human development levels is impossible unless it is based on sustainable growth. Conversely, advances in human development are essential for sustainable economic growth.

As indicated at the beginning of this report, the essential macroeconomic changes needed to ensure sustainable growth may also generate significant social costs affecting human development levels, at least in the short term. For Belarus, then, responding to the imbalances in development means finding the right solution to the tension between accelerating the necessary economic transformations and minimising their negative social implications. The recommendations below present a way of dealing with this challenge, and could provide the basis for a broad-based public debate on the nation's future development.

### **Making globalisation and EU enlargement work for human development in Belarus**

The fast pace of globalisation makes the human development of individual nations increasingly dependent on the international environment. Belarus is no exception in this regard, as its open economy is highly reliant on foreign trade. The accession of ten new nations to the EU in May 2004 has greatly increased the economic power of this regional alliance, and consequently its significance for Belarus as a large and lucrative export market, a source of investments, high

technologies, and modern management practices. In light of these developments, Belarus should carefully adjust its trade priorities with respect to the EU, Russia and its other trade partners within and outside the CIS. This should include the adoption of a partnership programme with the EU that would set a range of short, medium and long-term objectives.

**The emphasis should be on increasing the share of high value-added and high-tech products in Belarus' EU exports and on seeking new markets outside Russia and the EU.** At present, the growth of exports to the EU and other large markets is constrained by insufficient product quality, as well as by the lack of proper customer service, product support and by poor marketing. Raising product quality and improving product promotion is the main tool for increasing export. To this end, Belarusian manufacturers should be encouraged to adopt more stringent EU standards with respect to product and environmental safety and energy efficiency. Increasing Belarusian investment in joint production, marketing and product support ventures in the new EU members is an important means of maintaining and increasing exports to the new EU member countries. In the long run, successful export promotion and diversification will depend on an improved environment and legal framework for external investments, and on targeted policies to promote innovation and technological advancement, thus increasing the competitiveness Belarusian economy.

**WTO accession will provide Belarus with easier access to foreign export markets, but will also require significant structural reforms to maintain competitiveness. Membership in WTO is also consistent with the long-term objectives of economic collaboration within the EU – Russia – Belarus triangle.** WTO accession will provide Belarus with the tools to deal with some of the protectionist practices – such as anti-dumping tariffs and product quotas – that constrain access of Belarusian goods to EU and other markets. WTO accession is also important because many of Belarus' current and prospective markets are either operating by the rules consistent with WTO principles or are actively adopting them. While WTO rules and standards already apply within the EU, Russia is also rapidly moving ahead with their implementation.

However, WTO accession will also demand the opening up of the economy to foreign competition by lowering or even eliminating customs protection, including for industries that are not competitive at present. WTO accession will leave no alternative to

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cost-cutting, efficiency and productivity-promoting measures in many Belarusian enterprises, including reductions in excessive employment.

### Ensuring sustainable growth by accelerating structural reforms

Enterprise restructuring should be accelerated in order to increase the competitiveness of the Belarusian economy, improve its financial health and make it more attractive to foreign and domestic investments. At present, advances in economic performance and growth are constrained by a large number of loss-making and low-profit enterprises that enjoy many types of direct and indirect subsidies provided at the expense of well-performing firms.

**A major step in this regard could be targeted support for dynamic and profitable industries, including by exempting reinvested profit from taxation.** The proportion of loss-making and low-profit companies should also be reduced both by accelerating the adjustment of such companies to market demand and by gradually discontinuing central subsidies for firms without real chances of structural adjustments. At the aggregate national level the costs of keeping unreformed loss-making companies running are progressively increasing. The gains in the form of retained employment levels are offset by the mid and long-term costs, as the resources needed to sustain such companies are being drained from profitable sectors whose expansion is essential for sustainable growth.

**To ensure economic stability, income policies should be closely aligned with enterprise reform and investment policies.** Accelerated growth of personal incomes over a relatively short period of time could raise production costs and, consequently, reduce the price competitiveness of Belarusian products and raise the inflation rate.

On the other hand, higher personal incomes could also become a source of domestic investments. Personal savings could be attracted by banks and other financial intermediaries – such as insurance companies or stock exchanges – and invested in efficient and profitable firms. However, given the low profitability and the high share of unprofitable companies in the economy, banks and financial institutions will be very limited in their ability to offer attractive interest on savings accounts, because too few enterprises will be able to afford the interest rates on loans. Increases in private investments, therefore, should follow (and not precede) improvement of enterprises' economic efficiency.

**The main strategic objectives of economic restructuring should be to achieve a higher level of specialisation of Belarusian industry and faster diffusion of new technologies.** Restructuring should emphasise the growth of the less capital-intensive sectors and competitive industries that rely on the local resource base and produce goods for the end consumer (as opposed to primary and intermediate products).

