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## ***Welfare System Financing in Belarus***

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*The topic of welfare sector development in Belarus is nowadays of huge interest since by means of welfare development level it is possible to judge the level and the country's economic system and the quality of public sector services as well.*

*In recent years, especially in time of recession, the welfare sector positions in Belarus have been considerably weakened. And this is partly explained by the aspiration to keep the old Soviet designs in the welfare system construction. At the same time, when national and subnational budgets are being planned, the governments try to hold with great difficulty the budgetary indicators of welfare sphere at the level of last years. Such attempts, however, lead to the saving of budgetary funds only and they influence the deterioration of the welfare quality.*

*The present paper pursues the aim to show: (i) what tendencies of social budgetary policy can be observed in the time of economic recession (ii), how consistent was the welfare orientation of the central and local budgets in practice and (iii) what prospect ways for welfare sector improvement are there in Belarus.*

*This paper considers the Belarusian welfare branches in national budget and subnational ones, their structure, dynamics and other important indicators. The comparative analysis of welfare sector branches with other European countries is submitted. The paper opens with the inconsistent policy of the Belarusian authorities in the sphere of welfare branches funding. Prospect issues of welfare sphere finance reformation in Belarus in time of an economic crisis are considered.*

*Keywords: welfare sphere branches, national budget, local budgets, budget expenditures, public finance*

## SOURCES OF WELFARE SPENDING IN BELARUS

In recent years, development of the Belarusian welfare sector (health care, education, physical culture, sport, culture, mass media and social policy) was characterized by significant growth. During 2005–2014, the personal income per capita has increased in nominal terms by 13.9 times, expenditures on final consumption have raised by 10.7 times and GDP per capita by 12.2 times.

However, the growth of these indicators was promoted not so much by structural reforms and economic modernization with compliance of market rules, but more by exporting Russian cheap oil-based products in the EU countries. It had brought big "profits" for the Belarusian economy in the form of customs duties and filled up the national budget with tax revenue from foreign economic activity. In the last decade, share of customs duties in the national (republican) budget revenues has increased from 7.9 up to 14.4 percent, and in 2011 and 2012 it reached 28.0 and 26.8 percent. In addition, injections in the form of loans from international financial organizations and other fraternal countries have pumped the budget of Belarus (Lyvachko A., 2011).

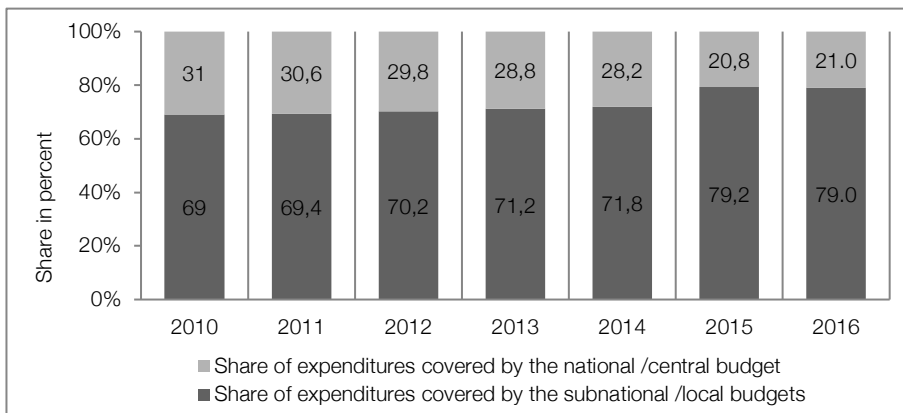
The main actors of Belarusian welfare policy are the official authority and governmental organizations. The non-governmental organizations having innovative potential are seldom attracted as partners. Despite the rather developed welfare system, the interaction of the state with other entities is governed by the principles of the Soviet period when the state was both the decision-maker and the main implementing actor.

## WELFARE EXPENDITURES: INCREASING SHARE OF LOCAL BUDGETS

Based on growth of national and local budgets the development of the welfare sphere is carried out in Belarus. So, the welfare sector funding is

provided by these budgets only. The following Figure 1 characterizes the dynamics of expenditure covering the welfare sphere for 2010-2016.

