BUSINESS IN BELARUS 2014

STATUS
TRENDS
PERSPECTIVES

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Business in Belarus 2014:
Status, Trends, Perspectives

Business in Belarus 2014: Status, Trends, Perspectives. The report discusses the economic situation of small and medium-sized enterprises (SMEs) and prospects for their development. It analyzes the impact of participation of Belarus in the Eurasian integration on SMEs performance and competitiveness. The report evaluates corruption as seen by SMEs in Belarus. It studies the impact of SMEs support infrastructure on promotion and protection of their interests.

The *Appendix* contains the results of the SME survey carried out in May 2014.

CONTENTS

1. INTRODUCTION

The events of 2014 had a significant impact on the development of the Belarusian economy. While the country continued to experience some internal problems (such as high inflation, lack of accessible and affordable credit, continuing gradual devaluation of the national currency and periodic decline in real average wages), Belarusian authorities were faced with new economic threats from the outside.

The first such issue was the Ukrainian crisis and worsening of relations (including trade and economic relations) between Russia and the European Union. Of course, on the one hand, these events were to a certain extent of benefit for Belarus, as they helped local enterprises fill the niches vacated as a result of mutual sanctions of Kiev, Moscow and Brussels. However, on the other hand, the conflict with the EU had a dramatically negative impact on the Russian economy tied closely with the economy of Belarus. As a result, the traditional market for Belarusian products shrank, while the devaluation of the Russian ruble (exceeding the devaluation of the Belarusian currency) led to a further decrease of the competitiveness of domestic products.[1]

The Eurasian economic integration, with respect to which it was decided to deepen the relationship of Belar-

us, Kazakhstan, Russia in 2014, and also Armenia joining them next year, may be considered as a second challenge. These countries are expected to establish the Eurasian Economic Union (EEU) (which will include the already existing Customs Union and the Common Economic Area) on January 1, 2015. As a result, every year the conditions for the movement of goods, labor and mutual penetration of capital will be more and more simplified. This obviously creates not only new opportunities for Belarusian companies, but also poses the risk of entering into competition with stronger Russian and Kazakh companies.

Trying to create a sustainable mechanism to respond to such external challenges and threats, the Belarusian government focused on the development of the most flexible and adaptable sector of the national economy – small and medium-sized enterprises (SMEs). In the early 2010s, the government set a number of goals, according to which the share of small and medium business in Belarus' GDP should reach 35% by 2015 (with 1.8 mln. people employed in this sector), and 50% – by 2020.[2] By 2020, small and medium-sized businesses are expected to account for about a half of the Belarusian economy. This should bring Belarus closer to the most developed Western economies such as the United Kingdom (where the share of SMEs in the economy is 50–53%), Germany (50–52%), Italy (57–60%), France (55–62%), the EU (63–67%) and the USA (50–52%).

The prospects that the Belarusian government sees for private small

and medium-sized enterprises are reflected in the statement of Petr Prokopovich, Deputy Prime Minister of Belarus. Noting that, as of March 2014, the small and medium business in Belarus already employed 1.5 million people, and the share of small and medium-sized enterprises in GDP was 25%, he stressed that it is small and medium-sized businesses that are "more mobile, and they quickly react to market changes and customer needs … and often win over even large manufacturers". According to Petr Prokopovich, small and medium businesses help close the job gaps that appear through the modernization of large enterprises, and create products for the public, thereby winning the domestic market with Belarusian goods and services, helping reduce imports.[3]

In general we can say that the Belarusian business over the past few years (after the financial crisis in 2011) shows a positive trend of development. In most cases (though not in the overwhelming majority) there is a growth of economic indicators such as turnover, profit, investment and etc. Representatives of SMEs often view their economic situation as good or better than average.

However, we have to admit that these results were achieved not so much due to the qualitative improvements in the Belarusian business environment but as a result of the gradual smoothing out of the economic situation in Belarus. And

[1] See How will the decline in world oil prices affect the Belarusian economy?, [Electronic resource] Mode of access: http://delo.by/news/~shownews/kak-snizhenie-cen-na-neft-otrazitsia-na-belarusi; *International sanctions against Russia are likely to have a negative impact on Belarus – IMF*, [Electronic resource] Mode of access: http://www.belta.by/ru/all_news/economics/Mezhdunarodnye-sanktsii-protiv-Rossii-skoree-vsego-negativno-skazhutsja-na-Belarusi---MVF_i_684418.html.

[2] See the Program of State Support for Small and Medium Business in Belarus for 2013-2015.

[3] The contribution of small and medium-sized businesses in GDP in Belarus should be, at least, 50% by 2020, see: http://www.belta.by/ru/all_news/economics/Dolja-malogo-i-srednego-biznesa-v-VVP-Belarusi-k-2020-godu-dolzhna-sostavit-ne-menee-50_i_664062.html.

even in this case, representatives of SMEs continue to report a low purchasing power of the Belarusian population (the Belarusian market is the main market for domestic small and medium-sized businesses), restrictions on the foreign exchange market, foreign exchange volatility and other negative macroeconomic factors.

As for the business environment, the representatives of Belarusian SMEs in most cases note a lack of any changes whatsoever, and more than a quarter of them report deteriorating conditions. The extremely low evolution of the Belarusian business environment is clearly evidenced by the fact that Belarus remained at the same 57th place in the international ranking *Doing Business*, as of June 2014. Compared to that, Russia – the neighbor and partner of Belarus in EEU – improved its position by two ranks, moving up to 62nd place, which again indicates the economic challenges of the Eurasian integration.[4]

As a result, the current growth in the share of small and medium-sized businesses in the Belarusian economy has been achieved mainly due to the quantitative factors – by increasing the number of enterprises. In other words, the problems of the previous year, when starting SMEs either do not want to work on their growth and development, or do not have sufficient capacity for this (unfavorable macroeconomic environment, administrative barriers, unequal economic activity in comparison with the public sector, etc.) still remain.

The long-term improvement of the situation will require measures which will not only have to meet certain benchmarks of the economic development in Belarus as seen by the government and society, but also have to take into account the opinions of the Belarusian small and medium-sized businesses.

This edition of the annual report *Business in Belarus: Status, Trends and Perspectives* touches upon the key issues of development of small and medium-sized enterprises in Belarus in 2013–2014. It has the following structure. The *second section* analyzes the situation of SMEs and prospects for their further development. The *third section* is devoted to the challenges arising for Belarusian SMEs in the context of the Eurasian integration. The *fourth section* studies the perception of the Belarusian business of corruption. The *fifth section* describes the development of the infrastructure to support small and medium-sized businesses in Belarus and the role of business associations in advocacy of interests of SMEs and the dialogue between business and authorities. The report also includes the Appendix with detailed results of the SME survey held in May 2014.

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[4] See *Economy Rankings*, [Electronic resource] Mode of access: http://www.doingbusiness.org/rankings.

2. SMALL AND MEDIUM-SIZED ENTERPRISES IN BELARUS: PERFORMANCE AND TRENDS IN DEVELOPMENT

2.1. Trends in development of small and medium-sized enterprises in 2013

In 2013, the number of Belarusian small and medium-sized businesses kept increasing owing to micro enterprises (with the number of employees of up to 15 people), just as in previous years.[5] Compared with 2012, the number of these firms grew by 12.5%, where small businesses increased by 0.8% and medium-sized businesses decreased by 4.7% (Figure 2.1). Thus, while micro enterprises accounted for 79.1% of the total number of SMEs in 2009, they accounted for 84.9% in 2013.
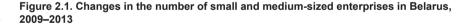
The main part of small and medium-sized enterprises in Belarus are private enterprises (Table. 2.1). This form of ownership accounted for 95% of micro and small enterprises and 70.1% of medium-sized enterprises in 2013. State-owned enterprises accounted for about a quarter of medium-sized enterprises (only 1.4% among micro and small enterprises). The share of foreign SMEs was gradually increasing. Their share in medium-sized enterprises increased by 0.7 percentage points in 2013.

While it was stated above that the contribution of the Belarusian small and medium businesses in the GDP in 2013 grew, official statistics show that the proportion of medium-sized, small and micro enterprises decreased by 1.3 percentage points to 22.3% (Table 2.2). This is probably due to the difference in counting as current statistics take into account SMEs with up to 250 employees, while the older data may attribute firms with a slightly larger number of staff to medium-sized enterprises.
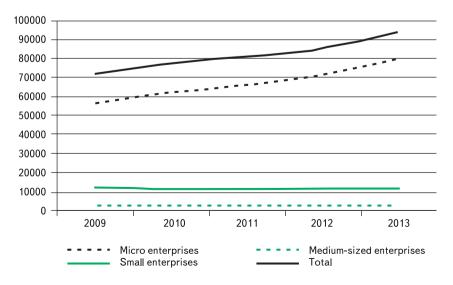
As in previous years, the main contribution (over 43%) in the production of Belarusian SMEs was made by residents of Minsk. They accounted for 9.7% of the national GDP. They were followed by Minsk (4%) and Brest (2.2%) regions, while other regions accounted for less than 2% of GDP each.

The largest share in the gross regional product (GRP) accounted to small and medium-sized enterprises

of Minsk – 40.4% (Table 2.3). By contrast, the contribution of local SMEs in the GRP of Gomel, Grodno and Vitebsk regions was less than 20%. In dynamics, SMEs of Minsk and Minsk region accounted for the main increase in the national GDP. The share of small and medium-sized enterprises in these regions increased by 9 and 6.4 percentage points, while in most other regions there was almost no growth observed over the past five years.

The share of small and medium-sized enterprises in the revenue from sales of products, goods and services in 2013 was again more than the contribution to GDP (Table 2.4). In 2013, the figure was 37.7% of the national total, while small and medium-sized enterprises in Minsk accounted for more than one-fifth of the total revenues in the country. Micro and small enterprises can be considered the most profitable in Belarus. With the contribution to GDP

Figure 2.1. Changes in the number of small and medium-sized enterprises in Belarus, 2009–2013

Source: National Statistical Committee of the Republic of Belarus.

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[5] Law No. 148-3 of the Republic of Belarus of July 1, 2010 *On Support to Small and Medium-Sized Businesses* classifies small and medium-sized businesses as follows: (1) individual entrepreneurs registered in the Republic of Belarus; (2) micro-businesses are enterprises, registered in the Republic of Belarus, with an average number of employees of up to and including 15 in a calendar year; small organizations are enterprises, registered in the Republic of Belarus, with an average number of employees from 16 to and including 100 in a calendar year; medium-sized businesses refer to enterprises, registered in the Republic of Belarus, with an average number of employees from 101 to and including 250 in a calendar year.

Table 2.1. Number of micro, small and medium-sized enterprises in Belarus by form of ownership

	2010		2011		2012		2013	
	Number	%	Number	%	Number	%	Number	%
Micro and small enterprises								
Private	70509	95.0	73549	94.8	78365	94.9	87065	95.0
Public	1378	1.9	1296	1.7	1247	1.5	1297	1.4
Foreign	2359	3.2	2760	3.6	3000	3.6	3324	3.6
Total	74246	100.0	77605	100.0	82612	100.0	91686	100.0
Medium-sized enterprises								
Private	1824	66.3	1765	67.8	1762	69.3	1699	70.1
Public	842	30.6	759	29.1	693	27.3	626	25.8
Foreign	87	3.2	80	3.1	87	3.4	98	4.1
Total	2753	100.0	2604	100.0	2542	100.0	2423	100.0

Source: National Statistical Committee of the Republic of Belarus.

Table 2.2. Share of small and medium-sized businesses in the gross domestic product, % to the total in the country

	Micro enterprises	Small enterprises	Medium-sized enterprises	Total of small and medium enterprises
2009	3.9	7.5	7.4	18.8
2010	4.3	8.0	7.5	19.8
2011	5.0	9.5	6.7	21.2
2012	6.1	9.0	8.5	23.6
2013, incl.	6.1	9.1	7.1	22.3
Brest region	0.5	0.8	0.9	2.2
Vitebsk region	0.4	0.6	0.6	1.6
Gomel region	0.4	0.5	0.8	1.7
Grodno region	0.4	0.5	0.6	1.5
Minsk City	2.9	4.6	2.2	9.7
Minsk region	1.1	1.6	1.3	4.0
Mogilev region	0.4	0.5	0.7	1.6

Source: National Statistical Committee of the Republic of Belarus.

Table 2.3. Share of small and medium-sized businesses in the gross domestic product in 2013, % to the total in the country

	2009	2010	2011	2012	2013
Brest region	20.4	20.4	20.7	25.4	23.2
Vitebsk region	18.6	17.0	15.5	23.2	17.8
Gomel region	14.8	16.4	12.7	14.1	14.7
Grodno region	18.4	17.8	15.6	22.7	18.4
Minsk City	31.4	35.8	40.6	40.3	40.4
Minsk region	22.4	21.9	23.7	28.2	28.8
Mogilev region	18.6	17.7	15.3	22.3	20.9

Source: National Statistical Committee of the Republic of Belarus.

Table 2.4. Share of small and medium-sized enterprises in the revenues from the sale of products, goods and services, % to the total in the country

Year	Micro enterprises	Small enterprises	Medium-sized enterprises	Total of small and medium-sized enterprises
2009	10.2	18.1	9.4	37.7
2010	10.7	17.2	9.3	37.2
2011	8.9	20.5	10.1	39.5
2012	9.8	16.9	11.0	37.7
2013, incl.	10.2	17.5	10.0	37.7
Brest region	0.7	1.1	1.1	2.9
Vitebsk region	0.6	1.1	0.6	2.3
Gomel region	0.6	0.8	0.9	2.3
Grodno region	0.7	0.8	0.7	2.2
Minsk City	5.4	10.6	4.6	20.6
Minsk region	1.7	2.4	1.4	5.5
Mogilev region	0.6	0.7	0.7	1.9

Source: National Statistical Committee of the Republic of Belarus.

of 6.1% and 9.1%, respectively, these enterprises had 10.2% and 17.5% of the national revenues from sales of products, goods, work and services in 2013.

On the one hand, the results suggest that the performance of small and medium-sized enterprises (regardless of ownership) in Belarus is traditionally higher than that of large enterprises. On the other hand, it is obvious that the share of Belarusian SMEs in the revenues from sales remained virtually unchanged in the last five

Table 2.5. Distribution of Belarusian SMEs by types of activity in 2014

	Number	%
Trade	133	30.9
Catering	22	5.1
Manufacturing	68	15.8
Construction	60	13.9
Transport and communications	40	9.3
Consumer services	27	6.3
Consulting services	2	0.5
Education	4	0.9
IT services	14	3.2
Tourism	18	4.2
Advertising	14	3.2
Publishing	7	1.6
Real estate	11	2.6
Other	11	2.6
Total	431	100.0

Source: IPM Research Center.

Table 2.6. Main directions of flows of goods and services provided by Belarusian SMEs

	Number	%
Mainly exports	23	8.2
Mainly imports	34	12.1
About the same share of exports and imports (or re-export of imported goods or products processed from them)	25	8.9
Focus on the domestic market, a minimum share of exports and imports	199	70.8
Total	281	100.0

Source: IPM Research Center.

Table 2.7. Distribution of SMEs in Belarus by the number of employees, the year of company's foundation and region

	Number	%
Number of employees		
From 1 to 10	188	43.8
From 11 to 50	156	36.4
From 51 to 100	32	7.5
From 101 to 200	26	6.1
Over 200	27	6.3
Total	429	100
Year of foundation		
Before 1996	41	9.6
1997–2004	119	27.9
2005–2009	146	34.3
2010–2014	120	28.2
Total	426	100.0
Region		
Minsk	109	25.3
Minsk region	67	15.5
Brest and Brest region	50	11.6
Vitebsk and Vitebsk region	55	12.8
Gomel and Gomel region	55	12.8
Grodno and Grodno region	51	11.8
Mogilev and Mogilev region	44	10.2
Total	431	100.0

Source: IPM Research Center.

years. Given the constant (albeit slight) increase in the number of staff of these companies, as well as their increased contribution to the national GDP, it can be concluded that their performance in recent years, generally, did not improve as despite producing more goods (services) in absolute and relative terms, the profitability of SMEs remained relatively the same.

In general we can state that the dynamics of Belarusian SMEs, which is apparent in official statistics, allows making a very cautious forecast of an increase in their number and contribution to the national economy. Firstly, this growth is significantly behind the targets set by the Belarusian authorities. As noted, if the current trend continues, it will help to get closer to the intended level of 30% of GDP by 2015, but will not

allow achieving the target of 50% of GDP by 2020. Secondly, there are apparent trends in the performance of Belarusian small and medium-sized enterprises challenging its long-term growth. The lack of growth in the share of SMEs in revenues year after year increases the conflict with a growing increase in the contribution of small and medium-sized enterprises to the national GDP. This means that the planned increase in

Table 2.8. The economic situation of SMEs in 2012–2014
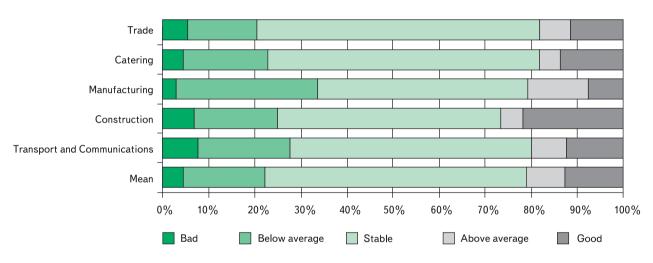
	2012		2013		2014	
	Number	%	Number	%	Number	%
Good	20	5.0	18	4.4	54	12.6
Above average	15	3.8	28	6.8	36	8.4
Stable	225	56.2	253	61.9	244	56.9
Below average	116	29.0	95	23.2	76	17.7
Bad	24	6.0	15	3.7	19	4.4
Total	400	100.0	409	100.0	429	100.0

Source: IPM Research Center.

Table 2.9. The change in the economic situation of Belarusian SMEs in 2013–2014

	Number	%
Significantly improved	19	4.4
Slightly improved	93	21.6
Remained the same	191	44.3
Slightly worsened	98	22.7
Significantly worsened	30	7.0
Total	431	100.0

Source: IPM Research Center.

Figure 2.2. Economic situation of SMEs in Belarus by type of activity

Source: IPM Research Center.

the number and share of small and medium-sized businesses in the Belarusian economy will require new incentives, primarily in relation to those aspects that SME managers report as most sensitive.

2.2. Assessment of SMEs of their own activities and business environment in 2013–2014

According to the survey conducted in May 2014[6], the largest number of Belarusian small and medium-sized enterprises operate in the field of trade (Table 2.5). A smaller

number of Belarusian SMEs were in construction and industry, as well as in transport and communications, consumer services, and catering.

Belarusian small and medium-sized enterprises were mainly focused on the domestic market. As shown in Table 2.6, the share of SMEs related to export and import operations is small, though not small (29.2% in total), but still less than half of those surveyed.

Most of the surveyed small and medium-sized enterprises in Belarus had up to 50 employees – 80.2% (Table 2.7). About a quarter of Belarusian SMEs operated in Minsk, and

15.5% – in Minsk region. In other regions of Belarus, the presence of small and medium businesses was virtually the same – slightly over 10% of the total.

In 2014, the respondents' opinions on the economic situation of SMEs were distributed equally between positive and negative assessments (Table 2.8). 21% of surveyed SMEs somehow believe that their economic situation is above average, and 22.1% – below average. Another 56.9% of SMEs describe it as stable. In these terms, the results of 2014 compare favorably with those of the previous 2012–2013 surveys, when a negative assessment of the economic situation very

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[6] In the survey participated 431 SMEs.