Increased innovation activity will be key to ensuring sustainable growth in the Belarusian economy in the long run. To this end, strong institutions should be built to achieve synergy among three main elements of the emerging national innovation system – education, research and industry. Such synergy would be critical to ensure that the high educational attainment levels of the work force and the existing capacities for scientific research fully reflect the needs of the economy. Support for innovation should be the shared priority of industrial, financial, regional, investment and other policies. Additional incentives should be created to ensure broader diffusion of innovation within the economy, including changes in the intellectual property rights to the outputs of research activities and support for innovation-driven small business. Educational reform is an important prerequisite to successful innovation policies, as it would help narrow the gap between the education and qualification patterns in Belarus and the demands of modern innovation systems.

### Managing regional disparities effectively

The Report highlights significant territorial imbalances in human development indicators, most of which have been inherited from the Soviet era but deteriorated during the transition. Further deepening of regional inequalities can be a major side effect of future economic reforms unless concerted action is taken to manage these disparities.

**The primary objective of the regional policy should be to reduce the inequality of opportunity and conditions for development in individual regions.** The key target of such policies should be the economically depressed areas that have emerged during the reform period, particularly small towns with unstable industrial enterprises and the rural communities formed around poorly performing agricultural farms. The future economic opportunity of many of the economically depressed areas is linked to their role as sub-contractors serving the closest centre of economic growth. The main priorities for government actions should include support for the modernisation of formative enterprises, promotion of productive employment, increasing the profitability of agricultural producers, and development of social services and targeted support for the needy.

**Regional policies should reflect the needs of the areas with special development needs.** Of such areas, the parts of the country affected by the radioactive fallout from the Chernobyl nuclear accident should take priority. The main objective should be to achieve a full recovery of the Chernobyl zone by minimising the negative impact of radiation on health and promoting its socio-economic development. At present, the main emphasis should be on economic recovery. SME development and the growth of free economic zones are important tools in achieving such a recovery. To protect the health and well-being of the resident population, core objectives of government policies in all affected areas should

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include continuous radiation monitoring, and medical and social support for the affected population. The international community can play a positive role in this regard by contributing best practices, scientific and technical expertise and by implementing humanitarian projects. The socio-economic recovery of the Chernobyl zone should also be implemented through careful targeting of interventions to match them to the specific social, environmental and economic needs of each affected community.

**Expanding the financial powers and mandates of the local governments is an important means to promote human development at the local level.**

The devolution should start by identifying the functions and responsibilities that can be delegated to the local level and by strengthening the revenue-generating capacities of the local budgets. The local communities should be encouraged to expand their revenue base and increase the number of taxpayers. SMEs have great capacity to generate significant amounts of tax revenue. Therefore, local governments should play a more proactive role in creating a supportive environment for small business and contributing to national SME promotion policies. Successful decentralisation policies should also build on mature civil society institutions and local democracy that empower citizens to influence local development policies.

**Increasing the levels of social and human capital**

The demographic situation in Belarus remains tense and is marked by a fast decline in fertility and a rapid rise in mortality, particularly among the working-age male population. Adequate policies are required to stabilise the situation. As a matter of priority, these should include measures to improve the diagnosis and treatment of the most prevalent chronic and epidemic diseases, strengthening of primary care and streamlining of inpatient medical care. It should also be remembered that many of the existing health

threats are determined more by social than by medico-biological factors. Therefore, improvements in health care should necessarily be accompanied by better prevention, whose effectiveness would depend, in the long run, on improvements in the overall morale within society.

**Measures to increase fertility should be targeted primarily at young families who would like to have but cannot afford more children.** The disproportionate risk of poverty borne by families with many children is one of the most common causes of low fertility. A sound income policy is needed to address this cause by focusing on the economic empowerment of families. Reducing the de-facto discrimination in employment of women with dependent children should be an important element of such a policy. Possible approaches include compensation by the state of the extra costs associated with the hiring of socially vulnerable groups of population. Support for families with children should also be strengthened. This includes, inter alia, policies to improve availability of day-care places, expand the network of social assistance agencies for families, and improve maternal and child health care.

**Support for voluntary citizen associations is essential for the preservation, growth and constructive utilisation of social capital.** It is necessary to simplify the registration procedures for public associations. The legislative and executive powers should review the existing procedural norms. Leisure and educational associations should receive targeted support. The ethical norms developed in the course of their activity would promote young people's socialisation, encourage the attitudes of civic responsibility and enable greater social control over deviant behaviour.

It is believed that by implementing the above set of recommendations, Belarus could accelerate its progress towards sustainable human development, preserve the unique features of its socially oriented economic system and respond to the challenges of globalisation and EU enlargement.

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