**Figure 1 – Dynamics of welfare sphere expenditures share covered by the national /central and local budgets for 2010-2016 (in percentage)**



Source: Data of the MoF of the Republic of Belarus reports Source

As Figure 1 shows, for the analyzed period, the welfare sphere funding structure developed in favor of subnational budgets. If in 2010, the subnational budgets covered 69.0 percent of welfare sphere expenditures, it rose to 79 percent in 2016.

For the last five years by means of consolidated budget's growth rate the following welfare branches were developed: health care, education, fitness, sport, culture, mass media, and social policy. During 2010-2016 the average annual increase of welfare expenditures in the national budget was 9.9 percent and in subnational budgets 10.3 percent. Thus, in local budgets the welfare branches expenditures annually grew, more than in the consolidated budget. It is illustrated by Table 1.

**Table 1 Annual average growth of welfare sphere expenditures funded by the consolidated budget and by the subnational ones (in percentage)**

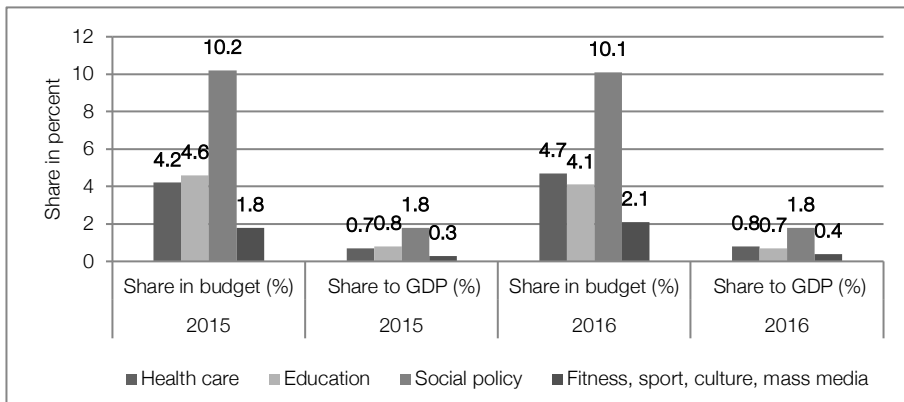
	Welfare sphere expenditures per year						Average annual growth (2010-2016)
	2011/2010	2012/2011	2013/2012	2014/2013	2015/2014	2016/2015	
Expenditure growth in the consolidated budget	101.21	113.16	109.92	100.74	114.41	110.9	109.9
Expenditure growth in the subnational budgets	101.86	115.14	110.76	101.58	110.4	112.0	110.3

Source: Own author's calculations based on the Ministry of Finance of the Republic of Belarus reports.

Such excess demonstrates that local budgets, as well as in EU countries, cover much more widely social/public areas than national budgets. It is possible to draw a conclusion that each Belarusian ruble invested into local budgets gave more effect than the ruble invested into the national /central budget.

In 2015-2016 welfare sector expenditures have captured more than 20 percent of the national (central) budget and nearly 50% of subnational ones and their shares in GDP reached 3.5 and 8.6 percent, respectively in 2016 (See Figure 2 and Figure 3).

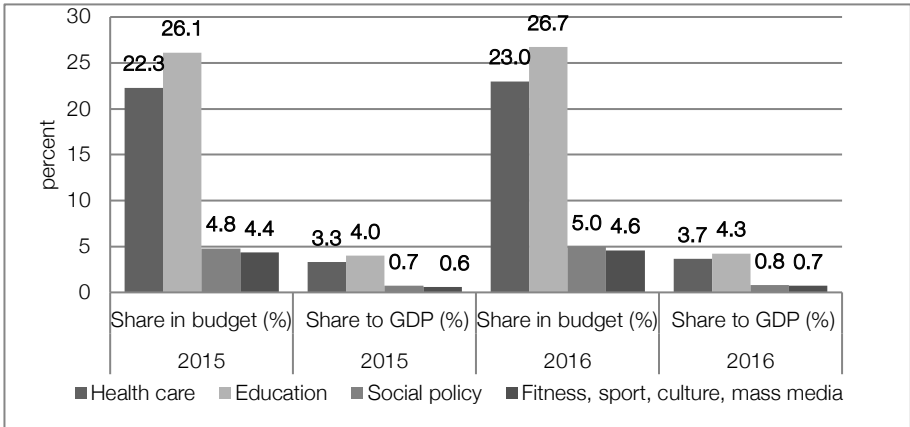
**Figure 2. Share of welfare branches expenditures in the national/central budget and to GDP (percentage)**