Figure 2.3. Economic situation of SMEs in Belarus by size of the enterprise

Source: IPM Research Center.
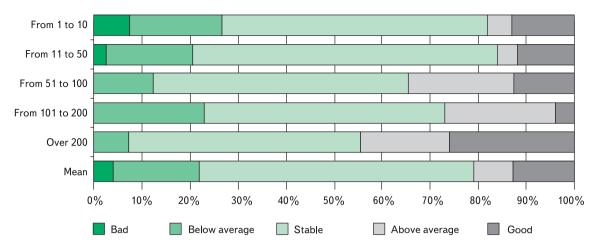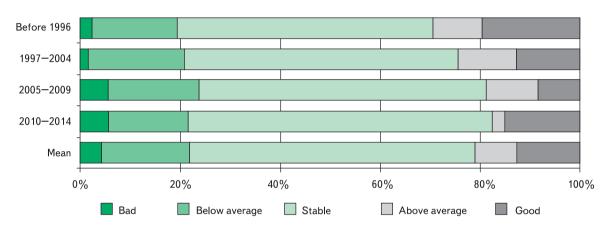
Figure 2.4. Economic situation of SMEs in Belarus by the year of foundation

Source: IPM Research Center.

Table 2.10. Change in the conditions of doing business in 2013–2014

	Number	%
Business conditions significantly improved	14	3.2
Business conditions slightly improved	84	19.5
Business conditions remained the same	218	50.6
Business conditions slightly deteriorated	89	20.6
Business conditions deteriorated significantly	26	6.0
Total	431	100.0

Source: IPM Research Center.

Table 2.11. Change in the level of the competition in 2013–2014

	Number	%
Increased	249	57.8
Remained the same	166	38.5
Decreased	16	3.7
Total	431	100.0

Source: IPM Research Center.

substantially prevailed over positive assessments.

The prevailing opinion of the stability of the economic situation is also confirmed by the results of the answer to the question "How did the economic situation of your company change in the last year?" (Table 2.9). About half of the respondents reported no change, while other views almost equally distributed between the improved and worsened economic situation.

Small and medium-sized enterprises operating in the construction sector were more likely to report their

Figure 2.5. Change in the level of competition by the area of activities of the enterprise

Source: IPM Research Center.
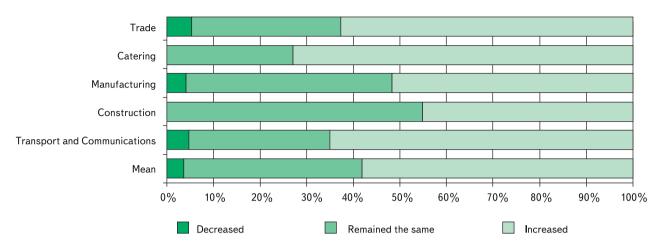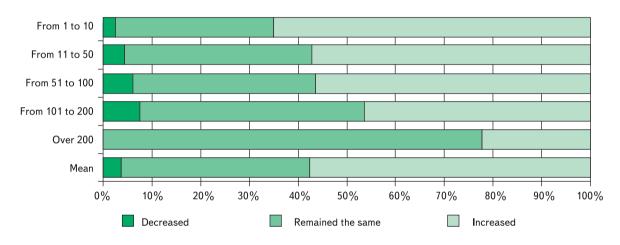
Figure 2.6. Change in the level of competition by the size of the enterprise

Source: IPM Research Center.

good economic situation (response options as "good" and "above average") – in 26.7% of the surveyed enterprises, with an average of 21% (Figure 2.2). This confirms the idea that construction has become one of the main locomotives of the Belarusian economy in recent years, and SMEs feel a bit more comfortable than in other industries. However, the situation with the industry, on the contrary, is somewhat worse. More than a third of respondents (33.8%) with an average of 22.1% described their economic situation as unsatisfactory (response options as "bad" and "below average"). The most stable area for domestic small and medium businesses in the last year was trade. About 61.4% of SMEs in this sector (average – 56.9%)

reported their economic situation as stable.

Large and medium-sized SMEs often reported their good economic situation (Figure 2.3). For example, enterprises with more than 200 employees stated a good or above average position in 44.4% of cases, the medium-sized SMEs with 51 to 100 employees – in 34.4% of cases (with the average of 21%). By contrast, smaller SMEs stating a good or above average position accounted for 18.1% (with 1 to 10 employees) and 16.1% (with 11 to 50 employees), respectively. On the contrary, small businesses often reported a poor economic situation. For example, firms with 1 to 10 employees stated their bad economic situation

in 7.5% of cases, firms with 11 to 50 employees – in 2.6% of cases, while companies with a greater number of employees did not report that at all.
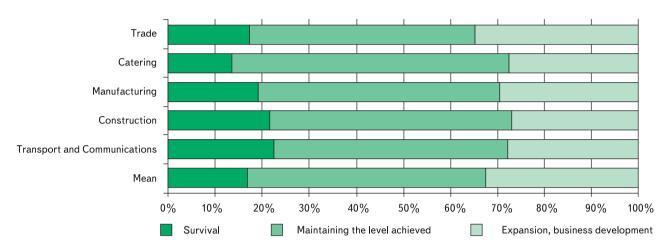
We also revealed a relationship between the economic situation of the enterprise and the year of its foundation (Figure 2.4). "Older" SMEs, founded in 1990s, often reported their good economic situation than otherwise. For example, the companies founded before 1996 described their situation as good or above average in 29.3% of cases (with the average of 21%), and as bad – in 2.4% of cases (with the average of 4.2%). For comparison, relatively "young" SMEs founded in the 2010s noted their poor economic situation in 5.8% of cases, while

Table 2.12. Priority goals for Belarusian SMEs
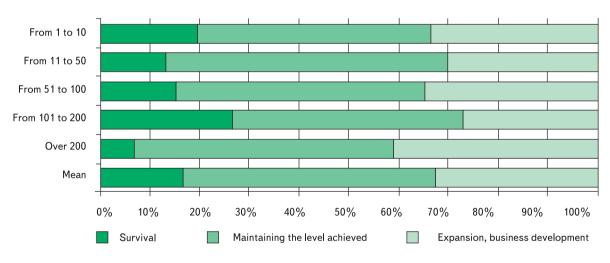
	Number	%
Expansion, business development	139	32.3
Maintaining the level achieved	219	50.8
Survival	73	16.9
Total	431	100.0

Source: IPM Research Center.

Figure 2.7. Priority goals for Belarusian SMEs by the area of activities of the enterprise

Source: IPM Research Center.

Figure 2.8. Priority objectives for Belarusian SMEs by the size of the enterprise

Source: IPM Research Center.

17.5% of respondents viewed it as good (to this or that extent).

Since the economic situation of Belarusian SMEs remained generally stable in 2014 (this answer accounted for more than a half of the responses, while responses about improvements and worsening of the situation were given in equal proportions), it seems logical that there were no significant changes in the business environment in Belarus in the past year (Table 2.10). This is also confirmed by the survey, according to which no changes were reported by 50.6% of the respondents. 22.7% of respondents reported on their improvement to some extent, and worsening of the situation was reported by 26.6% of respondents.

Nevertheless, despite the fact that the business environment was subjected to significant unilateral change and the economic situation more or less stabilized compared to previous years, the Belarusian small and medium business again stated the increasing competition in the domestic market (Table 2.11). This was reported by 57.8% of respondents, while 38.5% of respondents still believed that the competition remained unchanged, and only 3.7% of respondents said that it weakened.

SMEs working in catering and transport and communications were more likely to report increased competition (Figure 2.5). They totaled 72.7% and 65%, respectively, with an average value of 57.8%. Increased competition was reported less often by those firms who work in manufacturing and construction – by 51.5% and 45% of respondents, respectively.

The larger the company was, the less likely its managers would state increasing competition (Figure 2.6). For example, the largest SMEs (with more than 200 employees) mentioned that only in 22.2% of cases, while the smallest SMEs (from 1 to 10 employees) – in 64.9% of cases. We can also note that larger SMEs were more likely to report decreasing competition. For instance, companies with 101 to 200 employees stated this in 7.7% of cases (with an average of 3.7%).

Any changes in the business environment, as well as increased competition, could not affect the attitude of Belarusian SMEs towards their future activities. More than half of respondents believe their main task is to maintain the achieved level, about one-third of SMEs are ready to focus on business expansion and development in the coming years, while 16.9% of SMEs are in a difficult situation and are talking about survival (Table 2.12).

In general, such a distribution of priority tasks (about a half of SMEs focus on maintaining the achieved level, and about one-third – on business expansion and development) was typical for all small and medium-sized enterprises regardless of their field of activity (Figure 2.7). As for the size of SMEs, it may be noted here that the most negative perceptions of their positions were given by representatives of companies with 1 to 10 and 101 to 200 employees, stating the need of survival in 19.7% and 26.9% of cases, respectively, with an average of 16.9% (Figure 2.8). The largest firms (with over 200 employees) were least likely to state the relevance of the goal of survival for themselves (7.4%) but

the need of expansion and business development (40.7%, with an average of 32.3%).

In summary, we can draw the following conclusions. On the one hand, Belarusian small and medium businesses became a little more positive about their economic situation and prospects of development in 2014 compared to previous years. On the other hand, these positive developments were not common for SMEs. For instance, larger SMEs, as well as "older" firms and those who conduct their activities in the field of construction, viewed their situation as relatively stable, while younger and smaller enterprises, on the contrary, experienced some difficulties, which, obviously, would hinder their growth and development in the short term.

Therefore, the main resource to strengthen the role of SMEs in the Belarusian economy today is the qualitative growth of larger SMEs and quantitative growth of smaller SMEs. The disadvantage of this situation is that both of these sources have their own limits. Large SMEs currently report much lower growth of competition, while they are not much more likely to state their readiness for expansion and business development as other SMEs. Small SMEs, in their turn, are unable to provide for their long-term growth, which, due to their number, has a negative impact on the attractiveness of private initiative as such.

To overcome this situation, the government should focus on the problems that the domestic small and medium businesses – both large and well-established SMEs and smaller and younger companies on the Belarusian market – are currently faced with.

2.3. Factors affecting the economic situation of Belarusian SMEs

Factors affecting the economic situation of Belarusian SMEs can be divided into external and internal.

External factors are the conditions of the regional environment, which, as already noted, underwent some slight changes last year. However, even despite these minor changes, it can still preserve some negative factors for businesses.

Internal factors, as opposed to external, characterize the enterprise itself, and they may be changed by the firm's management. Based on these factors, we can find out which strengths of Belarusian enterprises help small and medium-sized enterprises grow, and whether they can be further supported by the government, i. e., externally.

2.3.1. External factors

Given the state of the Belarusian economy recovering from the crisis in 2011 in recent years, it is possible to identify the following environmental factors that have a negative impact on the Belarusian business.

Primarily, they include the decrease in purchasing power of the population (Table 13, Figure 9), which affected domestic SMEs most over the past four years. And though the "topicality" of this factor somewhat decreased in 2012–2014, it still pointed out by more than a half of the respondents in 2014.

Despite the gradual improvement of the situation, delays (failure to pay) in the payment for the delivered products (a high level of receivables) remain one of the top problems. In 2014, 32% of SMEs reported this as a problem for their companies (Table 2.13).

The same number (32%) of SMEs expressed their negative reaction to the restrictions on the foreign exchange market, and this figure exceeded the figure of 2013 by three times. We can be assume that with the gradual improvement of the economic situation and recovery of the purchasing power of the population Belarusian SMEs will increasingly shift from the idea of the need to survive to the development of their
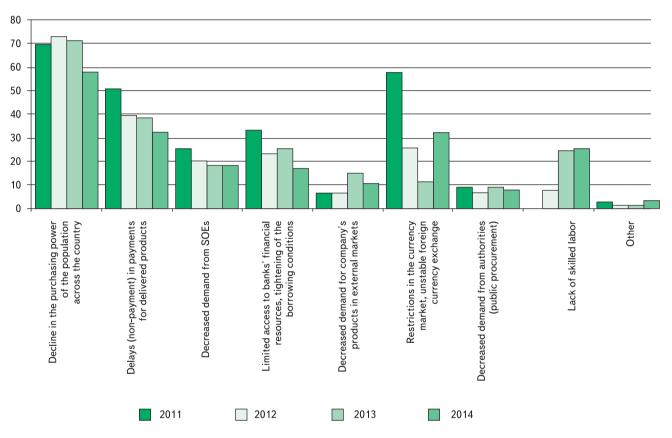
Table 2.13. Sensitivity of SMEs in Belarus to negative external changes

	Number	Frequency
Decline in the purchasing power of the population across the country	246	57.5
Delays (non-payments) in payments for delivered products (high receivables)	137	32.0
Decreased demand from SOEs	77	18.0
Limited access to banks' financial resources; tightening of the borrowing conditions	72	16.8
Decreased demand for company's products in external markets	45	10.5
Restrictions in the currency market; unstable foreign currency exchange	137	32.0
Decreased demand from authorities (public procurement)	34	7.9
Lack of skilled labor	108	25.2
Other	13	3.0
Total	428	100.0

Note: Several options may be chosen.

Source: IPM Research Center.

Figure 2.9. Sensitivity of SMEs in Belarus to negative external changes in 2011–2014

Source: IPM Research Center.

business (which was previously evidenced by the survey results). Therefore, the issue of access to foreign currency (obviously due to the lack of sufficient currency in the country) became more urgent for them.

Attracting skilled labor is becoming increasingly important for Belarusian SMEs. In 2013–2014, about a quarter of businesses stated it as a significant problem, although in 2012 the figure was below 10%. This trend may be explained by reduced qual-

ity of education in the country, and migration of skilled workers abroad, to whom Belarusian small and medium-sized firms, just like those within the Customs Union, cannot offer a competitive pay as compared to most European countries.
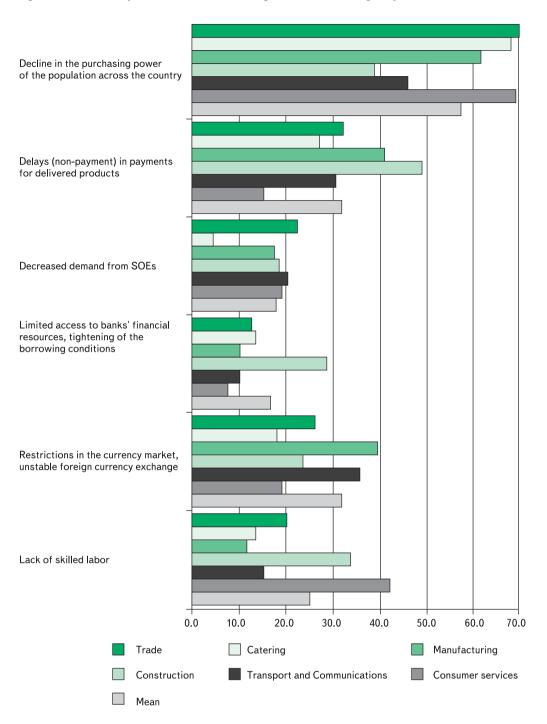
Other relatively tangible problems for domestic SMEs in 2014 included the following: reduced demand from the state-owned enterprises (18%), restricted access to the financial resources of banks, tightened conditions for borrowing (16.8%),

and reduced demand for the company's products on foreign markets (10.5%).

Nevertheless, despite the continuing negative impact of the economic environment on doing business in Belarus, it is important to note that it has been progressively reducing in recent years (Figure 2.9). In particular, this positive trend was observed in five of the eight indicators, and the other two show an extremely small deterioration within statistical error.

Figure 2.10. Sensitivity of SMES in Belarus to negative external changes by area of activities

Source: IPM Research Center.

The decrease in the purchasing power of the population hit hardest the companies operating in the areas of trade, catering and consumer services (Figure 2.10). The negative impact of this problem as stated in these areas was 69.9%, 68.2% and 69.2%, respectively (with an average of 57.5%). Least sensitive to this problem turned out to be enterprises in the field of construction (39%) and transport and communications (46.2%).

The study of the impact of delays (failure to pay) in the payment for delivered products on the economic activities of Belarusian SMEs revealed an inverse relationship. Most sensitive to this issue were construction companies (41.2%, with an average of 32%) and manufacturing (49.2), while businesses in catering (27.3) and consumer services (15.4), by contrast, were less affected by them.

The negative impact of lower demand of state-owned enterprises, as well as restrictions on access to bank financing (tightened conditions

Table 2.14. Sensitivity of SMEs in Belarus to negative external changes by type of activities

	Number	Frequency, %
Trade	245	184.2
Catering	32	145.5
Manufacturing	124	182.4
Construction	114	193.2
Transport and communications	62	159.0
Consumer services	45	173.1
Mean for six areas		179.3

Source: IPM Research Center.

Table 2.15. Assessment of Belarusian SMEs of the impact of external factors on doing business

	−3	−2	−1	0	1	2	3	Total	Mean
Level of competition in the market	18.5	15.9	20.8	19.6	13.1	7.2	4.9	100.0	−0.66
Business conditions compared to the public sector	6.7	10.9	19.5	46	10.7	4.4	1.6	100.0	−0.37
Bureaucratic procedures (registration, permits, licenses, documentation procedure and so on)	13.5	12.8	26.0	31.2	9.5	5.1	1.9	100.0	−0.67
Level of property rights and private business interests protection	6.5	9.8	18.5	42.5	11.9	7.2	3.5	100.0	−0.21
Corruption level	10.5	10.5	23.4	42.5	7.5	2.6	3	100.0	−0.54
Foreign exchange regulation	13.3	10.4	23.5	37.2	10.9	2.6	2.1	100.0	−0.62
Tax regulation and tax rates	9.9	10.8	28.4	36.6	8.2	3.5	2.6	100.0	−0.57
System of inspections and penalties	16.5	15.8	28.2	27.5	5.2	5.2	1.6	100.0	−0.89
Rates on banks' and other financial institutions' loans	10.6	15	31.5	29.8	6.6	5.4	1.2	100.0	−0.72
Economic policy of other countries	12.3	14.2	21.7	39.2	6.1	4.7	1.7	100.0	−0.66
Rental rates	6.8	7.3	13.4	59.7	7.5	4.2	0.9	100.0	−0.30

Note: "−3" – hinders a lot, "0" – is not important, "3" – is very helpful.

Source: IPM Research Center.

for borrowing), on Belarusian SMEs were generally the same, regardless of the area of activities. We can only note that the least sensitive to a decrease in demand of state-owned enterprises were enterprises in catering (4.5%, with an average of 18%), while the most sensitive to the restricted access to financial resources were small and medium-sized construction companies (28.8%, with an average of 16.8%).

Restrictions on the foreign exchange market and exchange rate volatility mostly affected SMEs from manufacturing, transport and communications. This was stated by respectively 39.7% and 35.9% of the representatives of businesses operating in these areas (with an average of 32%). Other small and medium-sized companies, by contrast, rarely mentioned negative effects caused by this issue. SMEs representing catering reported that in 18.2% of cases, consumer services – in 19.2%, construction – in 23.7%, and trade – in 26.3% of cases.

Shortages of skilled labor observed in 2014 affected more SMEs representing the construction sector

(33.9%, with an average of 25.2%) and consumer services (42.3%). In the first case, it reflected the continued trends of recent years, when skilled construction personnel preferred to work (primarily) in Russia offering incomparably higher wages. In the second case, we can assume that public services require technological skills. These specialists have been relatively low paid in the Belarusian market in recent years and, therefore, there is a low demand for technological education among the population. For comparison, firms from manufacturing, catering, transport and communications and trade were less likely to choose this option of the response – in 11.8%, 13.6%, 15.4% and 20.3% of cases, respectively.

Overall, enterprises in the construction industry were more likely to mention the exposure to negative conditions of the external economic environment (Table 2.14). Companies in catering and transport and communications turned out to be least sensitive to all these problems.