Source: Own author’s calculations on the basis of the Ministry of Finance of the Republic of Belarus reports

As Figure 2 shows, the greatest share of national budget welfare expenditures is on social policy, the second is on education. Public education expenditures are the largest in the subnational budgets, followed by health care expenditures.

**Figure 3. Share of welfare branches expenditures in the subnational budgets and to GDP (percentage)**



Source: Own author’s calculations on the basis of the Ministry of Finance of the Republic of Belarus reports.

As Figure 3 shows, the greatest expenditure share in the welfare sphere is the education’s share which dominates in subnational budgets. The health care expenditures take the second place in hierarchy in welfare branches. The subsequent places are taken by expenditures on social policy and culture, fitness, sport and mass media.

A comparative analysis of welfare branches expenditures to GDP shows that Belarus is still far from the European and international standards. According to the public expenditures review of Belarus, prepared by the World Bank experts in 2013, the health care expenditures have appeared lower than the level of new ten EU countries (5.4 percent). For example, according to the Lithuanian National Fund of Insurance, in Lithuania 7 percent of GDP are spent for health care. The main leader in health care expenditures in relation to GDP is the USA – 17.2 percent. In GB where the health system is public, the share of expenditures from GDP makes 9.4 percent. At the same

time, in a rating of the World Health Organization, Belarus occupies the 105th of 190 places on the level of health care costs to GDP (Spasyuk E., 2016).

It should be noted that the welfare sphere expenditures are not equally developed in oblast budgets. In 2014 the smallest share of expenses on welfare were in the budget of Minsk – 37.96 percent and in the budget of the Minsk oblast – 48.34 percent, the greatest share – in the Vitebsk oblast's local budgets – 54.7 percent, in the Mogilev oblast – 54.53 percent, in the Brest oblast – 54.11 percent what is characterized by data of the following Table 2.

**Table 2 Share of welfare branches in oblast budget expenditures (percentage)**

	Budgets of oblasts (regions)						
	Brest skaya	Vitebskaya	Gomelskaya	Grodnenskaya	Minskaya	Mogilevskaya	Minsk city (capital)
Health care	20.36	20.16	17.94	18.94	16.22	19.43	16.92
Education	25.77	26.55	22.36	25.8	24.54	26.19	16.43
Social policy	4.1	4.01	7.3	3.98	4.1	4.31	2.49
Fitness, sport, culture mass media	3.87	3.99	3.3	4.52	3.48	4.6	2.1
Total : Welfare branches in oblast budget expenditures	54.11	54.7	50.9	53.24	48.34	54.53	37.96

Source: Own author's calculations on the basis of the Ministry of Finance of the Republic of Belarus reports.

Table 2 shows that the welfare expenditures in oblasts were almost similarly formed as in subnational budgets. The reason of discrepancies can be explained not so much in features of local budget expenditures but on the number of oblasts revenue opportunities. It is important to note that the welfare expenditures are not equally developed in the subnational (oblast) budgets. In 2014, the share of expenses on welfare was the smallest in the budget of Minsk city (37.96%) and in the Minsk oblast (48.34%), while the

highest in the Vitebsk oblast (54.7%). It can be explained not so much by diverse local budget preferences, but by the oblasts' revenue potentials. In Minsk city, in the Minskaya oblast there was a rather strong revenue base for covering the standard welfare costs. Therefore, these oblasts had an opportunity to re-direct the remaining revenues to other areas, such as housing and communal services, housing construction, law-enforcement activity, maintenance of order, etc.

Further welfare branches analysis has shown dynamics of growth by expenditure indicator per inhabitant in Euro equivalent. For the analyzed period on all welfare branches, the annual growing expenditures in Euro currency assessment, on average 1.8 percent have been noticed. Most expenditure per inhabitant grew in health care – 17.7 percent and in fitness, sport, culture and mass media – 8.3 percent in comparison with the starting of 2010, which can be seen in Table 3.

**Table 3: Welfare branches expenditures per inhabitant in consolidated budget for 2010-2016 (nominated in Euro equivalent)**

	2010	2011	2012	2013	2014	2015	2016
Health care	166.95	170.24	200.89	224.78	230.91	209.63	196.58
Education	215.5	224.83	256.15	286.93	286.45	250.96	218.54
Social policy	128.37	124.62	128.31	133.86	133.68	130.57	113.55
Fitness, sport, culture mass media	44.71	42.55	50.89	53.78	53.28	46.12	48.44
<b>Total: Welfare branches expenditures in consolidated budget</b>	<b>555.53</b>	<b>562.24</b>	<b>636.24</b>	<b>699.35</b>	<b>704.32</b>	<b>637.28</b>	<b>577.11</b>
<b>Total consolidate</b>	<b>1259.51</b>	<b>1403.78</b>	<b>1557.67</b>	<b>1684.23</b>	<b>1706.12</b>	<b>1595.98</b>	<b>1330.73</b>



d budget revenues per inhabitant (nominated in Euro equivalent)							
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Source: Own author's calculations based on the Ministry of Finance of the Republic of Belarus reports.

As shown in Table 3, 555.53 euro per inhabitant in welfare sphere were spent in 2010, and in 2016 – 577.11 euro. In spite of a better result in 2014, the 2016 financial year can be characterized as a positive result in a social budgetary orientation, but insufficient in comparison with the EU countries. For example, the analysis of welfare branches in Poland shows that in 2013, from subnational budgets 910 euros were used per inhabitant, and 385 euros from the national budget (Porawski, A). As a result, in the welfare sphere 1 295 euro per inhabitant were used, that is much higher than similar indicators in Belarus during the analyzed period.

## FINANCIAL EFFORTS IN WELFARE SPENDING

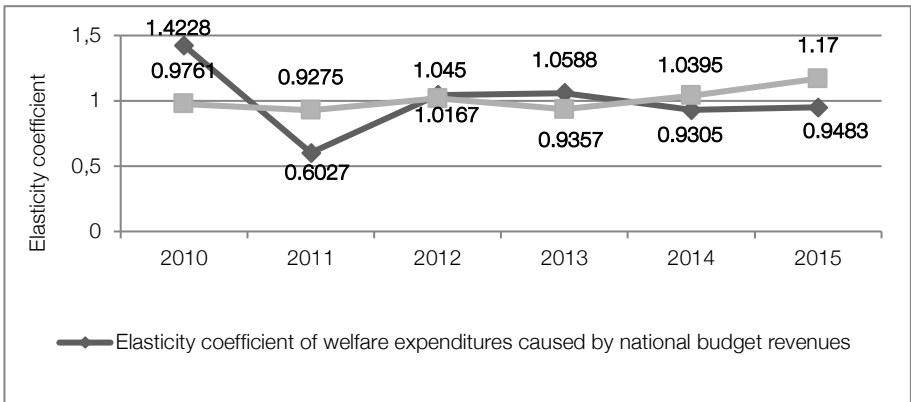
Government's financial efforts and welfare security have become central issues recently. This aspect was explored by using the elasticity coefficient of expenditures on welfare branches according to the total budget revenues<sup>1</sup>.

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<sup>1</sup>El ex (rv) =  $\ln(e_2/e_1) / \ln(r_2/r_1)$ , where: El ex (rv) – Elasticity of welfare branch expenditures caused by the total budget revenues; e 1, e2 – expenditures at the moment of time t 1 and t 2, accordingly ; r1, r2 – revenues at the moment of time t 1 and t 2, accordingly; ln – consumer prices index. At an original interpretation of the elasticity coefficient there is a consumer price index. It is necessary for an adjustment on inflation. However, because this index is corrected both on formula numerator, and on denominator, it does not have impact on calculation result of the elasticity coefficient. It is possible to accept index 1,0 or to eliminate it from the calculations.