In addition to purely economic factors, Belarusian SMEs experienced

a negative impact of other conditions of doing business as presented in Table 2.15. The most negative impact was noted in the case of rental rates (with the average value of the impact of -0.89). Then, they were followed by a system of inspections and penalties (–0.72), bureaucratic procedures (–0.67), the level of competition (–0.66), and the rates on borrowed funds from banks and other financial institutions (–0.66). A slightly better situation was observed in relation to business conditions compared with the public sector (–0.37), the impact of economic policies of other countries (–0.3), and protection of property rights and interests of private business (–0.21). Overall, however, it must be noted that the impact of each of these external factors on Belarusian SMEs in 2014 was negative.

Overall, the most negative external factors from the list remained unchanged over the past three years. Rental rates represented the biggest obstacle for Belarusian SMEs (Table 2.16), followed by the system of inspections and penalties, which came second in 2014.

Table 2.16. Ranking of external factors with the most negative impact on doing business in 2012–2014

	2012	2013	2014
Rental rates	1	1	1
System of inspections and penalties	3	3	2
Bureaucratic procedures (registration, permits, licenses, documentation procedure and so on)	–	–	3
Level of competition in the market	4–5	4	4
Rates on banks' and other financial institutions' loans	2	5	5
Foreign exchange regulation	4–5	2	6

Source: IPM Research Center.
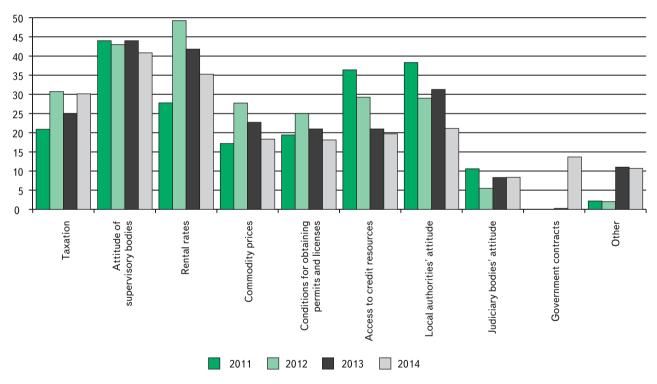
Table 2.17. Views of Belarusian SMES on unequal conditions for doing business compared to the public sector

	Number	%
Taxation	130	30.2
Attitude of supervisory bodies	176	40.8
Rental rates	152	35.3
Commodity prices	79	18.3
Conditions for obtaining permits and licenses	78	18.1
Access to credit resources	85	19.7
Local authorities' attitude	91	21.1
Judiciary bodies' attitude	36	8.4
Government contracts	59	13.7
Other	46	10.7
Total	431	100.0

Note: Several options may be chosen.

Source: IPM Research Center.

Figure 2.11. Views of Belarusian SMEs on unequal conditions for doing business compared to the public sector in 2011–2014

Source: IPM Research Center.

Other significant obstacles for the development of domestic small and medium-sized businesses included the level of competition in the market, the rate on borrowings, foreign exchange regulation and bureaucratic procedures to which Belarusian SMEs gave the second place immediately after they were included into the response options in 2014.
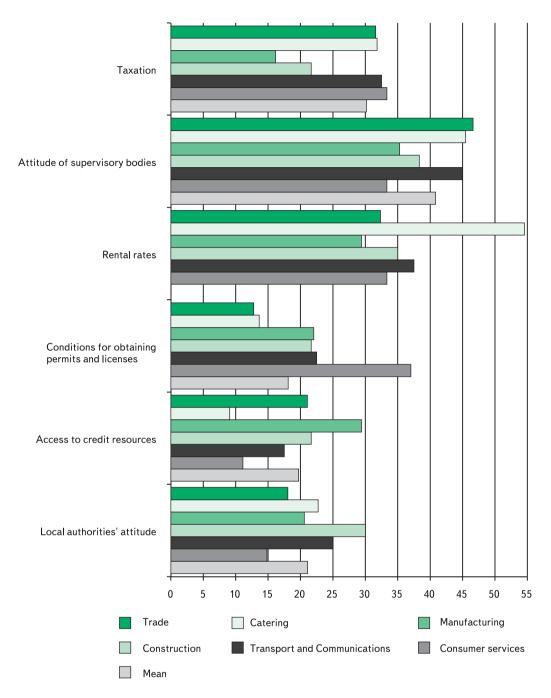
Among external non-economic factors we should pay particular attention to the business environment of Belarusian SMEs in comparison with the public sector. On the one hand, a number of measures taken in recent years made this problem less serious amidst other problems, as perceived by SMEs. However, on the other hand, SMEs still quite often state that inequality takes place (Table 2.17). For example, inequality in comparison with the public sector in the attitude of supervisory government agencies was noted by 40.8% of

Figure 2.12. Views of Belarusian SMEs on unequal conditions for doing business compared with the public sector by type of areas of activity

Source: IPM Research Center.

SMEs. A high level of inequality was also noted in such areas as rental rates (35.3%) and taxes (30.2%); in the attitude of local authorities (21.1%), access to credit resources (19.7%), commodity prices (18.3%) and the conditions for obtaining permits or licenses (18.1%).

The level of inequality in doing business by Belarusian SMEs in

comparison with the public sector in most cases decreased over the past four years (Figure 2.11). A similar positive trend was observed in the areas such as rental rates (which was one of the main problems for domestic small and medium-sized enterprises in 2012), the attitude of local authorities, and access to credit resources, commodity prices, and conditions for obtaining permits or

licenses. Some less positive trends were observed in relation to the attitude of supervisory bodies that was more often pointed by Belarusian SMEs as unequal in 2014. However, the field of taxation in 2011–2014, on the contrary, showed a negative tendency.

A relatively high level of inequality in taxation were noted by almost all

Table 2.18. Assessment of Belarusian SMEs of obstacles associated with tax laws

	1	2	3	4	5	Total	Mean
Number of taxes and duties	16.2	17.1	37.7	20.4	8.7	100.0	2.883
Total amount of taxes (tax burden)	11.3	17.8	34.3	25.1	11.5	100.0	3.077
Frequency of changes in the tax legislation	14.7	19.7	35.8	19.9	10.0	100.0	2.908
Regularity of filing of returns and taxes and duties payments	27.1	20.2	33.6	14.1	4.9	100.0	2.496
Time and efforts spent on tax calculations	24.0	19.8	31.3	17.4	7.5	100.0	2.647
Open access to tax information	32.5	18.1	31.3	12.9	5.2	100.0	2.402

Note: The assessment of the significance of the problem on a scale of 1 to 5, where "1" – it is nto a problem, and "5" – it is a very serious problem.

Source: IPM Research Center.

Table 2.19. Assessment of Belarusian SMEs of obstacles associated with inspections and penalties

	1	2	3	4	5	Total	Mean
Penalties amount	11.4	19.8	33.6	22.4	12.8	100.0	3.054
Adequacy of punishment to the offence	12.1	20.3	34.5	22.8	10.3	100.0	2.988
Number of inspections	21.1	21.8	31.9	17.6	7.5	100.0	2.685
Availability of information on rules and regulations	27.3	20.3	36.7	10.3	5.4	100.0	2.460
Time required for assistance during inspections	17.8	15.9	32.8	24.4	9.1	100.0	2.911

Source: IPM Research Center.

SMEs, except enterprises in manufacturing and construction, where this level was slightly lower – 16.2% and 21.7%, respectively, with an average of 30.2% (Figure 2.12). A similar view of the respondents was observed regarding inequality in the attitude of supervisory bodies. For rental rates, the highest level of inequality was observed by representatives of catering – in 54.5% of cases, with an average of 35.3%. For obtaining permits and licenses, the highest level of inequality in comparison with the public sector was noted by SMEs working in the field of consumer services – in 37% of cases (with an average of 18.1%). Unequal access to credit resources was more often observed by businesses in manufacturing (29.4%, with an average of 19.7%), and less often by businesses in catering (9.1%) and consumer services (11.1).

The biggest obstacle seen by Belarusian small and medium-sized enterprises in the field of taxation is the tax burden (total amount of taxes). Evaluation of this obstacle on a scale of 1 to 5 was 3.077 (Table 2.18). It was followed by the frequency of changes in the tax laws (2.908), the number of taxes and fees (2.883), the time and effort spent on tax calculation (2.647), the regularity of filing of returns and payment of taxes and fees (2.496). Open access to information about taxes was considered as least problematic by Belarusian SMEs (2.402).

As for the system of inspections and penalties, which was most often noted as an area of inequality of SMEs in comparison with the public sector in 2014, here the biggest problem was the level of penalties (Table 2.19). Its assessment by the Belarusian business was 3.054. A high level of "topicality" was also noted in the degree of adequacy of punishment to the offence (2.988) and time spent on assistance during inspections (2.911). Somewhat better, as in the case of taxation, was the situation in terms of availability of information on rules and regulations (2.460).

So, in general, the negative impact of external factors on the Belarusian SMEs slightly declined over the past year. However, there still remain very serious obstacles to the positive development of Belarusian businesses in the business environment – economic and administrative conditions of doing business. The main obstacles in the business conditions include a low purchasing power of the population, as well as various kinds of restrictions on the foreign exchange market and a difficult access to credit resources, which impede the activities of industrial enterprises. The major problematic factors reported in the administrative environment included supervisory authorities and the system of inspections and penalties, taxes and rental rates (where Belarusian SMEs often experienced unequal conditions in comparison with the public sector).

2.3.2. Internal factors

Unlike external factors, internal factors were mainly perceived by Belarusian entrepreneurs as favourable.
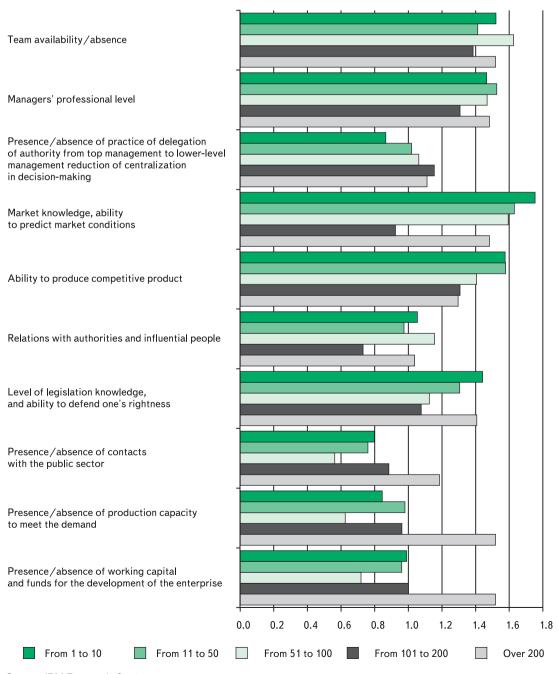
Market knowledge and the ability to anticipate market conditions was chosen as the most important positive factor in the growth and development of domestic SMEs (Table 2.20). On a seven-point scale (from –3 to 3 points), this factor was evaluated as 1.631 by Belarusian businesses. Somewhat less significant, but also very beneficial for business activities were the following: the ability to produce competitive products (1.534), the team (1.472), the managers' professional level (1.470), and level of legislation knowledge, and ability to defend one's rightness (1.343). The least important factor, according to Belarusian SMEs, is contacts with the public sector (0.788).

Table 2.20. Assessment of Belarusian SMEs of the impact of internal factors on doing business

	−3	−2	−1	0	1	2	3	Total	Mean
Team availability/absence	3.5	2.3	7.0	16.0	13.0	18.1	40.0	100.0	1.472
Managers' professional level	4.0	1.9	6.3	14.5	14.3	22.7	36.4	100.0	1.470
Presence/absence of practice of delegation of authority from top management to lower-level management; reduction of centralization in decision-making	3.3	2.1	7.0	29.7	19.2	17.6	21.1	100.0	0.965
Market knowledge, ability to predict market conditions	1.2	1.4	5.4	14.0	19.4	20.6	38.1	100.0	1.631
Ability to produce competitive product	1.2	0.9	5.9	21.9	13.9	17.9	38.4	100.0	1.534
Relations with authorities and influential people	0.9	1.6	6.5	33.6	22.0	13.8	21.5	100.0	1.014
Level of legislation knowledge, and ability to defend one's rightness	1.2	1.2	4.7	25.9	19.3	17.9	29.8	100.0	1.343
Presence / absence of contacts with the public sector	2.1	1.6	8.4	37.1	20.7	14.2	15.9	100.0	0.788
Presence / absence of production capacity to meet the demand	2.1	1.2	8.7	32.2	20.2	15.8	19.8	100.0	0.936
Presence / absence of working capital and funds for the development of the enterprise	5.1	5.1	8.6	20.7	15.4	17.5	27.5	100.0	0.986

Source: IPM Research Center.

Figure 2.13. Assessment of the Belarusian SMEs of the impact of internal factors on doing business depending on the size of the enterprise

Source: IPM Research Center.

The analysis of the impact of external factors on the activities of Belarusian SMEs revealed their correlation with the size of the enterprise (Figure 2.13). Smaller SMEs were more likely to report the importance of such factors as market knowledge and the ability to anticipate market conditions (1.754 for companies with staff from 1 to 10 people against 0.923 for companies with 100 to 200 employees); the ability to produce competitive products (1.575 for companies with 1 to 10 employees against 1,296 firms with over 200 employees). Larger SMEs more often stated the importance of the following factors: the existence of contacts with the public sector (1.185 for companies with over 200 employees against 0.798 for companies with 1 to 10 employees and 0.563 for companies with 50 to 100 employees); availability of production capacity to meet demand (1.519 in companies for companies with over 200 employees against 0.845 for companies with 1 to 10 employees and 0.625 for companies with 50 to 100 employees); availability of working capital and funds for the development of the enterprise (1.519 in companies with a staff of more than 200 people against 0.989 for companies with 1 to 10 employees and 0.719 for companies with 50 to 100 employees).

In general it can be concluded that in a volatile and difficult economic situation Belarusian SMEs are focused on the internal factors of development, in the first place, on the knowledge of the market, the ability to anticipate market conditions and the ability to produce competitive products. In contrast to external factors which impact was estimated by domestic SMEs on a seven-point scale as extremely negative, internal factors contributed to the growth of enterprises.

2.4. Main findings

The results of activities of Belarusian small and medium-sized enterprises in 2013 – 2014 were mixed. On the one hand, there was some improvement in the business environment. In general, the economic and administrative environment had a less negative impact on the development and growth of domestic SMEs. On the other hand, the impact remains to be quite serious and does not suggest long-term positive dynamics of the contribution of small and medium-sized businesses in the Belarusian economy, which has become the target of the Belarusian authorities in the recent years.

Measures aimed at improving the situation should be taken in two directions. The first one is to improve the economic situation. This would solve several significant problems, such as a low purchasing power of the population, access to credit, etc. It is understood that these problems cannot be solved overnight. However, the strategy of their progressive solutions, albeit a very long-term one, should be developed.

The second direction involves a number of administrative measures to reduce the burden on Belarusian SMEs. Most relevant issues today include taxation, rental rates, as well as the attitude of supervisory authorities. In theory, these issues may be addressed in the short term through the dialogue between business and government with a view to finding some "win-win" solutions. So far, however, there is an opposite tendency. In the first half of 2014, we got information about a possible increase in the tax burden, as well as the change (for the worse for SMEs) in the rules of charging and payment of taxes. This may significantly slow down the growth of the Belarusian business environment and the inflow of new entrepreneurs into it, as opposed to the plans of the Belarusian authorities.

To sum up, we should note that Belarusian SMEs mostly focus on internal resources in their development, seeing the external factors not so much as supporting but rather hindering their activities. In light of the positive changes that occurred over the past year, we can adopt a cautiously optimistic outlook over the potential of the Belarusian private sector. However, the pace of these changes is still lagging behind the announced growth forecasts of the contribution of SMEs to the Belarusian economy.

3. BELARUSIAN SMES ON THE WAY TO EURASIAN ECONOMIC UNION

In Astana, on May 29, 2014, Belarus, Kazakhstan and Russia signed an agreement on the formation in 2015 of the Eurasian Economic Union (EEU). This was the third step towards integration of the three countries in the past five years after the establishment of a single customs territory – the Customs Union (2010), and the Common Economic Area (CEA) (2012).

There are several reasons why Belarus should participate in the Eurasian integration. *Firstly*, it allows the country to have access to Russian resources at prices below the world prices. In this context, energy resources – oil and natural gas – are particularly important for the national economy. *Second*, the Eurasian associations provide access for Belarusian companies to the traditional[7] and more capacious Russian market, which has become increasingly closed for companies from other CIS countries in recent years. In addition, the EEU also includes Kazakhstan, and two other countries – Armenia and Kyrgyzstan – have declared their intention to join the Union by the end of 2014. *Finally*, the Eurasian integration allows Belarusian government to quite successfully request financial support from the Russian government and Russian banks.

However, the integration process creates not only new opportunities for Belarus but also some limitations. This integration involves a gradual convergence of the regulatory framework of the participating countries, which in some respects has already had a negative impact on the Belarusian companies. For example, the increased import duties on cars and new rules for certification provoked repeated protests of Belarusian entrepreneurs last year. The latter flared up again in June – July 2014 with entering into force of the Decree obliging entrepreneurs to have supporting documentation to sell products and providing for forfeiture of goods in the absence of these documents.

In general, it should be noted that up to the current moment the main beneficiary of integration of Belarus is not domestic small and medium business yet, but the public sector. State energy and resource-intensive enterprises had extensive competitive advantages and maintained a favorable business environment and a traditional market for finished products. This suggests that in the coming years Belarus will further develop its participation in the EEU, although it will continue to strongly discourage and delay the adjustment of the own regulatory and economic policy.

So, Belarus continues its integration processes, which, as shown by the results of surveys of SMEs in 2012–2013, creates certain challenges to domestic SMEs, who are still recovering from the financial crisis of 2011 and have no access to affordable finance to stimulate their own growth and development.[8] For example, the Treaty specifies creating a unified economic environment of the Eurasian integration, providing for free movement of goods, services, capital and labor in all sectors of the economy, by 2025. Creating a shared environment, as well as a gradual recovery of the Belarusian economy after the crisis of 2011 and the revival of domestic demand are expected to make the Belarusian domestic market more attractive, thus promoting competition of Belarusian enterprises with companies from other EEU countries.

To date, Belarusian SMEs have very limited opportunities to influence the process of change in the internal business environment and enhance their competitiveness. Business associations are not capable of this to the full extent either. As the Belarusian government emphasizes the need to more actively encourage the development of private initiative in the country, the survey of the opinions of the Belarusian business community – national small and medium-sized companies – about the process of Eurasian integration, the challenges it poses for the progressive growth of the domestic private producer, strengthening its position in the domestic market and the gradual expansion into new international markets, becomes more relevant. The obtained results will allow us to draw conclusion about the ability of modern Belarusian SMEs to adapt to the new economic realia of the Eurasian Economic Union.

This section, based on a number of economic indicators, assesses the current position of Belarus in the created EEU, and explores the views of representatives of Belarusian SMEs about the country's participation in the Eurasian integration and its

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[7] By the end of 2013, the trade between Belarus and Russia amounted to 49.5% of the total turnover, including 45.2% of Belarusian imports and 53.2% of exports. See http://www.belstat.gov.by/ofitsialnaya-statistika/otrasli-statistiki/torgovlya/vneshnyaya-torgovlya_2/osnovnye-pokazateli-za-period-s-__-po-____gody_10/osnovnye-pokazateli-vneshnei-torgovli/.

[8] Скриба А.С. *Белорусские МСП и евразийская интеграция* [Andrey Skriba, *Belarusian SMEs and Eurasian Integration*], IPM Research Center, Minsk 2013, [Electronic resource] Mode of access: www.research.by/webroot/delivery/files/pdp2013r05.pdf.

Table 3.1. Growth of gross domestic product of the Customs Union and the Common Economic Area in 2011–2013, %

	2011	2012	2013
Belarus	105.5	101.7	100.9
Kazakhstan	107.5	105.0	106.0
Russia	104.3	103.4	101.3
CU and CEA	104.6	103.5	101.7

Source: Eurasian Economic Commission[9].

impact on the domestic small and medium businesses.

3.1. Belarus in the Eurasian economic integration

The studies conducted in the early 2010s showed that, once the process of Eurasian economic integration was complete, Belarus would be the main beneficiary of the Eurasian Economic Union. Thus, according to the estimates, the cumulative effect of integration for the period of 2011 – 2030 for Belarus would be 14% of GDP, while for Kazakhstan – 3.5% of GDP, and for Russia – 2%.

However, while the growth rate of the Belarusian economy after the country's accession to the Eurasian integration cannot be described as leading in comparison with its partners in the Customs Union and the Common Economic Area. In particular, at the end of 2013, the GDP growth of Belarus was only 0.9%, which is less than in the previous two years (Table 3.1.). In contrast, the GDP growth rates for Russia and Kazakhstan – the partners of Belarus in the process of Eurasian integration – were above the growth rate in Belarus in the last two years and amounted to 101.3% and 106%, respectively, in 2013. It should be noted that the Belarusian GDP growth in 2013 (as in 2012) was lower than the average for the EEU[9].

By the end of 2013, Belarus was behind Russia and Kazakhstan by a number of other indicators. For example, there was recorded a de-

cline in manufacturing and agricultural production in Belarus by 4.8% and 4%, respectively, while they grew 0.3%/6.2% and 2.3%/11.6% in Russia and Kazakhstan (Table 3.2). In addition, inflation in Belarus exceeded that in Kazakhstan (by 11.7 percentage points) and Russia (10 points), as well as the average indicator for CU and EEU (9.6 percentage points).

Given the above, Belarus cannot fully exploit the potential benefits of participation in the Eurasian unions yet. The Belarusian economy, which is still dominated by the public sector and command-and-control methods, is experiencing internal imbalances, and the government of the country is forced to seek external support to stabilize the financial market.

In this context the Belarusian government in the early 2010s recognized the need to stimulate private business, to create favorable conditions for the development of small and medium-sized businesses in the country able to adapt to the new conditions of doing business more quickly and efficiently and to derive maximum benefit from the opportunities of the Eurasian integration. As a result, the Program of State Support for Small and Medium-Sized Enterprises for 2013–2015 set an ambitious goal for 2013 to increase the share of SMEs in the Belarusian economy up to 30% of GDP[10], and by 2020 – to 50% of GDP.[11]

However, nine months before the

first milestone (2015), the share was only 25% of GDP and its growth dynamics did not suggest reaching the targets set by the government by 2015 and 2020. The reason for this can be a series of in-country factors hindering quick and successful development of the Belarusian small and medium businesses.

Firstly, we can note the aforementioned price increases. For example, in 2013, prices for food in Belarus increased by 13.4% and for services – by 39.1%, which is significantly higher than the corresponding prices in other EEU countries (Table 3.3).

On the one hand, a high level of inflation, growing faster than the real income of the population, reduces the purchasing power of the population and leads to a low capacity of the Belarusian domestic market and its inability to absorb new products and services and, therefore, does not allow domestic businesses to take a "quick start" driven by the domestic demand. On the other hand, the level of inflation in Belarus leads to high interest rates on loans. For instance, in early 2013 the refinancing rate was set by the National Bank of the country at 30%. By mid-year, it was slightly decreased – down to 23.5%, maintaining this value until the end of 2013. In 2014, the refinancing rate continued to decline, but at a much slower pace, reaching 20.5% by the middle of July 2014. However, even this rate was significantly below the corresponding rates in Russia and Kazakhstan (Figure 3.1).

In light of the above, we can see that Belarusian SMEs currently have an extremely limited ability to attract external financing (loans), in contrast to Russian and Kazakh SMEs. This also raises the ques-

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[9] Hereinafter – analytic reviews of the Eurasian Economic Commission. See http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Pages/express.aspx.

[10] Resolution No. 1242 of the Council of Ministers of the Republic of Belarus of December 29, 2012, see http://pravo.by/main.aspx?guid=3871&p2=5/36745.

[11] See http://www.belta.by/ru/all_news/economics/Dolja-malogo-i-srednego-biznesa-v-VVP-Belarusi-k-2020-godu-dolzhna-sostavit-ne-menee-50_i_664062.html.

Table 3.2. Growth of main social and economic indicators of the Customs Union and the Common Economic Area in 2013, %

	Manufacturing	Agriculture	Capital investments	Consumer Price Index
Belarus	95.2	96.0	107.4	116.5
Kazakhstan	102.3	111.6	106.5	104.8
Russia	100.3	106.2	99.7	106.5
CU and CEA	100.2	106.0	100.6	106.9
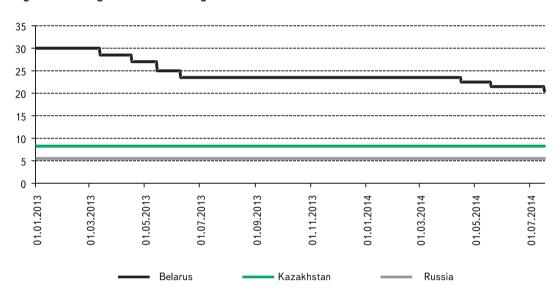
Source: Eurasian Economic Commission.

Table 3.3. Consumer price index for goods and services of the countries of the Customs Union and Common Economic Area in 2013, %

	Total	Food products	Non-food products	Services
Belarus	116.5	113.4	107.6	139.1
Kazakhstan	104.8	103.3	103.3	108.0
Russia	106.5	107.3	104.5	108.0
CU and CEA	106.9	107.2	104.6	109.7

Source: Eurasian Economic Commission.

Figure 3.1. Changes in the refinancing rate in the Customs Union and Common Economic Area in 2013–2014, %

Source: National (central) banks of Belarus, Kazakhstan and Russia.

tion about the attractiveness of Belarus as a place of business registration under the Eurasian integration and poses a threat that most promising companies would leave for Russia and Kazakhstan, or even to other countries once these enterprises focus on a non-Belarusian market.

The way out of this situation would be to actively promote foreign investment, including by small and medium-sized businesses. Indeed, there are prerequisites for this in Belarus, and the main premise of this is that by investing in Belarus the company gets access not only to a relatively small Belarusian market, but also to the vast EEU market with

no barriers to movement of goods, services, labor and capital.

However, this raises the question of the relative attractiveness of Belarus. On the one hand, though Belarus is slightly behind Kazakhstan by business conditions, as estimated by the World Bank (63rd position against 50th, respectively), it is ahead neighboring Russia (92nd position) – the most capacious market of the Eurasian integration – by the same indicator.[12] Moreover, Belarus was among the leaders in the *Doing Business* rating by the indicators such as starting a business,

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[12] See http://russian.doingbusiness.org/rankings.

registering property and dealing with construction permits. The strengths of Belarus may also include a high quality and level of education of the workforce.

On the other hand, Belarus is hardly an attractive place for investment, compared with neighboring Russia, by the number of other criteria that are also important for foreign investors. First, we can note the crisis of the political dialogue between Belarus and the EU and the US governments preventing, at the least, the inflow of high-tech investment in Belarus, with the sanctions policy hampering the activities of the Belarusian government aimed at attracting foreign investors. Second, Belarusian

Table 3.4. Assessment of effects of Belarus' participation in the Customs Union and Common Economic Area

	Number	%
Positive	193	44.8
No effect	180	41.8
Negative	58	13.5
Total	431	100.0

Source: IPM Research Center.

Table 3.5. Assessment of potential effects of Belarus' participation in Eurasian integration

	Number	%
Positive	190	44.1
No effect	173	40.1
Negative	63	14.6
Total	431	100.0

Source: IPM Research Center.

businesses have a tax burden that is generally higher (except for certain cases of preferential taxation for SMEs) than in Russia and Kazakhstan. Third, despite the highly skilled workforce available in the country, we have to note its outflow in recent years, including to the countries of the Customs Union, due to low wages as compared to other countries. For example, based on the official exchange rates set by the national (central) banks of the CU and EEU, the average monthly salary in USD in December 2013 amounted to USD 621 in Belarus, USD 890 – in Kazakhstan, and USD 1,197 – in Russia. Finally, foreign investors tend to come to large economic integrations, thereby insuring themselves against a possible collapse of the economic integration and the loss of demand.

Thus, this suggests that Belarus cannot untap its full potential in the Eurasian integration process due to the lack of internal resources (or their inefficient use) and limited ability to attract external resources (objective lack of investment and subjective refusal of the country to privatize large state-owned enterprises). In this regard, the prospect of Belarus' participation in the Eurasian Economic Union is becoming increasingly dependent on small and medium-sized businesses, or rather, how effective SMEs would be in the single EEU market of three (or more) countries. This raises the questions

of how the representatives of Belarusian SMEs evaluate the results and prospects of Belarus' participation in the Eurasian integration, which markets are of the highest priority for them, which features domestic entrepreneurs see in the EEU for themselves and how competitive they are compared with companies from Russia and Kazakhstan.

3.2. Attitude of Belarusian SMEs to Eurasian integration

Most of the surveyed representatives of the Belarusian small and medium-sized businesses welcomed the participation of Belarus in the Eurasian economic integration with Russia and Kazakhstan. This was stated by 44.8% of respondents, 41.8% of respondents still believed that Belarus was not affected by the integration, while the negative impact was reported by 13.5% respondents (Table 3.4).

The responses about the prospects for further participation of Belarus in the development of the Eurasian Economic Union had a similar distribution: positive effects of the process for Belarus were noted by 44.8% of respondents, while negative effects – by 14.6% (Table 3.5). In general, over the past three years, the positive view of Belarusian SMEs regarding the Eurasian integration somewhat decreased (Figure

3.2). Nevertheless, the share of "pro-integration" respondents is still significantly higher than the share of skeptics, whose number remained in the range of 14 – 24% over the last three years.

Most often the positive effects of the Eurasian integration of Belarus were stated by representatives of small and medium-sized enterprises working in catering and manufacturing – 50% and 54.4%, respectively (with an average of 44.8). At the same time, enterprises working in catering often noted negative results of the Belarusian participation in the Customs Union and the EEA – 18.2% of respondents (with an average of 13.5%). More negative assessments were given only by enterprises in the sphere of transport and communications – 22.5% of negative responses against 42.5% of positive ones (Figure 3.3).

A positive impact of the Eurasian integration on the development of the Belarusian economy was more likely to be stated by medium-sized and large SMEs, employing more than 50 people (Figure 3.4). For example, the results of the integration were viewed as positive by 65.6% (with the average of 44.8%) of companies employing from 51 to 100 people, by 53.8% of companies with 101 to 200 employees, and 55.6% of companies with over 200 employees, while only 37.2% of companies among companies with 1 to 10 employees, and 45.5% of companies with 11 to 50 employees stated that. However, this cautious optimism of smaller SMEs did not imply the growth of negative estimates and was balanced by the opinion that the CU and EEU had no impact on the Belarusian economy.

It is noteworthy that medium-sized SMEs employing between 101 and 200 people often spoke negatively about the effects of the Eurasian integration for Belarus (in 26.9% of cases; with an average of 13.5%). It might be due to the reason that the smallest businesses have not yet felt the increased competition

Figure 3.2. Comparison of assessments of participation of Belarus in Eurasian integration in 2012–2014, %

Legend: ■ Positively ■ No effect ■ Negatively ■ N/A

Source: IPM Research Center.
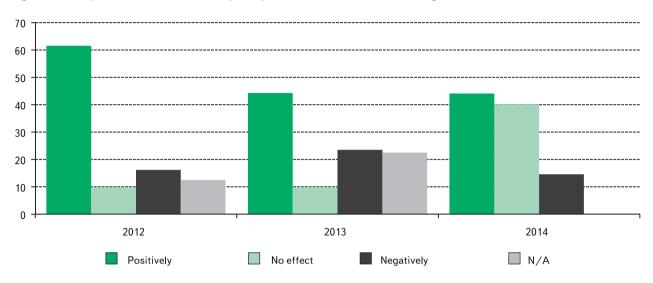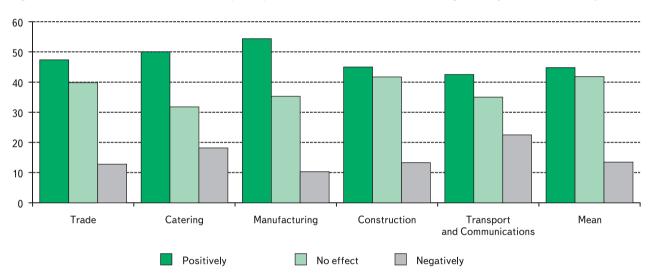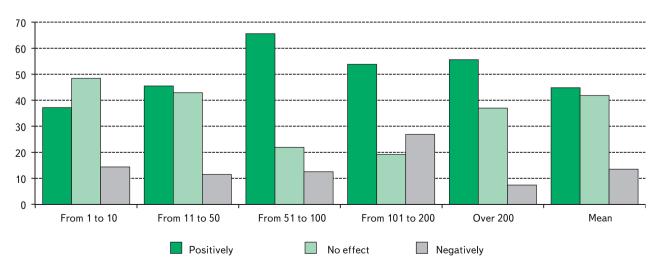
Figure 3.3. Assessment of the outcomes of participation of Belarus in the Eurasian integration by the area of activity, %

Legend: ■ Positively ■ No effect ■ Negatively
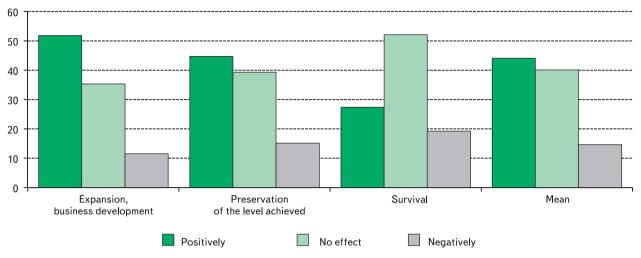
Source: IPM Research Center.

Figure 3.4. Assessment of the outcomes of participation of Belarus in the Eurasian integration by the size of the enterprise, %

Legend: ■ Positively ■ No effect ■ Negatively

Source: IPM Research Center.

Figure 3.5. Assessments of prospects of participation of Belarus in the Eurasian integration depending on the goals set by the enterprise, %

Source: IPM Research Center.

to the full with Russian and Kazakh companies because of the low interest of the latter in the Belarusian market, while the largest Belarusian SMEs, despite the challenge these companies posed, were ready for this competition.

The analysis of assessments of the prospects of Belarus' participation in the Eurasian Economic Union revealed their steady correlation with the goals set by the Belarusian small and medium businesses. For instance, SMEs, who plan to expand and develop their own business in the coming years, see advantages in the Eurasian integration for Belarus in 51.8% of cases (with an average of 44.1%); for SMEs, aimed at maintaining the achieved level, in 44.7% of cases; and, finally, SMEs, whose main goal today is to survive, reported about that only in 27.4% of cases (Figure 3.5). A similar pattern observed in the analysis of negative assessments of the Eurasian integration given by Belarusian businesses.

In general it can be concluded that the Belarusian small and medium-sized enterprises have become less positive about the outcomes and prospects of Belarus' participation in the Eurasian groups in recent years, although the number of positive assessments is still quite high.

However, a decrease in positive responses did not lead to an increase in negative attitudes of domestic SMEs toward the Eurasian integration as chosen by the Belarusian government. In other words, small and medium businesses in Belarus see fewer (though still a lot) prospects for working in the new economy, but have not yet noted the growing challenges for their activities within the developed EEU.

3.3. Priority markets of Belarusian SMEs

One of the reasons for the low level of negative assessments of the effects of the Eurasian integration for Belarus, given by domestic SMEs, lies in the fact that companies still focus on the domestic market, yet still unattractive for companies from Russia, Kazakhstan and other countries with more competitive producers. The results of the survey showed that the average score of the importance of the domestic market of Belarus for national small and medium-sized enterprises amounted to 4.39, while the importance of markets of Russia and Kazakhstan – 2.643 and other CIS countries (except Ukraine) – 2.012 (Table 3.6). For comparison, the importance of other markets for domestic SMEs

in 2014 was much lower than the Belarusian market – less than 2 points: Ukrainian market – 1.991, the market of the neighbouring EU countries – 1.916, and other EU countries – 1.794. The distribution of responses for each of the markets is shown in Figure 3.6.

The domestic market in Belarus in 2014 was equally important for all SMEs, regardless of their form of ownership (Figure 3.7). The enterprises in construction and trade were more likely to state its importance (by a small margin), while enterprises in transport and communications – less. The markets of Russia and Kazakhstan were considered as more important by the SMEs operating in manufacturing (3.25, with an average of 2.643). Markets of Poland, Lithuania and Latvia, as well as markets of other EU countries, were considered most important by representatives of the transport and communications sector (levels of importance are 2.475 and 2.35, respectively, with an average of 1.916 and 1.794).

There is a definite relationship between the importance of individual markets for Belarusian SMEs and the size of these enterprises. While the domestic market of Belarus, in general, is equally important for all SMEs, the markets of Russia and
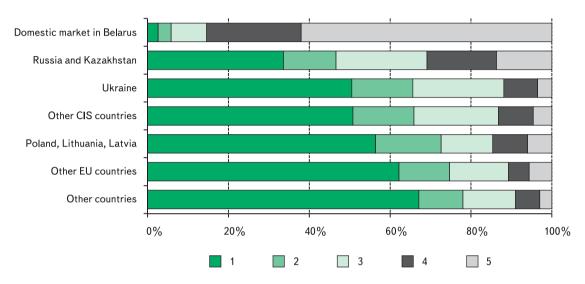
Table 3.6. Importance of markets for SMEs in Belarus, %

Which markets are most important for your company?	1	2	3	4	5	Total	Average score
Domestic market in Belarus	2.6	3.2	8.8	23.4	61.9	100.0	4.390
Russia and Kazakhstan	33.6	13.0	22.5	17.2	13.7	100.0	2.643
Ukraine	50.6	15.1	22.5	8.4	3.5	100.0	1.991
Other CIS countries	50.8	15.1	20.9	8.6	4.6	100.0	2.012
Poland, Lithuania, Latvia	56.4	16.2	12.8	8.6	6.0	100.0	1.916
Other EU countries	62.2	12.5	14.6	5.1	5.6	100.0	1.794
Other countries	67.1	10.9	13	6.0	3.0	100.0	1.671

Note. "1" – "not important", "5" – "very important".

Source: IPM Research Center.
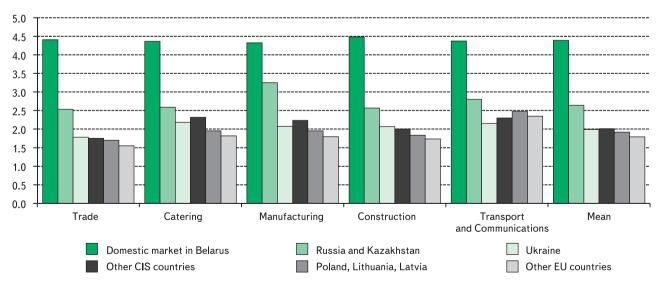
Figure 3.6. The importance of markets for Belarusian SMEs, %

Note. "1" – "not important", "5" – "very important".
Source: IPM Research Center.