It has allowed defining a constancy degree in priorities of expenditure for the welfare sector purposes. Results of this research are shown in Figure 4.

**Figure. 4: Elasticity coefficient of total welfare expenditures caused by the national budget revenues and subnational ones for 2010-2015**



Source: Own author's calculations on the basis of the Ministry of Finance of the Republic of Belarus reports.

Our analysis shows that for this period governmental welfare policies both in the central and in the subnational budgets were inconsistent and often changeable. In the national budget, in 2010 all welfare expenditures had a high priority. However, in 2011 this policy failed, and then the situation got better in the following year, and in 2014 and 2015 it failed again. If we take an elasticity coefficient for welfare expenditures in the subnational budget revenues, then it is possible to find a different trend: cutbacks in 2010, 2011 and in 2013, but increase in 2012, 2014, and 2015.

The reason why the elasticity coefficients of welfare expenditures are different both at national level and subnational ones is that expenditure functions for these levels are different. For example, if we take education, the universities and higher educational institutions are funded by the national

budget, while the primary and secondary schools, pre-schools by the rayon local budgets. In health care, the special medical centres are funded by the national budget and the regional one, while interregional hospitals are funded by oblast (local) budgets.

The analysis of these tables shows that for the analyzed period authority's policy in the field of a welfare orientation both in national budget and in subnational ones were inconsistent and changeable. It is possible to see it in the dynamics of the elasticity coefficients of the consolidated budget and subnational or local budgets and their comparison. For example, if the consolidated budget is considered, in 2010 priority emphasis on all welfare branches expenditures has been put. However, in fact the failure was a policy of the authorities in 2011 where no priority emphasis on one of the welfare branches was placed.

In 2012 the situation had been a bit better than in the previous year. All expenditures except social policy, had priority character. To the contrary, the financing of social policy, fitness, sport, culture, and mass media was no priority in 2013. In 2014 only priority funding of expenditures on health care had been done. On other welfare branches the expenditures had been no priorities.

If we consider an assessment of elasticity coefficients for welfare branches expenditures according to the subnational budgets revenues, then it is possible to find the same tendency of inconstancy, however with a certain asymmetry. For example, in 2010 all welfare branches expenditures, except fitness, sport, culture, and mass media had no priority in the local budgets, however in expenditures of the consolidated budget the reverse situation was observed. This comparison shows that expenditures on health care, education and social policy in the national/central budget had a priority. According to the analysis of 2011 and 2012, it is possible to make the greatest social orientation in welfare expenditures which has not taken place in local budgets, and in the national budget. Only in 2014 and 2015 it is possible to speak about a reverse situation when priority in the expenses of branches of welfare in local budgets took place in comparison to similar expenditures in the national or central budget.

## DECLINING WELFARE SERVICE PERFORMANCE IN CONDITION OF RECESSION AND WAYS FOR IMPROVEMENT

Despite regular government promises to make budgets socially-focused, the welfare policy remains unstable. As our assessment proved, during the last five years, the Belarusian governments' efforts in welfare spending showed instability, frequent variations and inconsistency with the declared policy goals.

Due to the economic recession the government was not able to keep the share of welfare expenditures to GDP at the level of the last five years. Most of the welfare service indicators decreased. In health care, the number of hospitals was reduced from 657 to 636 between 2012 and 2015. There was a reduction of hospital beds from 106.6 thousand to 80.7 thousand. Instead, the outpatient treatment has been developed from 2,263 outpatient organizations (2012) to 2,352 (2015) (*V Belarusi stalo menshe shkol i bolnits*, 2016).