Figure 3.7. The level of importance of markets for Belarusian SMEs depending on the area of activity of the enterprise
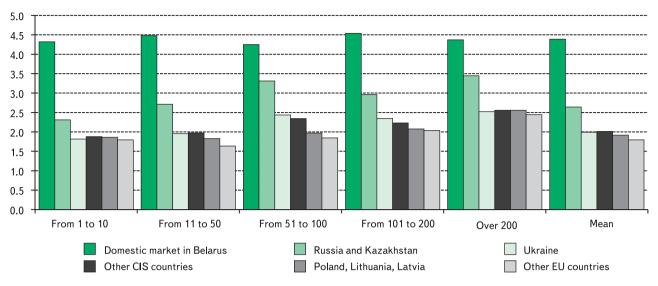
Note. "1" – "not important", "5" – "very important".
Source: IPM Research Center.

Kazakhstan, Ukraine and other CIS countries and the EU are of greater importance for larger companies (Figure 3.8). For example, the level of importance of the current market partners of Belarus in the Customs Union was 2.309 (with a mean of 2.643) for SMEs with up to 10 employees, while for companies with
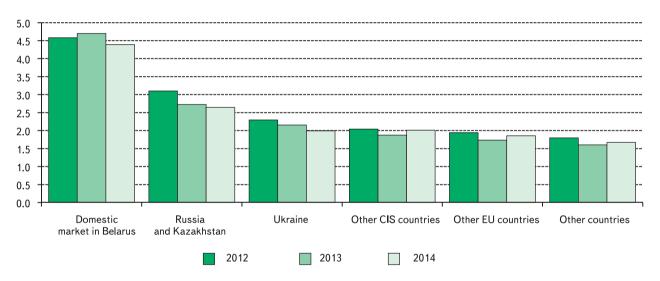
Figure 3.8. The level of importance of markets for Belarusian SMEs depending on the size of the enterprise

Note. "1" – "not important", "5" – "very important".
Source: IPM Research Center.

Figure 3.9. The level of importance of markets for Belarusian SMEs in 2012–2014

Note. "1" – "not important", "5" – "very important".
Source: IPM Research Center.

the number of employees from 100 to 200 and over 200 people – 2.962 and 3.444, respectively. Thus, the single market of the Customs Union is of minor importance for smaller SMEs compared with the internal market of Belarus, which explains their less positive perception of the Eurasian integration and more frequent responses about their lack of any effect on the economy of the country (Figure 3.4).

The importance of the internal market for SMEs remained high over the past three years (Figure 3.9). However, it is noteworthy that despite the participation of Belarus in the Customs Union and the Common Economic Area, the importance of the Russian and Kazakh markets for the Belarusian small and medium-sized businesses gradually decreased (from 3.103 in 2012 to 2,643 in 2014). Similarly, one can see the decrease in the importance of the Ukrainian market – from 2.294 in 2012 to 1.991 in 2014. However, in contrast to 2013, Belarusian SMEs

were more likely to talk about the importance of these markets in other CIS countries, the European Union, especially Poland, Lithuania and Latvia, the rank of which increased from 1.734 (the EU average) to 1.916, almost equaling the level of the market of Ukraine and other CIS countries in 2014.

The study of the dynamics of reduced importance of the Belarusian domestic market and the current market of the Customs Union and the Common Economic Area (Rus-

Figure 3.10. The change in the level of importance of markets for Belarusian SMEs in 2012–2014 depending on the area of activity of the enterprise

Legend: 2012, 2013, 2014

Source: IPM Research Center.
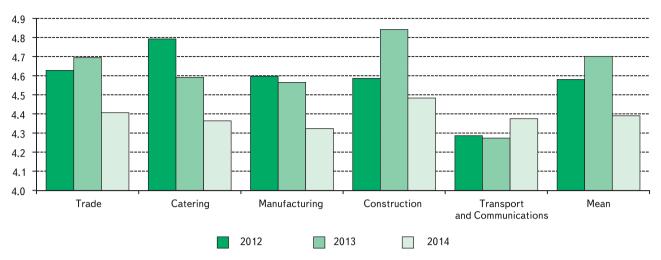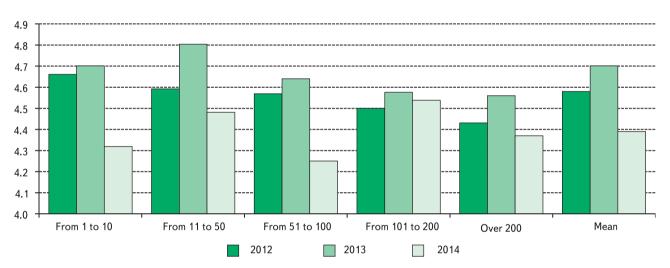
Figure 3.11. The change in the level of importance of the domestic market of Belarus in 2012–2014 depending on the size of the enterprise

Legend: 2012, 2013, 2014

Note. "1" – "not important", "5" – "very important".
Source: IPM Research Center.

sia and Kazakhstan) for SMEs in 2012–2014 depending on the area and size (number of employees) of companies revealed the following correlations.

SMEs in most areas of activity stated a slight decrease in the importance of the Belarusian market (Figure 3.10) in 2012–2014. To a lesser extent, this was the case in the construction industry, where the level of importance in 2014 almost matched the one of 2012. Transport and communications sector was the only sector where there was a slight increase in the importance of the
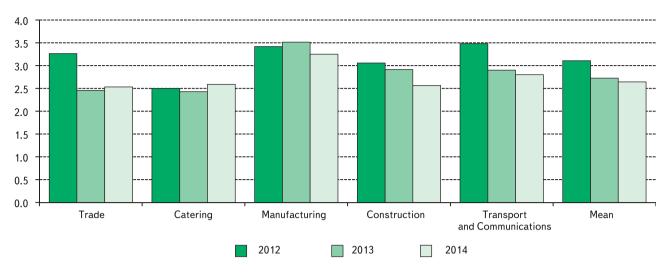
domestic market of Belarus (from 4.286 to 4.375) in three years.

The largest decline in the importance of the domestic market of Belarus was noted by relatively small SMEs with up to 100 employees (Figure 3.11). For example, for enterprises, employing from 1 to 10 people, the level of importance of the Belarusian market over the last year decreased from 4.701 to 4.319, while for companies with 101 to 200 employees – from 4.576 to 4.528. The decline in the importance of the Belarusian market in recent years suggests that domestic SMEs (especially the

smallest enterprises) find it more difficult to work and fulfill their potential in the domestic market. It is difficult to assess the influence on this by external factors only (Eurasian integration) as they were outweighed by internal factors such as credit conditions, limited market, inflation, etc. Nevertheless, we have to admit that this effect did occur in certain areas and business matters (such as certification of imported goods).

Markets of Russia and Kazakhstan – partners of Belarus in the Eurasian integration – became more popular in the areas of trade and catering
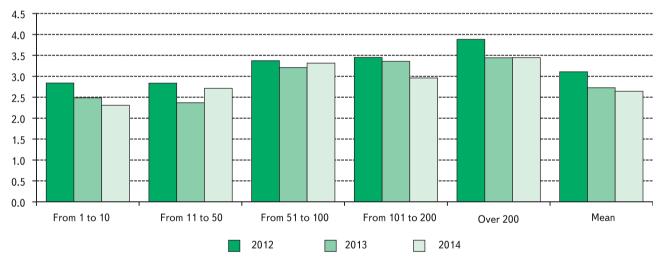
Figure 3.12. The change in the level of importance of Russian and Kazakh markets in 2012–2014 depending on the area of activity of SMEs

Note. "1" – "not important", "5" – "very important".
Source: IPM Research Center.

Figure 3.13. The change in the level of importance of Russian and Kazakh markets in 2012–2014 depending on the size of SMEs

Note. "1" – "not important", "5" – "very important".
Source: IPM Research Center.

over the past year (Figure 3.12). Despite the fact that, in general, respondents noted the decline of the importance of these markets in 2014, this decline was consistent only in the construction sector. The level of importance almost stabilized in the field of transport and communications in 2013–2014, and it reduced to the level close to the level of 2012 in manufacturing.

The analysis of this indicator by the size of enterprises did not reveal a stable correlation (Figure 3.13). For medium-sized SMEs (with 11 to 51 people) the level of importance of the markets of Russia and Kazakhstan over the past year increased and almost reached the level of 2012; for the largest SMEs, employing over 200 people, the importance of the Customs Union and the EEA market remained unchanged in 2014, after the decline in 2012–2013. For the smallest SMEs and enterprises with the number of employees from 101 to 200 people, the importance of this market consistently declined over the last three years.

In summary, we can say that the market of Belarus remains a top priority for local SMEs. Larger enterprises are trying to enter other markets, in particular, the markets of Russia and Kazakhstan, as well as nearby markets of Ukraine, Poland, Lithuania and Latvia. Nevertheless, a successful entry and consolidation in foreign markets is not always possible.

As long as the domestic market remains the main one for Belarusian SMEs and their presence in the
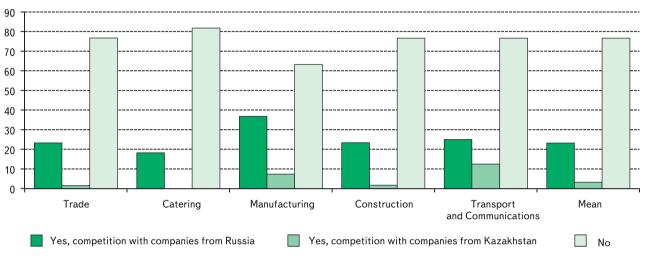
Table 3.7. Assessment of the change in competition on the domestic market of Belarus with companies from Kazakhstan and Russia in 2013–2014, %

Do you feel the growth of competition in your field?	2013	2014
Yes, competition with companies from Russia	18.8	23.2
Yes, competition with companies from Kazakhstan	2.7	3.2
No	78.5	76.6
Total	100.0	100.0

Note. Several options may be chosen.

Source: IPM Research Center.

Figure 3.14. The assessment of growth in competition with Russian and Kazakh companies depending on the area of activities

Source: IPM Research Center.

markets of members of EEU created in 2015 begins to increase, the domestic business community will have cautiously positive attitudes to the Eurasian economic integration, as it was in 2014. To enhance the positive perception, it is needed to intensify the expansion of Belarusian SMEs to the markets of Russia and Kazakhstan, as well as to the markets of other potential EEU members.

Nevertheless, the possibility of further recovery and growth of the Belarusian economy, and, hence, the domestic demand, can make the domestic market of Belarus more attractive for companies in Russia and Kazakhstan, which will create conditions for strengthening the internal competition of Belarusian SMEs with potentially more competitive foreign companies. In other words, if the current rather reserved "pro-integration" optimism of Belarusian small and medium-sized businesses can be attributed to their focus on the domestic market, the future evalua-

tion of the Eurasian integration project by SMEs will largely depend on their ability to compete with foreign enterprises.

3.4. Competitiveness of Belarusian SMEs on the eve of the EEU creation

The inability of Belarusian small and medium businesses to untap their potential in the more capacious Eurasian market and successfully protect their position in the domestic market resulted in some decrease in positive assessments of Eurasian integration for Belarus given by Belarusian SMEs in 2014. Their continuing low competitiveness in comparison with Russian and Kazakh companies contributes to that as well.

Belarusian SMEs reported some increase in competition with firms from Russia and Kazakhstan over the last year (Table 3.7). While the growth of competition with Russian

companies was stated by 18.8% of the respondents in 2013, this proportion rose to 23.2% in 2014.

More often the increase in competition was stated by the SMEs representing manufacturing (36.8% of cases – with Russian companies and 7.4% – with Kazakh companies). Enterprises operating in the field of transport and communications were more likely to state the increased competition with firms from Russia – 12.5% of respondents. The "safest" area for domestic SMEs was catering – the growth in the presence of competitive companies from the Customs Union and CEA was noted only by 18.2% of respondents (Figure 3.14).

Overall, increased competition with Russian and Kazakh firms was reported more frequently by larger SMEs. For example, while the number of enterprises, employing from 1 to 10 people and from 11 to 50 people, was 21.3% and 24.4%, respectively, the number of companies

Figure 3.15. Assessment of strengthening of competition with companies from Russia and Kazakhstan by the size of the enterprise

Source: IPM Research Center.
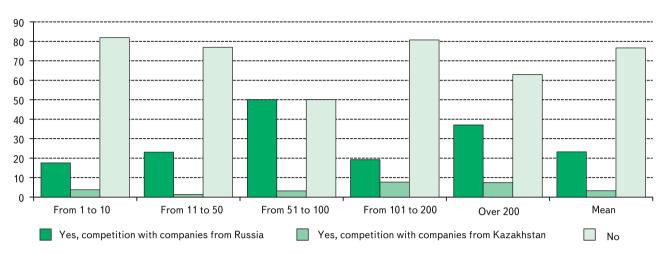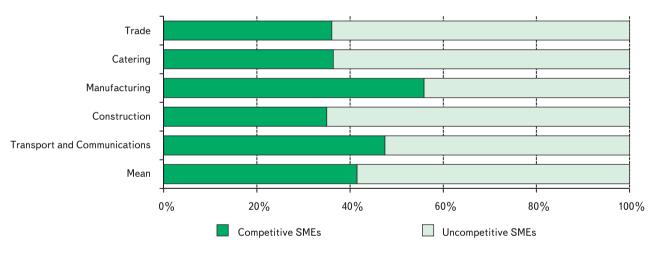
Table 3.8. Competitiveness of SMEs in the CU and CEA

Can your company effectively compete in the CU and CEA?	2012	2013	2014
Yes	39.0	37.7	41.5
No	43.5	46.0	58.5
NA/don't know	17.5	16.4	–
Total	100.0	100.0	100.0

Source: IPM Research Center.

Figure 3.16. Competitiveness of Belarusian SMEs in the market of the Customs Union and Common Economic Area depending on the type of activities of the enterprise

Source: IPM Research Center.

with 51 to 100 and over 200 people was 53.1% and 44.4%, respectively (Figure 3.15).

Increased competition with firms from Russia and Kazakhstan in the conditions of the Common Economic Area poses a threat to a number of Belarusian SMEs due to the fact that the latter often talk about their inability to compete effectively in the

single market of the Customs Union and the Common Economic Area (including the market of Belarus). In particular, 58.5% of SMEs stated in 2014 that they could not compete in the market of the Customs Union and CEA, although this figure was 46% a year earlier (Table 3.8). This growth can be attributed partly to the fact that in 2014 the respondents were offered the option of "N/A /

don't know". However, after this option was removed, its value for 2013 (16.4%) distributed as follows: 12.5 percentage points – in favor of uncompetitive firms and only 3.8% – in favor of competitive firms.

Belarusian SMEs working in manufacturing were more likely to report about their competitiveness in the market of the Customs Union and

Figure 3.17. Competitiveness of Belarusian SMEs in the market of the Customs Union and EEU depending on the size of the enterprise

Source: IPM Research Center.
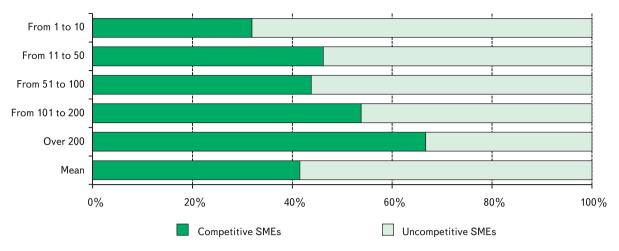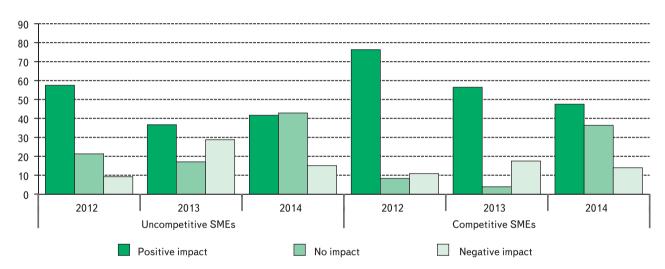
Figure 3.18. Assessment of prospects of further Eurasian integration of Belarus as viewed by SMEs depending on their competitiveness, %

Source: IPM Research Center.

CEA (55.9%, which is by 14.4 percentage points above the average) (Figure 3.16). This explains why companies in this sector are more likely to see the positive impact of the Eurasian integration on the Belarusian economy and the benefits for the country from the integration process (Figure 3). Companies in trade, catering and construction saw themselves as less competitive in 2014 – 36.1%, 36.4% and 35% of cases, respectively (below the average).

Competitiveness of Belarusian SMEs in the market of the Customs Union and CEA directly correlates to the size of the enterprise (Figure

3.17). Companies employing over 200 people were more likely to state their ability to compete – in 66.7% of cases (15.2 percentage points above the average). In contrast, the smallest SMEs (with the number of employees from 1 to 10 people) stated that they were competitive only in 31.9% of cases (below the average).

To sum up, the competitiveness of Belarusian SMEs is still at a low level. Only the largest SMEs, and mainly those companies that operate in manufacturing, are able to compete effectively in the single market of Belarus, Kazakhstan and Russia.

Others, on the contrary, often report about their lack of competitiveness, which is undoubtedly affecting and will continue to affect their opinions about the outcomes and prospects of the economic integration of Belarus with Russia and Kazakhstan.
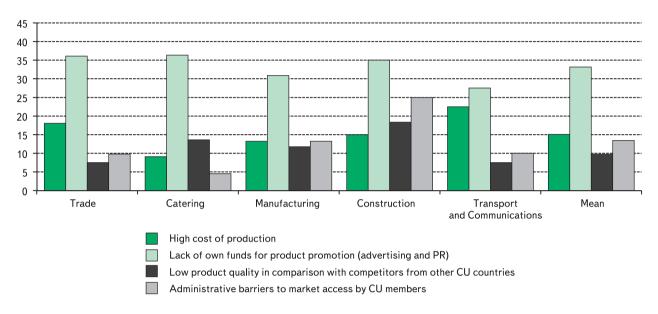
For example, in 2012–2014, uncompetitive SMEs were less likely to support and more likely to criticize the results and prospects of the Eurasian economic integration for Belarus than their more competitive peers (Figure 3.18).

At the same time, even among competitive enterprises, the proportion

Table 3.9. Reasons for low competitiveness of Belarusian SMEs in the CU and CEA market
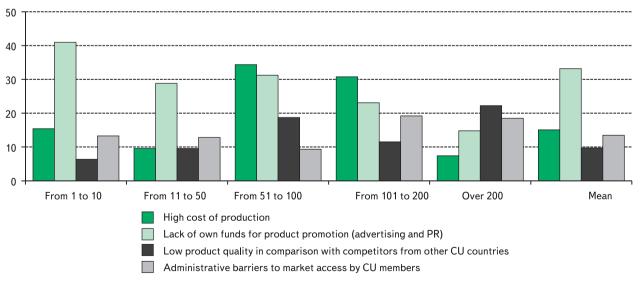
	2012	2013	2014
High cost of production	14.3	11.5	15.1
Lack of own funds for product promotion (advertising and PR)	34.4	16.9	33.2
Low product quality in comparison with competitors from other CU countries	9.0	7.3	9.7
Administrative barriers to market access by CU members	15.3	7.3	13.5
NA/don't know	27.0	64.1	–
Total	100.0	100.0	100.0

Source: IPM Research Center.

Figure 3.19. Reasons for low competitiveness of Belarusian SMEs in the market of the Customs Union and CEA depending on the area of activities of the enterprise, %

High cost of production
Lack of own funds for product promotion (advertising and PR)
Low product quality in comparison with competitors from other CU countries
Administrative barriers to market access by CU members

Source: IPM Research Center.