In the Belarusian *education* there was a similar situation. According to the official statistical data, the number of preschool educational establishments in the 2012/2013 academic year was 4,064 while in 2015/2016 their number was reduced to 3,951. However, in the same period the number of enrolled children increased from 398 thousand to 409.8 thousand. In 2012–2015, the number of the primary and secondary educational establishments reduced by 349 - from 3,579 to 3,230. Nevertheless, despite reduction of schools, the number of pupils has increased from 928.2 thousand pupils to 969.1 thousand. During previous four academic years in Belarus two universities were closed and now only 52 are functioning. The number of the students has decreased by 92 thousand, from 428.4 thousand to 336.4 thousand (*V Belarusi stalo menshe shkol i bolnits*, 2016).

In condition of recession Belarus is faced with challenges one of which is the need of capital investments in the welfare sector under the very limited

opportunities of budgetary funding. Moreover, the tendency to decrease of budgetary funding is traced in recent years. It indicates the need to search new funding mechanism for welfare sector projects. One of them is funding mechanism by means of PPPs. It should improve the living standards of the population and the maintenance of social standards level in comparison to last years. In Belarus currently only three PPP projects in the welfare sphere will be implemented (see Table 4).

**Table 4: PPP Projects in Welfare Sphere**

Description	Location	Expected outcomes	Worth /Investment s	Government 's contribution	Duration
Construction of two pre-school institutions	City of Minsk and Minsk region	Number of places in pre-school institutions increased	25.7 USD MM*	Land	2017–2019
Reconstruction of a block of buildings of Grodno hospital No.3	City of Grodno	Number of beds in the institution increased, new technology procured	200.0 USD MM*	Land, infrastructure	2016–2019
Reconstruction of the museum, tourist and recreation complex	City of Brest	Tourism infrastructure improved	31.0 USD MM*	Land, infrastructure	2017–2020

\* preliminary data

Source: Author compiled, based on data of the Center for Public Private Partnership under the Ministry of Economics of the Republic of Belarus [/http://kodeksy-by.com/o\\_gosudarstvenno-chastnom\\_partnerstve.htm](http://kodeksy-by.com/o_gosudarstvenno-chastnom_partnerstve.htm)

Table 4 characterizes the pilot projects only, which capture about 12 percent of the national infrastructure plan of the Republic of Belarus for 2016–

2030. These figures give an essential optimism in welfare sector development by means of PPPs.

However, as the PPP pilot projects only started in 2014-2016, it is too early to provide any comment and results on them, but some preliminary analysis of successful factors and components may be done. Nevertheless, there are risks of failure for the PPP projects due to the deterioration of the investment climate in Belarus where foreign investments for 9 months in 2016 decreased by \$2.4 bn. in comparison with the same period in 2015 (Investory 2016). As studies show (Estache, 2010, p. 86), difficulties limit public finance in developed and developing countries as a result of lack in policy and legal framework reforms and the complexity of institutional and political characteristics of the public sector. This justifies the use of PPPs in Belarus as an alternative financing instrument that is appropriate for attracting the private sector in the financing of public infrastructure investment.

## CONCLUSION

As has been shown, welfare sector in Belarus was not reformed since the disintegration of the Soviet Union. The Belarus' welfare policy remains rooted in it the governmental organizations, with the Central government acting as the main decision-maker. Despite a certain innovative potential, nongovernmental organizations are seldom involved, and only as partners.

The analysis of national and subnational budgets with the use of elasticity coefficient for the last five years vividly showed that the policy proclaimed by the official authorities in welfare orientation area both in national budget and in subnational ones were inconsistent and changeable. In reality, in separate years the welfare branches had high priorities in budgetary funding and in other years the priority was insufficient and low.

In time of current recession where GDP's welfare indicator tends to decrease, the welfare security level is especially alarming. Already today reduction of medical institutions, hospital beds, and gradual replacement of hospitalization by out-patient treatment is taking place. In the education

sector too, the number of preschool and school educational institutions was reduced, despite the growing number of pupils. The main reason for reductions in welfare branches is financial constraints both national and subnational budgets.

Nowadays, the State has no opportunity to completely perform its economic functions by means of traditional financing of welfare expenditures from the national and subnational budgets. Therefore, an alliance of public and private sectors in welfare sector funding is observed in Belarus. However, difficulties of limited public finance are a result of lack in policy and legal framework reforms and the complexity of institutional and political characteristics of the public sector.

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