Figure 3.20. Reasons of low competitiveness of Belarusian SMEs in the market of the Customs Union and Common Economic Area depending on the size of the enterprise, %

High cost of production
Lack of own funds for product promotion (advertising and PR)
Low product quality in comparison with competitors from other CU countries
Administrative barriers to market access by CU members

Source: IPM Research Center.
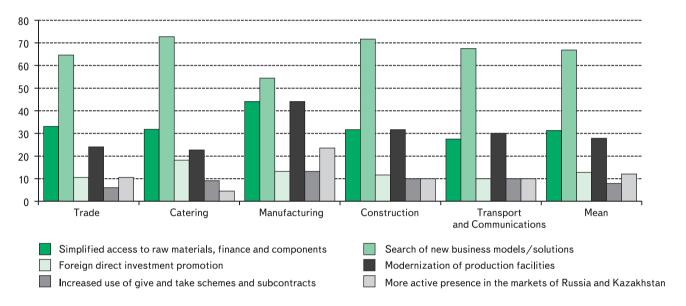
of those who positively describe the Eurasian integration steadily declined in 2012–2014 (Figure 3.18). This can be partly explained by the fact that the respondents were not offered the option of "N/A/don't know" in 2014. However, even taking this into account, the negative dynamics is obvious. This fact suggests that the competitiveness of the company at the moment does not involve dynamic competitiveness,

Table 3.10. Opportunities for Belarusian SMEs development in the market of the created EEU

	2012	2013	2014
Simplified access to raw materials, finance and components	32.0	34.0	31.3
Search of new business models/solutions	46.0	48.2	66.8
Foreign direct investment promotion	17.8	21.0	12.8
Modernization of production facilities	28.8	22.5	27.8
Increased use of give and take schemes and subcontracts	6.8	6.8	7.9
More active presence in the markets of Russia and Kazakhstan	20.2	12.5	12.1
Other	1.0	1.2	2.6
NA/don't know	6.8	20.3	1.9
Total	100.0	100.0	100.0

Source: IPM Research Center.

Figure 3.21. Opportunities for the development of Belarusian SMEs in the market of the created EEU depending on the area of activities of the enterprise, %

Simplified access to raw materials, finance and components
Foreign direct investment promotion
Increased use of give and take schemes and subcontracts
Search of new business models/solutions
Modernization of production facilities
More active presence in the markets of Russia and Kazakhstan

Source: IPM Research Center.

i.e. the ability to compete effectively in the future. In other words, even competitive Belarusian SMEs in most cases seem unable to see the possibility of their further development and expansion into foreign markets in the process of the Eurasian economic integration.

3.5. Factors of competitiveness and prospects for development of Belarusian SMEs in the EEU

The main reason why Belarusian small and medium businesses feel their lack of competitiveness in the market of the Customs Union and the Common Economic Area is the lack of own funds to promote their products (Table 9). 34.4% and 16.9% of respondents mentioned that in 2012 and 2013, respectively. In 2014, when the option of "N/A/
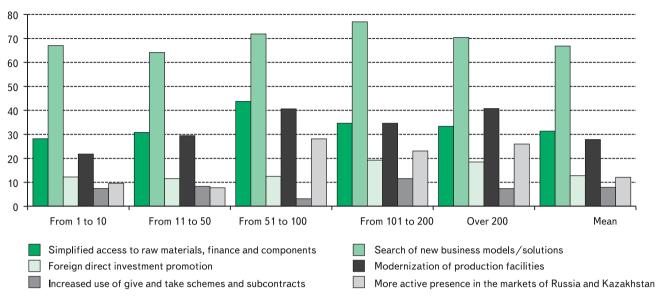
don't know" was not offered, this figure rose to 33.2%, ahead of the high cost of production (15.1%), administrative obstacles to enter the markets of the Customs Union countries (13.5%), as well as a low quality of goods compared to competitors from the Customs Union (9.7%).

Lack of funds for the promotion of products is the most important factor for a low competitiveness of Belarusian SMEs, regardless of their areas of activity (Figure 18). In contrast, other factors have their own special features. For example, the problem of a high cost of production is more typical of companies in trade, and transport and communications (18% and 22.5% of respondents mentioned these issues with an average of 15.1%). 25% of construction enterprises, with an average of 13.5, are increasingly concerned

about administrative obstacles from the Customs Union countries that prevent access of new Belarusian small and medium-sized enterprises to their markets. These companies were often more likely to report about their lack of competitiveness due to the low quality of the goods (services) compared to competitors in other Customs Union countries (18.3%, with an average of 9.4%).

Depending on the size of SMEs, the factors behind low competitiveness have the following relationship. Smaller SMEs more often mentioned the problem of lack of own funds for the promotion of the product (Figure 19). For instance, firms employing up to 10 people noted this problem in 41% of cases, while SMEs with the number of employees of over 200 people – in 14.8% of cases. On the contrary, the issue of low-quality

Figure 3.22. Opportunities for the development of Belarusian SMEs in the market of the created EEU depending on the size of the enterprise, %

Legend:
- Simplified access to raw materials, finance and components
- Search of new business models/solutions
- Foreign direct investment promotion
- Modernization of production facilities
- Increased use of give and take schemes and subcontracts
- More active presence in the markets of Russia and Kazakhstan

Source: IPM Research Center.

goods as a factor of the low competitiveness was mostly stated by the largest SMEs (22.2% of cases), while the smaller companies mentioned this issue less often (SMEs with staff up to 10 people reported this only in 6.4% of cases, with an average of 9.7%). Medium-sized enterprises were more concerned about the problem of a high cost of production: 34.4% of enterprises with 51 to 100 employees and 30.8% of enterprises with 101 to 200 employees identified it as a problem, while for firms with staff up to 10 people, the figure was 15.4%, from 11 to 50 people – 9.6%, and over 200 people – 7.4% (with an average of 15.1%).

Facing its own relatively low competitiveness, Belarusian small and medium businesses are increasingly focused on the search of new business models (Table 10). While in 2012 and 2013, respectively, 46% and 48.2% of the respondents stated this, in 2014, their number increased significantly – up to 66.8%. The options of "simplified access to raw materials, finance and components" (31.3%) and "modernization of production facilities" (27.8%) were still chosen quite frequently, while the opportunities of attracting foreign

investment as viewed by Belarusian SMEs declined significantly – from 21% to 12.8%. The possibility of a more active presence in the markets of Russia and Kazakhstan remains relatively limited – 12.1%.

Overall, Belarusian SMEs described similar prospects for their development, regardless of the area of activities of enterprises (Figure 20). We can only note that the need for modernization of production facilities was more frequently observed in manufacturing (44.1%) and construction (31.7%, with an average of 27.8%); the importance of strengthening the presence in the markets of Russia and Kazakhstan was also mainly reported by industrial SMEs (23.5%, with the average of 12.1%). In addition, companies in the industry more often noted the need to facilitate access to raw materials and financial resources (44.1%, with an average of 31.3%) and more seldom – about the prospect of searching for new business models (54.4%, with an average of 66.8%).

Medium-sized and large SMEs are more concerned about the matter of easier access to raw materials and financial resources, as well as the possibility of gaining access to the

markets of Russia and Kazakhstan (Figure 21). For example, while small SMEs with the number of employees up to 10 and from 11 to 50 people saw the opportunity of a more active presence in the market of the Customs Union and the CEA (9.6% and 7.7% of the cases, respectively), the companies with the number of employees from 51 to 100 and from 101 to 200 and over 200 people saw this opportunity in 28.1%, 23.1% and 25.9% of cases, respectively.

3.6. Key findings

The analysis of the results of the survey of representatives of Belarusian SMEs shows that the Eurasian integration remains a very controversial economic process for domestic SMEs.

On the one hand, trade and economic relationships with the main trading partner – Russia – is beneficial for the state of the Belarusian economy and has helped to stabilize it after the crisis of 2011. Creating the Eurasian Economic Union will further simplify the environment for Belarusian companies in the markets of Russia and Kazakhstan (including for domestic SMEs) creat-

ing conditions and prerequisites for entering new markets and extensive business development.

On the other hand, Belarusian SMEs can neither untap their potential in the more capacious markets of Russia and Kazakhstan, nor feel confident in their traditional Belarusian market. The main obstacle to this is the lack of SMEs own funds needed to modernize facilities, promote products on the market and so forth. Moreover, the current macroeconomic situation in Belarus does not make it possible to raise external (credit) resources on terms acceptable for enterprises.

As a result, Belarusian SMEs entering the market of the Customs Union and successfully taking advantage of the Eurasian groups are more an exception rather than the rule. In most cases, the Belarusian small and medium-sized enterprises state their low competitiveness in comparison with Russian and Kazakh companies, which hinders their extensive development.

The current status quo does not create serious problems for the government's economic policy for now. Domestic SMEs continue to focus primarily on the domestic market of Belarus, while the latter is still unattractive for Russian and Kazakh companies. This suggests that the Eurasian integration has not affected the Belarusian small and medium-sized businesses significantly yet and is associated with predominantly sectoral costs. It is not surprising that in this situation, despite the recognized difficulties, the majority of Belarusian SMEs continue to support the Eurasian economic integration and agree that its further continuation is beneficial for the country.

However, in the longer term, current trends can create a number of problems for the effective participation of Belarus in the EEU. The study revealed the negative dynamics of the views of representatives of Belarusian SMEs by a number of indicators, such as the assessment of their own competitiveness, increased competition, business prospects and so forth.

Based on the above, we can identify the following main potential challenges associated with the continuation of Belarus' participation in the Eurasian integration as viewed by Belarusian small and medium-sized businesses.

First, it is the growth of negative attitudes towards the Eurasian integration among the most efficient group of business enterprises. This may result in new protests of the business community negatively affecting, among others, the public opinion about the EEU.

Second, it is a threat of liquidation of a certain number of Belarusian SMEs due to their lack of competitiveness. Once the Belarusian economy recovers, Russian and Kazakh companies are likely to enter the Belarusian market creating a threat to the current position of domestic SMEs.

Third, there is a threat of exit of a number of SMEs to either other countries or the shadow economy. This may be undertaken by those businesses that are focused on search of new business models. Today, as it has been noted, a number of business conditions in Belarus are worse than, for example, in Russia.

Thus, in terms of a long-term participation of Belarus in the Eurasian integration process, joint work of the government and the business community to support and stimulate the development of Belarusian SMEs, which would not only take into account the specifics of modern Eurasian integration processes, but would make it the main focus, is of particular relevance. The primary objectives set for all participants in this dialogue, in the authors' opinion, should be the following: searching for mechanisms of lending Belarusian SMEs on acceptable terms; development of the model of preferential long-term financing of innovative and export-oriented enterprises; focus on supporting SMEs in those areas where Belarus has the greatest long-term or dynamic comparative advantages; alignment of the business environment in Belarus with Russia (at least) in those matters where there are differences not in favor of Belarus; stimulation of domestic SMEs to extend their activities by pooling resources with each other and (or) with the government on mutually beneficial terms.

4. PERCEPTION OF CORRUPTION BY BELARUSIAN SMALL AND MEDIUM-SIZED ENTERPRISES

Corruption and its consequences, as well as the development of effective measures to combat it, has traditionally been one of the most pressing and controversial topics. It attracts attention of politicians and scientists, and ordinary citizens in many countries. In view of the urgency and multifaceted nature of this phenomenon, there are still many points of view on the definition of corruption, its typology, methods of measurement, and channels of influence on the economy and society, as well as the effectiveness of various anti-corruption measures.

Therefore, in this paper we consider the definition of such concepts as corruption, its types and causes, as well as the transmission channels of influence on the economic development of countries. Mostly this study is devoted to the analysis of the survey results of Belarusian small and medium-sized enterprises about the level of corruption in the economy, the reasons for its occurrence, and the effectiveness of measures taken to combat corruption carried out by the IPM Research Center in May 2014. It provides general estimates of the prevalence of corruption, their sectoral and regional differences and studies the relationship between the perception of corruption and the dynamics of the economic situation of SMEs. It particularly focuses on the causes and areas of corruption, as well as analysis of its changes and possible countermeasures.

The paper is organized as follows. The second chapter provides a definition and classification of corruption. It discusses how to measure it and corruption indicators used by international organizations and consulting companies, as well as the analysis of its causes, and discusses the main factors to be considered to design and implement the strategy to fight corruption. The third chapter analyzes the results of a survey of small and medium-sized enterprises in Belarus. The conclusion contains key findings. In addition, the work contains an appendix with the distribution of responses to the questionnaire on the corruption perceptions of Belarusian SMEs.

4.1. General definition of corruption

4.1.1. Definition of corruption and its influence on the economic development

Currently, there is no single definition of corruption both among practitioners and international organizations concerned with the problem of corruption (OECD, UNCAC, and the UN Convention against Corruption, World Bank). Transparency International defines corruption as "the abuse of entrusted power for private gain",[13] including in it both what happens in the higher levels of power, and daily abuse of power at the lowest and average levels of government. This definition also includes political corruption, which is a "manipulation of policies, institutions and procedural rules in the allocation of resources and funding from individuals and political decision-makers who abuse their position in order to maintain their power, status and wealth".[14]

The Organization for Economic Co-operation and Development (OECD) defines corruption as the "abuse of power to achieve personal economic goals".[15] This definition does not include political corruption, which is connected with gaining predominantly political dividends rather than economic resources. The World Bank uses a similar, but slightly broader definition, believing that corruption is a "misuse of public power for private gain".[16] A number of studies define corruption as the result of the interaction between the agent (usually a civil servant with a certain level of authority) and the principal (usually a potential recipient of the public service), in which the agent abuses the public office for private gain. Common to these definitions is the fact that public office is used for personal benefit.

Since corruption is a multifaceted phenomenon, there are many ways to classify it. Based on the above definitions, we can broadly distinguish between two types of corruption. Firstly, the abuse of power by government officials / bureaucrats (bureaucratic corruption). Secondly, the abuse of power by policymakers (e.g. ministers, senior officials of ministries and other central and local authorities) in order to obtain political dividends, in particular, strengthened influence or a strengthened role in the political process (political corruption)). Political corruption usually results in economic dividends as well.

According to the OECD, the actions associated with the abuse of power

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[13] See http://www.transparency.org/whoweare/organisation/faqs_on_corruption/2.
[14] Ibid.

[15] OECD (2013). Issues Paper on Corruption and Economic Growth, [Electronic resource] Mode of access: http://www.oecd.org/g20/topics/anti-corruption/Issue-Paper-Corruption-and-Economic-Growth.pdf.
[16] Tanzi, V. (1998). Corruption Around the World: Causes, Consequences, Scope, and Cures, *IMF Working Paper*, WP/98/63.

can be divided into three categories: bribery, embezzlement of state property and patronage. Bribery is obtaining money, property or other benefits by government officials from individuals or companies for influencing management decisions within their responsibility.

Theft of state-owned property may occur in the form of the use of the official position for the assignment of state property unilaterally or in collusion of government officials and individuals and companies. It may involve the sale of public assets at below market prices, tax evasion and evasion from other charges in the public sector, alienation or concealment of property subjected to inventory or arrest, as well as other ways to transfer state-owned assets to individuals instead of their intended use. Patronage (favoritism, nepotism, clientelism) is about providing by government officials of "special privileges" to individuals or companies in respect of compliance with government regulations, in process of allocation of public contracts or making transfer payments, etc. Instead, individuals or companies provide public officials with financial rewards or professional opportunities.[17] All of the above types of corruption suggest that the briber and the bribe-taker are in positive interaction. At the same time, a number of researchers believe that corruption can be the result of blackmail and extortion-based threats (e.g. threats of violence, or revelations of secrets).

Corruption is also divided into centralized and decentralized, i. e. not coordinated within the state administration,[18] as well as occasional or systematic corruption.[19] At the same time, corruption is considered systematic if it is widespread and generally regarded in the community as the norm of conduct for public officials. Depending on the size, corruption is divided into petty and grand. The above types of corruption are typically found in various combinations. For example, the systematic theft of state-owned property to a large extent by senior officials is kleptocracy. Existing systematic patronage under the state control system indicates the presence of crony capitalism or "state capture". A kickback is a bribe, which is based on the capture of state-owned property or patronage.

The variety of forms and types of corruption makes it difficult to assess it, and determine the extent of its impact on the economy and society as a whole. Assessments of the level of corruption in the country are conducted by international and independent non-profit organizations, and consulting companies specializing in the assessment of country risks. The most authoritative international organization dedicated to the study of the level of corruption in the country is Transparency International with its Corruption Perceptions Index. This index is calculated for 177 countries on the basis of expert assessments of administrative and political corruption in the public sector. In 2013 and 2012, Belarus was 123rd by Corruption Perceptions Index, among the countries analyzed (in 2011 – 143rd place).

The World Bank also makes the assessment of the level of corruption in different countries. Indicators of the level of fight against corruption are calculated in the framework of the World Governance Indicators project (Worldwide Governance Indicators (WGI)). The source of data for determining the values of these indicators is the information on perceptions of corruption or facts observed derived from a survey of the population and enterprises, as well as assessments of the level of corruption provided by commercial data providers or non-governmental organizations through their network of respondents. The information is collected in order to clarify the extent to which public power is used for personal gain. This study includes both small and large forms of corruption, as well as the extent to which the state is "captured" by the elites and private interests. This information is captured in the indicator reflecting the level of control of corruption for 215 countries.[20] This figure may vary from –2.5 (poor governance) to 2.5 (good governance). In 2012, the index of the fight against corruption in Belarus was –0.52, having improved compared with 2012, when it was equal to –0.72.

Among consulting companies, we can distinguish PRS Group, which develops the International Country Risk Guide (ICRG) and assesses corruption in the calculation of the political risk. Calculations are made for 140 countries, in addition to the political risk; they also estimate the economic and financial risks.[21] Corruption is one of the 12 indicators (components) used in the calculation of the political risk. The assessment of the level of corruption is based on the subjective analysis of the available information in the following areas: financial corruption in the form of special payments and bribes connected with import and export operations, foreign exchange management, and tax payments or getting loans. However, the assessment of the level of corruption focuses, to a greater extent, on actual or potential corruption in the form of excessive patronage, nepotism, the requirements of "reserving" a job for employment, use of "quid pro quo", secret funding of political parties, and suspiciously close ties between politicians and businesses. It is believed that these types of corruption pose potentially

[17] Ugur, M., Dasgupta, N. (2011). *Evidence on the Economic Growth Impacts of Corruption in Low-income Countries and Beyond: A Systematic Review*. London. EPPI-Centre, Social Science Re-search Unit, Institute of Education, University of London.
[18] Bardhan, P. (2006). The Economist's Approach to the Problem of Corruption, *World Development*, 34, 341–348.
[19] Robinson, M. (1998). Corruption and Development: An Introduction. In M. Robinson (ed.), *Corruption and Development*, Frank Cass, London, pp. 1–14.

[20] Kaufmann, D., Kraay, A., Mastruzz, M. (2010). The Worldwide Governance Indicators: Methodology and Analytical Issues, *Policy Research Working Paper* 5430, the World Bank.
[21] See https://www.prsgroup.com/about-us/our-two-methodologies/icrg.

greater risks for foreign business, compared to financial corruption.[22]

All of the indicators of the level of corruption above are based on its perception generally estimated on the basis of surveys. However, this approach is being increasingly criticized due to the fact that it is based on subjective assessments, and does not capture the fact that the magnitude of the effect of various types and forms of corruption on the economy differs significantly.[23]

Global Integrity is an independent, nonprofit organization that monitors corruption situation in the world. It measures the effectiveness of anti-corruption as one of the components of the Global index of integrity. Unlike Transparency International and the World Bank, whose indicators reflect the perception of corruption, Global Integrity Index is calculated on the basis of quantitative and qualitative information collected by the network of researchers and journalists. This allows us to analyze the existing anti-corruption mechanisms and their effectiveness, using a system of indicators.[24] The indicators take into account both existing *de jure* legal provisions and *de facto* realities of their implementation in each country. Global Integrity Index was calculated for Belarus in 2008. For the component of the index relating to anti-corruption measures and legislation, Belarus received 87 points of 100,[25] which is above average for the analyzed countries. The anti-corruption laws were estimated at 100 points, and the enforcement of the law was estimated at 73 points.

The level of corruption is directly related to its causes, which are the subject of numerous papers. In turn, the identification of the causes of corruption helps develop countermeasures. Causes of corruption can be divided into several groups, the first of which is connected with public policy. Empirical studies demonstrate a relationship between the level of corruption and the degree of state intervention in the economy. Strong state regulation of the economy in which government officials have the authority associated with the application of regulations enables the emergence of various forms of corruption. Potential sources of corruption may be a high level of protection of the economy, including non-tariff barriers, such as licenses and quotas, subsidies for enterprises, taxation and tax administration, control over prices and the exchange rate of the national currency, and the low level of salaries of civil servants in relation to the private sector.[26] The second group of reasons is related to the basic features of the economy and society, for example, transparency in decision making, efficiency of the legal system, the level of economic development, the size of the shadow economy, the availability of natural resources, and the presence in the population of several ethnic groups.

Corruption leads to a number of adverse effects, and in particular, as evidenced by empirical research, it slows down economic growth. The main transmission channels of such influence are investments, including foreign direct investment, the restriction of competition and entrepreneurship, the volume and structure of government revenues and expenditures. Ultimately, all of these effects have a negative impact on sustainable development, health and safety of citizens, income distribution, etc.

Investments. The analysis of the relationship between corruption and investment activities is given in numerous studies[27] many of which found its negative impact on the volume and structure of investment. Studies show that the higher the level of corruption in the country is, the lower the ratio of investment to GDP it has.[28] The negative effect is due to the fact that bribes lead to increased costs and represent an additional tax on investments and agreements that were concluded owing to different types of corruption may be deemed legally invalid.[29] All of these factors also have a negative impact on the inflow of foreign direct investment reducing it significantly.[30] This is largely due to the fact that corruption reduces the effectiveness of the protection of intangible assets of foreign investors, and reduces the likelihood of a fair resolution of disputes between foreign and domestic partners.[31] Empirical studies show that the deterioration of the country's place in the corruption ranking of Transparency International's by one point has a negative impact on the inflow of foreign direct investment (FDI) equivalent to the increase in the tax burden by 4.69 percentage points.[32] In addition, corruption leads to a reduction in the quality and effectiveness of public investment because budgetary funds are used to finance low-efficiency projects.

Government revenues, expenditures, and the shadow economy. Empirical studies analyzing the relationship between corruption and

[22] International Country Risk Guide Methodology. The PRS Group, see http://www.prsgroup.com/wp-content/uploads/2012/11/icrgmethodology.pdf.

[23] Mauro, P. (1997) The Effects of Corruption on Growth, Investment, and Government Expenditure: A Cross-Country Analysis. In K.N. Elliot (ed.), *Corruption and the Global Economy*. Institute for International Economics.

[24] The Global Index of Integrity is calculated based on more than 300 indicators.

[25] The average score for the countries analyzed by this component of the index relating to anti-corruption measures and legislation is 72 points.

[26] Tanzi (1998), op. cit.

[27] See, e. g., Dreher A., Herzfeld, T. (2005). The Economic Costs of Corruption: A Survey and New Evidence, *EconWPA* 0506001, Public Economics.

[28] Mauro, P. (1996). The Effects of Corruption on Growth, Investment, and Government Expenditure, *IMF Working Paper*, WP/96/98.

[29] Pellegrini, L., Gerlagh, R. (2004). Corruption's Effect on Growth and its Transmission Channels, *Kyklos*, 57, 429–456.

[30] Abed, G.T., Davoodi, H.R. (2000). Corruption, Structural Reforms, and Economic Performance in the Transition Economies, *IMF Working Paper*, WP/00/132.

[31] Smarzynska, B., Wei, S. (2000). Corruption and Composition of Foreign Direct Investment: Firm Level Evidence, *NBER Working Paper* 7969.

[32] Wei, S. (1999). Does Corruption Relieve Foreign Investors of the Burden of Taxes and Capital Controls? *Policy Research Working Paper* 2209, World Bank.

the state budget revenues indicate the presence of a clear inverse relationship. Corruption has a negative impact on government revenues, primarily by reducing the amount of taxes collected. In particular, Tanzi and Davoodi (2000)[33] carried out a regression analysis of 90 countries and concluded that a one point increase in the corruption index, which is based on *ICRG* data, leads to a 1.5% decrease in the ratio of government revenues to GDP and to a 2.7% decrease in the ratio of tax revenues to GDP. Moreover, the ratio of the income tax coming into the treasury to GDP reduces to 0.63%. According to the study conducted by Friedman, et al. (2000),[34] there is a clear correlation between the level of corruption and the size of the shadow economy in the country. Based on the corruption index calculated for Political Risk Services, they showed that a decrease in corruption (increase in the index by one point) leads to a 9.7% reduction of the shadow economy. The calculations were performed for 42 countries, including the OECD, Latin America and some countries with economies in transition.

Misallocation of resources. Resources that could be spent on production needs are directed to the goals related to corruption. Companies are forced to spend time networking with officials and bearing the costs of bribes. Officials, in turn, take biased investment decisions that do not serve the public interest, and taxpayers have to pay for them.[35]

Reduced competition, efficiency and innovation. As a result of corruption, the companies who gain a favorable position owing to corruption, do not

compete fully on market conditions, while new firms, for example, face high barriers for market entry.[36]

Other channels of influence of corruption. According to several studies, corruption has a negative impact on the development of education and health, and the environment. In addition, corruption leads to increased income inequality and significantly impairs the quality of institutions. In particular, corruption undermines the effectiveness of legal regulation and discredits the principles of legal equity preventing the establishment of the rule of law.

4.1.2. Best practices in combating corruption

Successful implementation of an effective anti-corruption policy largely depends on how much its development takes into account the fact that there are no universal recipes and it is essential to consider the country context. International organizations such as UNDP, the United Nations Office on Drugs and Crime and the World Bank highlighted the main factors to be considered in the development and implementation of strategies to combat corruption[37]:

– to be effective the anti-corruption policy should evoke interest at the national level. International experience shows that if the anti-corruption programs are adopted due to a corruption scandal emerged, not because of the political will to combat corruption, they tend to be ineffective;

– a wide involvement of the state, non-governmental organizations, academia, business associations and unions and other civil society in the development and implementation of anti-corruption

policy is important not only to ensure adherence to the stated objectives, but as a guarantee that it is aimed at solving urgent problems and that the state has the necessary capacity to implement the activities envisaged;

– the identification of the main problems or barriers to the effective fight against corruption is essential in process of the development of anti-corruption programs. As evidenced by the international experience, major challenges include the following: lack of political will to fight corruption; the lack of independence of law enforcement bodies and the judicial system in the investigation of corruption (illegal interference in the work); lack of resources; tolerance of corruption in the society; low salaries of civil servants; lack of specialized institutions to combat corruption;[38]

– the creation of a unified information system and database of corruption violations will provide an opportunity to develop anti-corruption policies aimed at eliminating the reasons for the existence of corruption in the country. In addition, it will help to set priorities and determine the sequence of actions, as well as to monitor and evaluate progress;

– the content of the anti-corruption policies and programs should vary depending on the type of the selected country strategies (e. g., focus more on prevention than on legal sanctions or legal regulation, or the creation of internal control systems). The assessment of the main problems and the use of the available information base will help determine what kind of strategy will give the best results in the short and long term in this particular context;

[33] Tanzi, V., Davoodi, H. R. (2000). Corruption, Growth, and Public Finances, *IMF Working Paper*, WP/00/182.
[34] Friedman, E., Johnsonb, S., Kaufmannc, D., Zoido-Lobatonc, P. (2000). Dodging the Grabbing Hand: The Determinants of Unofficial Activity in 69 Countries, *Journal of Public Economics*, 76, 459–493.
[35] CIPE (2011). *Combating Corruption: A Private Sector Approach. Reform Toolkit*, Center for Inter-national Private Enterprise, Washington, D.C.

[36] Ibid
[37] See Hussmann, K. (2007) *Anti-Corruption Policy Making in Practice: What can be Learned for Implementing Article 5 of UN-CAC?* Report of six country case studies: Georgia, Indonesia, Nicaragua, Pakistan, Tanzania, and Zambia. Anti-corruption Resource Center U4, Chr. Michelsen Institute.

[38] Man-wai, T.K. (2006). *Formulating an Effective Anti-Corruption Strategy – The Experience of Hong Kong ICAC*. From Annual Report for 2005 and Resource Material Series No. 69, pp. 196–201.

– the establishment of monitoring and evaluation system contributes not only to the analysis of progress in the implementation of anti-corruption program, but also makes it possible to determine the possible adjustments to be made to it during the time of its implementation.[39]

As international experience shows, a number of countries in addition to the development of programs and strategies to combat corruption create special bodies involved in their implementation, as well as combating corruption in general. With all the variety of approaches to the creation of such bodies, they can be divided into three basic types:

– multi-purpose agencies to fight corruption with law enforcement powers and combining the preventive, repressive and educational functions;

– specialized law enforcement divisions / sections to combat corruption in the law enforcement bodies. The functions of such organizations tend to include conducting the investigation of corruption cases. In some countries this kind of agencies are also endowed with preventive and coordination functions;

– institutions to prevent corruption, policy-making and coordination in the fight against corruption. Typically, this type of agency has wide variations in organizational forms and functions, including reviewing risks of corruption in various areas and the development of proposals to improve the legislation and coordination of international cooperation, as well as in a number of cases testing asset declarations of public servants and the prevention of conflict of interest.[40]

Examples of multi-purpose independent agencies include the Independent Commission Against Corruption (Special Administrative Region of Hong Kong) and the Bureau to Investigate Cases of Corruption (Singapore). The Independent Commission Against Corruption[41] was established in 1974 with the purpose of carrying out the operational and investigative activities, anti-corruption, carrying out educational and outreach activities among the population about the dangers of corruption, etc. The Commission has one of the largest budgets among anti-corruption agencies and agencies in the world (about 106 million USD or 15 USD per capita of Hong Kong), and its staff, as of at the end of 2011, amounted to 1,298 employees).[42] The web-site of the Independent Commission provides detailed information on how to report cases of corruption and how the investigation procedure, as well as information about educational programs to prevent corruption. The Commission also conducts studies that help identify the causes of crime and develop recommendations for the government to address them. The Corrupt Practices Investigation Bureau in Singapore was established in 1952 and is considered one of the most efficient agencies operating in the world. Its objectives are to investigate complaints and crimes related to corruption, the analysis of the practices and procedures of public institutions to prevent corruption.[43] There are also independent multi-purpose agencies operating in the EU, for example, in Latvia, Lithuania and Poland.

Specialized law enforcement departments/divisions to combat corruption that operate in the structure of the law enforcement agencies, for example, prosecution services, are quite a common type of anti-

corruption agencies. They are found in many EU countries, such as Great Britain, Belgium, or Spain. Institutes for the prevention of corruption can exist both independently and in the structure of law enforcement agencies. An example of the latter is the Central Service for the Prevention of Corruption of the Ministry of Justice in France. Its main tasks include providing consultations, especially to local authorities, for cases of corruption and risks of corruption. The organization also assists in the adoption of a code of ethics by private and public organizations, and it is also engaged in educational activities. In general, regardless of what type of specialized anti-corruption agency the country chooses, it must take into account country specific features, the magnitude of the observed corruption and meet the criteria of the UN Convention against Corruption, i.e., independence, expertise, training and adequate resources.[44]

A clear understanding of the real situation is essential for the effective implementation of anti-corruption measures. Since corruption is a complex multidimensional phenomenon, it should be studied in the most comprehensive manner. Various polls aimed at clarifying the perception of corruption are one of the main methods of obtaining primary data. The subsequent part of the paper is devoted to the analysis of the survey results of the perception of private SMEs about corruption in Belarus.

4.2. Results of the survey of SMEs regarding corruption

This section presents the results of the survey of private small and medium-sized enterprises on corruption in Belarus. The survey was conducted in May 2014 by the NOVAK Laboratory of Axiometrical Research commissioned by the IPM Research Center. In total, 431 enterprises were surveyed. It used

[39] UNODC (2003). *UN Guide for anti-corruption policies*. UN Global Programme against Corruption.
[40] OECD (2013). *Specialized Ant-Corruption Institutions: Review of Models*. Anti-Corruption Network for Eastern Europe and Central Asia. Second Edition.

[41] See http://www.icac.org.hk/en/about_icac/bh/index.html.
[42] OECD (2013). *Specialized Ant-Corruption Institutions: Review of Models*. Anti-Corruption Network for Eastern Europe and Central Asia. Second Edition.
[43] See http://www.cpib.gov.sg.

[44] See http://www.un.org/ru/documents/decl_conv/conventions/corruption.shtml.

Table 4.1. Distribution of SMEs by monitored parameters of the sample

	Number of enterprises	% of the total
Type of activity		
Trade	133	30.90
Catering	22	5.10
Manufacturing	68	15.80
Construction	60	13.90
Transport and communications	40	9.30
Consumer services	27	6.30
Consulting services	2	0.50
Education	4	0.90
IT services	14	3.30
Tourism	18	4.20
Advertising	14	3.25
Publishing	7	1.62
Real estate	11	2.55
Others	11	2.55
Total	431	100.00
Number of employees		
From 1 to 10	188	43.82
From 11 to 50	156	36.36
From 51 to 100	32	7.46
From 101 to 200	26	6.06
Over 200	27	6.29
Total	429	100.00
Region		
Minsk	109	25.29
Minsk region	67	15.55
Brest	18	4.18
Brest region	32	7.42
Grodno	24	5.57
Grodno region	27	6.26
Vitebsk	23	5.34
Vitebsk region	32	7.42
Gomel	24	5.57
Gomel region	31	7.19
Mogilev	36	8.35
Mogilev region	8	1.86
Total	431	100.00

Note. Two enterprises did not provide answers to the question of the size of the enterprise (number of employees).

Source: IPM Research Center.

a quota sampling and monitored the following parameters: region, economic activity, enterprise size (number of employees). The survey on corruption was conducted in parallel with the traditional annual poll of the IPM Research Center of small and medium-sized businesses in Belarus, which contributed to a more detailed study of the problem, using a variety of grouping characteristics in the analysis of the data.

The main purpose of the survey was to assess the overall level of corruption as perceived by small and medium business in Belarus and identify the major causes of corruption, most corrupted areas of activity and the most effective anti-corruption measures. The results of the survey are unique empirical data, reflecting the perception of Belarusian small and medium businesses problems of corruption in their activities. The results are of interest to the government, the scientific community, mass media and business associations. They will, no doubt, be useful for the development of the new edition of the National Business Platform of Belarus (NBPB).

The questionnaire used in the survey consisted of three large sections: 1) general information on corruption; 2) the causes and scope of corruption; 3) the dynamics of corruption and anti-corruption measures.[45] The questions of the first block allowed estimating the overall level of corruption in terms of small and medium-sized businesses in the country as a whole, in the regional context and the main economic activities of small

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[45] Distribution of responses to the survey is given in the Appendix.

and medium-sized enterprises, as well as the degree of the negative impact of corruption on reaching major economic targets in Belarus. The second block of questions aimed at clarifying the main causes of corruption, the definition of its initiators and main areas where it reveals itself. The third set of questions focused on ascertaining the views of SMEs on the effectiveness of anti-corruption measures to be implemented in Belarus and the most effective measures that can reduce it.

4.2.1. General profile of surveyed SMEs and major grouping characteristics
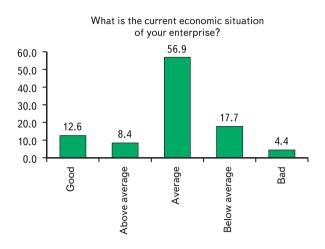
As mentioned above, private small and medium-sized enterprises used in the sample of the survey were monitored by three parameters: the type of economic activity, enterprise size (number of employees) and region (region, city) of the enterprise. Table 4.1 shows that the distribution of SMEs by these parameters generally does not contradict the available statistics. In the future, assessments of the level of corruption will be considered as for the country as a whole and in the context of different types of economic activities, regions, and sizes of enterprises.
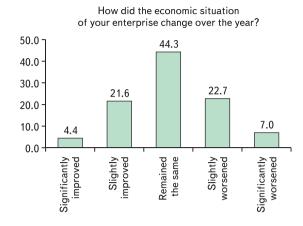
In addition, it is interesting to see the perception of corruption according to different characteristics of the enterprises surveyed. In particular, one of the grouping features used in the evaluation of the perceptions of corruption included questions that capture the current economic situation of the company and its change over the last year. Responses to these questions are presented in Figure 4.1.

As we can see, the vast majority of SMEs rate their economic situation as average (about 57%); 21% of respondents believe the economic situation of their enterprises good and above average, and about 22% – below average or poor. It can be assumed that the perception of corruption may vary depending
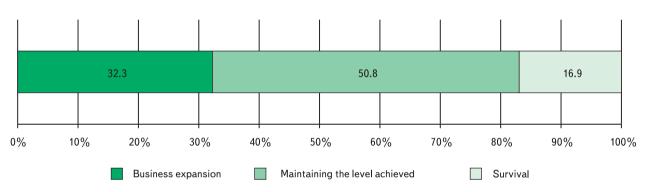
Figure 4.1. Assessments of the economic situation given by SMEs, %

What is the current economic situation
of your enterprise?

How did the economic situation
of your enterprise change over the year?

Source: authors' calculations.

Figure 4.2. Distribution of SMEs by main objectives of the enterprise

Source: authors' calculations.

on the economic situation of the company. This hypothesis will be tested in the future on the basis of the available data.

The next grouping question is the distribution of the challenges facing the company. Figure 4.2 shows that approximately 32% of SMEs focus on further expansion and development of the business, while more than a half of enterprises are aimed only at maintaining the level achieved, and about 17% of the respondents indicated that their efforts are directed mainly for survival in the current environment. It is possible that the perception of corruption in these diverse groups of enterprises will also vary, which will be considered in the further analysis.

Figure 4.3 shows the distribution of respondents' answers to the ques-

tion of changes in the business environment over the past year. More than 50% of surveyed SMEs believe that business conditions for this period did not change. At the same time, about 23% of the respondents believe that there were some positive changes to a greater or lesser extent. Deterioration in business conditions was mentioned by about 27% of SMEs. The differences in the perceptions of changes in the business climate can affect the perception of corruption, which will also be tested empirically.
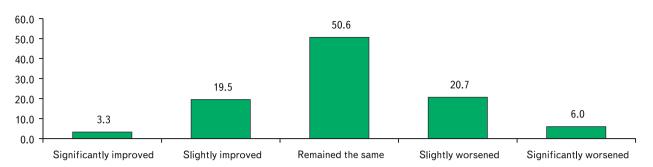
Finally, a particular interest in the context of the development of the National Business Platform of Belarus (NBPB) is the difference in the assessments of corruption given by respondents participating in the activities of various business associations, as well as involved in

the discussion, development and promotion of the NBPB. Figure 4.4 presents a number of grouping characteristics that are of interest in this context, namely membership in business unions, knowledge about and support for NPBPB, assessment of the level of dialogue between the Belarusian business and government. Do the assessments of corruption of the part of business community that is most active in terms of promoting ideas of free enterprise in comparison to the other part of it? We will try to answer this question in the course of further analysis.

4.2.2. Assessment of the level of corruption in the country
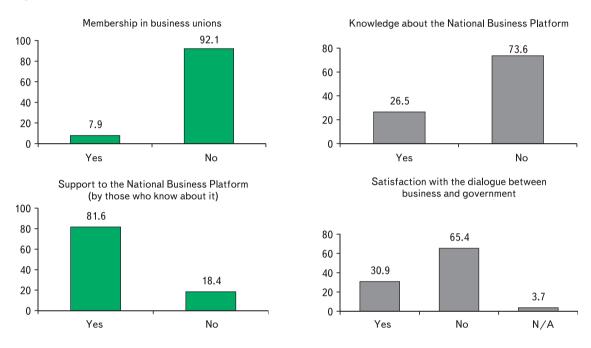
As the main question in the survey used for assessing the level of corruption as seen by small and

Figure 4.3. Changes in conditions of doing business over the last year, %
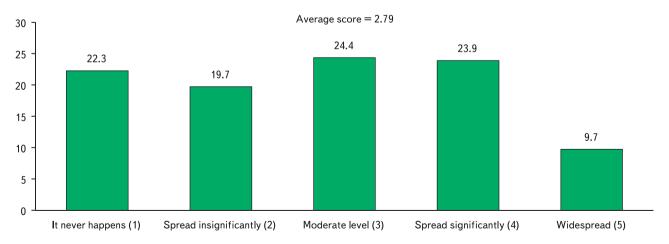
Source: authors' calculations.

Figure 4.4. Participation in business associations and the National Business Platform of Belarus, %

Source: authors' calculations.

Figure 4.5. Assessment of the spread of corruption, %

Source: authors' calculations.

medium-sized businesses in Belarus was the question: "How common is corruption in Belarus in one way or another in the activities of your company?" Respondents were asked to estimate the level of corruption on a

5-point scale, where "1" means that this phenomenon is non-existent, "2" – corruption is spread to a small extent, "3" – there is a moderate (average) level of corruption, "4" – corruption is distributed to a large extent, and "5" – corruption is widespread. Using a 5-point scale allows to obtain the averaged estimates that can be used in various comparisons and statistical estimates. It should be noted that respondents were asked to assess the level of corruption in the sphere of their activity. This was done to get away from abstract assessments and "peg' them to the actual practice of respondents. The distribution of responses to this question is presented in Figure 4.5.

As the data suggest, just over 22% of respondents believe that corruption is completely non-existent in their area of activity. Consequently, about 88% of SMEs believe that it does exist, but the extent of its prevalence varies. However, more than 24% of respondents assess the level of corruption as moderate, and 34% of respondents believe that their field of activity is associated with a high level of corruption. The average level of corruption (weighted arithmetic mean) as assessed by SMEs is 2.79. The arising question is how to interpret the resulting average score? In this case and in subsequent estimates, we assumed the following:

The above classification allows making a generalized assessment of the level of corruption as seen by SMEs. Further on, we used the interval method of testing the differences between the average values. At the same time, we had the following empirical assumption: *the null hypothesis of equality of the two averages is rejected in the*

event that the average value taken as the null hypothesis is less than or equal to the lower bound of the 95% confidence interval of the average value of the test. If the mean taken as the null hypothesis is within 95% confidence interval of the average value of the test, the null hypothesis of equality of the two averages cannot be rejected.

The resulting average score of the level of corruption of 2.79 has a 95% confidence interval from 2.67 to 2.91 points (in this case and further on the evaluation is performed at the 5% significance level). The lower limit of the 95% confidence interval is greater than the upper limit of the range corresponding to the low level of corruption. Thus, the average score of the assessment of the level of corruption amounting to 2.79 falls within the range corresponding to the moderate level of corruption, according to the classification presented in Table 4.2. Therefore, *overall, small and medium-sized enterprises in Belarus assess corruption in Belarus as moderate*.

The assessment of the level of corruption by the type of economic activity is presented in Table 4.3. The assessment of the level of perceived corruption was also evaluated on the basis of interval estimates of obtained averages. The results gained show that the level of corruption in such activities as trade, manufacturing, construction and advertising activity is, according to respondents, moderate. For other types of economic activities, the null hypothesis of a low level of corruption cannot be rejected on the basis of the available data. In addition, based on the estimates obtained and the classification adopted, there is no corruption in such activities

as consulting, education and trade in real estate. However, while interpreting the results presented in Table 4.3, it is necessary to take into account the fact that the number of companies that make up some of the groups is very small. It is not possible to obtain reliable statistical evaluation (as evidenced by a very wide range of confidence intervals for a number of activities). Therefore, to obtain a more general conclusion about the perceptions of corruption by economic activity requires a further analysis.

To assess the differences in the estimates of corruption by types of activities, we carried out the analysis of variance for assessing the differences between intragroup and intergroup variation assessments of corruption, as well as multiple comparison of average values by types of economic activity in order to detect statistically significant deviations (we used Tukey's test in the statistical package SPSS, version 22). The analysis of variance revealed no statistically significant differences between relevant types of economic activity. Pairwise comparisons of mean values for all activities also showed no statistically significant difference in the average values of corruption. Thus, since the assessments of the level of corruption by type of economic activity are not statistically different, it can be concluded that, in general, they correspond to a moderate level, and the *corruption by type of activity can be assessed as moderate*.

Table 4.4 presents the results of the analysis of the level of corruption in the regional context. In addition to the estimates of the level of corruption for areas and regional centers (the capital), it gives the average scores for areas and regional centers (the capital) in general. The obtained results show that all regions, according to the assessments of SMEs, can be divided into three groups: (1) with a low level of corruption; (2) with a moderate level of corruption; and 3) with a high level of corruption. The first group includes

Table 4.2. Classification of assessments of the level of corruption

Average score ($\overline{x}$)	Assessment of the level of corruption
$1 \leq \overline{x} < 1.5$	Corruption is non-existent
$1 \leq \overline{x} < 2.5$	Low level of corruption
$2.5 \leq \overline{x} < 3.5$	Moderate level of corruption
$3.5 \leq \overline{x} < 4.5$	High level of corruption
$4.5 \leq \overline{x} \leq 5.0$	Corruption is widespread

Table 4.3. Assessment of the level of corruption by type of activity

Type of activity	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				lower value	upper value
Consulting services	1.50	2	0.707	0.52	2.48
Education	2.00	4	0.816	1.20	2.8
Real estate	2.09	11	1.578	1.16	3.03
Consumer services	2.56	27	1.476	2.00	3.11
Publishing	2.57	7	1.134	1.73	3.41
Tourism	2.72	18	1.364	2.09	3.35
Transport and communications	2.75	40	1.296	2.35	3.15
Trade	2.77	133	1.283	2.56	2.99
IT services	2.79	14	1.424	2.04	3.53
Catering	2.86	22	1.246	2.34	3.39
Construction	2.90	60	1.217	2.59	3.21
Other	2.91	11	1.446	2.05	3.77
Manufacturing	3.00	68	1.327	2.68	3.32
Advertising	3.00	14	0.961	2.50	3.50
Average	2.79	431	1.295	2.67	2.91

Note. The types of economic activities are presented in the increasing order of the average score assessing the level of corruption. The category of "other activity" included those activities that were not included in the specified group, for example, waste recycling, financial services, medical services, insurance services, gambling activities, maintenance, engineering, etc. The grayed out economic activities are activities with a moderate level of corruption according to the statistical evaluation. For other types of economic activities the null hypothesis of a low level of corruption (or lack of corruption) cannot be rejected.

Source: authors' calculations.

Table 4.4. Assessment of the level of corruption by type of region

Region	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				lower value	upper value
Vitebsk region	2.13	32	1.289	1.68	2.57
Gomel region	2.13	31	1.204	1.70	2.55
Brest	2.39	18	1.037	1.91	2.87
Minsk	2.50	109	1.274	2.26	2.74
Minsk and Minsk region	*2.66*	*176*	*1.326*	*2.46*	*2.86*
Mogilev	2.72	36	1.344	2.28	3.16
Grodno region	2.78	27	1.086	2.37	3.19
Gomel and Gomel region	*2.78*	*55*	*1.410*	*2.40*	*3.16*
Grodno and Grodno region	*2.80*	*51*	*0.980*	*2.53*	*3.08*
Grodno	2.83	24	0.868	2.49	3.18
Minsk region	2.91	67	1.379	2.58	3.24
Vitebsk and Vitebsk region	*2.91*	*55*	*1.391*	*2.53*	*3.29*
Brest and Brest region	*2.96*	*50*	*1.195*	*2.62*	*3.30*
Mogilev and Mogilev region	*2.98*	*44*	*1.338*	*2.57*	*3.38*
Brest region	3.28	32	1.170	2.87	3.69
Gomel	3.63	24	1.209	3.14	4.11
Vitebsk	4.00	23	0.522	3.79	4.21
Mogilev region	4.13	8	0.354	3.88	4.37
Average	2.79	431	1.295	2.67	2.91

Note. Regions are presented in the ascending order of the average score of the level of corruption. Italics indicate the average scores for the whole region and the regional center (the capital). The regions where the level of corruption is moderate (high) according to the statistical evaluation are highlighted in gray/blue. For other types of economic activity the null hypothesis of a low level of corruption cannot be rejected.

Source: authors' calculations.

Brest, Minsk, Mogilev, Grodno,[46] as well as Vitebsk, Gomel and Grodno regions. The second group consists of the city of Gomel and Minsk and Brest regions. And finally, the third group includes Vitebsk and Mogilev region. If we consider the generalized data for the regional center (the capital) and the region, the situation

changes. We have only two groups that stand out here: those with low and moderate levels of corruption. The first group includes Minsk and Minsk region and Gomel and Gomel region, and the second – Grodno and Grodno region, Vitebsk and Vitebsk region, Brest and Brest region, Mogilev and Mogilev region.

Table 4.5 summarizes the results of multiple comparisons of average values based on Tukey's test (since the test for homogeneity of group

variances is rejected, we additionally used Geyms-Howell's test that does not assume equality of variances). The information in the table should be read line by line. The sign "=" means that the average scores of corruption in given regions are not statistically different; "–" means that the average score of the level of corruption in the region in the line is statistically lower than that of the region in the column; "+" means that the average score of the level of corruption in the region in the line is

[46] Grodno is actually at the limit value separating low and moderate levels of corruption according to the classification presented in Table 2.

Table 4.5. Multiple comparisons of average scores of the assessment of corruption in different regions

City/region	Vitebsk region	Gomel region	Brest	Minsk	Mogilev	Grodno region	Grodno	Minsk region	Vitebsk region	Gomel region	Vitebsk	Mogilev region
Vitebsk region	=	=	=	=	=	=	=	=	–	–	–	–
Gomel region	=	=	=	=	=	=	=	=	–	–	–	–
Brest	=	=	=	=	=	=	=	=	=	–	–	–
Minsk	=	=	=	=	=	=	=	=	=	–	–	–
Mogilev	=	=	=	=	=	=	=	=	=	=	–	–
Grodno region	=	=	=	=	=	=	=	=	=	=	–	–
Grodno	=	=	=	=	=	=	=	=	=	=	–	–
Minsk region	=	=	=	=	=	=	=	=	=	=	–	–
Brest region	+	+	=	=	=	=	=	=	=	=	=	=
Gomel region	+	+	+	+	=	=	=	=	=	=	=	=
Vitebsk	+	+	+	+	+	+	+	+	=	=	=	=
Mogilev region	+	+	+	+	+	+	+	+	+	=	=	=

Note. Table is read line by line as follows: "=" means that the average scores of corruption in given regions are not statistically different; "–" means that the average score of the level of corruption in the region in the line is statistically lower than that of the region in the column; "+" means that the average score of the level of corruption in the region in the line is statistically higher than for the region in the column. Heterogeneous groups of regions are highlighted in different colors.

Source: authors' calculations.

Table 4.6. Assessment of the level of corruption by the size of the enterprise

Number of employees	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
From 1 to 10	2.72	188	1.337	2.53	2.91
From 11 to 50	2.85	156	1.249	2.65	3.05
From 51 to 100	2.94	32	1.268	2.50	3.38
From 101 to 200	3.15	26	1.287	2.65	3.65
Over 200	2.48	27	1.312	1.99	2.98
Average	2.79	431	1.295	2.67	2.91

Note. The total number of observations for these groups is 429 enterprises since 2 respondents did not answer the question about the number of employees in the enterprise.

Source: authors' calculations.

statistically higher than for the region in the column. As a result, we can distinguish four groups of regions that are statistically different in assessments of the level of corruption as perceived by SMEs. The first group includes Vitebsk and Gomel regions, the second group – Brest, Minsk, Mogilev, Grodno, as well as Grodno and Minsk regions, third – Gomel and Brest region, and the fourth – Vitebsk and Mogilev region. These results, on the whole, do not contradict those presented in Table 4, and give a more detailed picture of regional differences in the assessments of the level of corruption.

The assessments of the level of corruption, in general, do not differ depending on the size of the enterprise. In particular, for enterprises employing from 10 to 200 people, the level of corruption was assessed as moderate (Table 4.6). However, for larger enterprises with the number of employees of over 200 people, the level of corruption is assessed as low, based on the classification

presented in Table 4.2. It should be noted that both the analysis of variance and Tukey's test did not reveal any statistically significant differences in the average assessments of the level of corruption among groups of companies with a different number of employees. Thus, the analysis of groups of SMEs by the criterion of size gives evidence of a moderate level of corruption.

Thus, the analysis of assessments of the level of corruption in the context of the major monitored parameters of the sampling shows that statistically significant differences in the estimates are found in the regional context. However, in the context of economic activities and enterprise size statistically significant differences in the estimates of the level of corruption are not detected.[47]

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[47] We also assessed the differences in the estimates of the level of corruption according to the year of establishment. The analysis shows no statistically significant differences in this case.

Next, we consider the existence of differences in the estimates of the level of corruption based on the current situation of the company and its changes over the last year. For greater clarity, the answers to the question about the economic situation were aggregated into three groups: a good economic situation (good or above average), and average and poor (poor and below average). Similarly, the answers to the question of changes in the economic situation were also aggregated into the following three groups: the economic situation has improved (greatly improved, improved to some extent), has not changed, worsened (worsened considerably; deteriorated to some extent). The corresponding estimates are presented in Tables 4.7 and 4.8.

Table 4.7 shows that the level of corruption perception varies depending on changes in the status of the company. For example, the respondents who indicated that the economic situation of their enterprises is good

Table 4.7. Assessment of the level of corruption depending on the economic situation of the enterprise

Economic situation	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
Good	2.64	90	1.292	2.37	2.92
Average	2.71	244	1.276	2.55	2.87
Bad	3.14	95	1.293	2.87	3.40
Average	2.79	429	1.294	2.67	2.92

Source: authors' calculations.

Table 4.8. Assessment of the level of corruption depending on the change in the economic situation of the enterprise

Change in the cconomic situation	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
Improved	2.69	112	1.322	2.44	2.94
Remained the same	2.67	191	1.257	2.49	2.85
Worsened	3.06	128	1.297	2.84	3.29
Average	2.79	431	1.295	2.67	2.91

Source: authors' calculations.

Table 4.9. Assessment of the level of corruption depending on the main goals of the enterprise

Main goals	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
Expansion	2.52	139	1.293	2.30	2.73
Preservation of the level achieved	2.76	219	1.242	2.59	2.92
Survival	3.41	73	1.267	3.12	3.71
Average	2.79	431	1.295	2.67	2.91

Source: authors' calculations.

evaluate the level of corruption as low. SMEs with an average and poor economic situation assess the level of corruption as moderate, but the mean of those who noted the poor state of the enterprise is significantly higher than for those who reported about a good and average economic situation of the enterprise. The analysis of variance shows that between these average levels there are statistically significant differences, and Tukey's test clearly distinguishes two different groups of SMEs: enterprises with a good and average economic situation versus enterprises with a poor economic situation.

A similar situation can be observed based on the data given in Table 4.8. The companies, whose economic situation improved over the last year or did not change, evaluate corruption as low, while SMEs, where there was deterioration in the economic situation, as moderate. In addition, the appropriate statistical tests indicate a significant difference between the average scores and identify two different groups of enterprises: SMEs, where the economic situa-

tion improved or not changed, and SMEs, whose economic situation deteriorated. Thus, *the better the economic situation of the company and its dynamics are, the lower the respondents assess the level of corruption, and vice versa*.

The grouping characteristics considered include the questions about the current business strategy and estimates of changes in business conditions that occurred over the past year. The results of the analysis show that the company aimed at expansion and business development assess the level of corruption lower than those who only try to survive in the current environment (Table 4.9). The statistical analysis shows that the average levels of perception of corruption in the group of companies developing their business, or at least trying to maintain the achieved level, are significantly different compared with the companies trying to survive.

Respondents who noted a significant improvement of conditions for doing business (a little bit more than 3% of all respondents) are radically different in the perception of corruption

from those who believe that these conditions deteriorated significantly (about 6%), which follows from the analysis of variance and multiple comparison of average scores using Tukey's test (in the first case, according to the classification, we assumed no corruption, while in the second – a moderate level of corruption). The assessments of the level of corruption of other small and medium-sized enterprises are not statistically different from each other, and reflect moderate levels of corruption (Table 4.10). Thus, there is a definite relationship between the focus on success and positive assessments of the business climate and the perception of corruption: *corruption is assessed lower by those who are aimed at the development of the company and more optimistic in assessing the dynamics of the business environment.*

The statistical analysis did not reveal any differences in the assessment of corruption among members of business unions and those who are not a member of such unions. Ignorance or awareness about the NBPB and its support are also not

Table 4.10. Assessment of the level of corruption depending on the perceptions of conditions for doing business

Conditions	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
Significantly improved	2.00	14	1.109	1.36	2.64
Slightly improved	2.81	84	1.217	2.55	3.07
Remained the same	2.69	218	1.267	2.52	2.86
Slightly worsened	2.96	89	1.356	2.67	3.24
Significantly worsened	3.42	26	1.391	2.86	3.98
Average	2.79	431	1.295	2.67	2.91

Source: authors' calculations.

Table 4.11. Assessment of impact of corruption on reaching different economic goals

Goals of the economy	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
Foreign investment promotion	3.04	431	1.194	2.92	3.15
Resolution of commercial disputes in courts	3.07	431	1.136	2.96	3.18
Development of the internal market for goods of domestic producers	3.11	431	1.145	3.01	3.22
Improved public governance	3.13	431	1.177	3.02	3.24
Growth of the welfare of citizens	3.18	431	1.235	3.06	3.3
Economic growth	3.22	431	1.148	3.11	3.33
Private business growth and development	3.32	431	1.165	3.21	3.43

Note. The goals are ranked in ascending order of the average score.

Source: authors' calculations.

an essential feature influencing the perception of corruption. However, the respondents satisfied with the current level of dialogue between business and government estimate corruption significantly lower than those who consider such a dialogue unsatisfactory. In the first case, the average score obtained corresponds to a low level of corruption, while the latter – a moderate level.

4.2.3. Assessment of impact of corruption on the economic development

To assess the impact of corruption on the economic development of the country, respondents were asked the following question: "Please rate the extent to which corruption hinders the solution of various economic challenges facing Belarus?" The assessment was given on a 5-point scale, where "1" means that corruption is not a problem, "2" – it is a minor problem, "3" – it is a moderate problem, "4" – it is a significant problem, and "5" – it is a very big problem. As in the previous case, the use of a 5-point scale allows to obtain averaged scores and use them for various calculations and statisti-

cal comparisons. Furthermore, in this case we can use the classification presented in Table 2 only with respect to the said scores. Obtained results are provided in Table 4.11.

As follows from Table 4.11, in context of all these goals, corruption is seen by respondents as a moderate problem (just like in the case with the assessment of the level of corruption, we use the interval method of evaluation). It was not surprising that the highest score was given to the goal of growth and development of private business. It is important to note that the assessment of corruption impact on important economic aspects corresponds to the overall assessment of the level of corruption. *A moderate overall level of corruption arising from assessments of SMEs corresponds to a moderately negative impact on reaching economic goals and efficiency*.

Figure 4.6 presents the distribution of respondents' answers to mutually related questions. In particular, the question of how often the managers of SMEs are forced to pay bribes to government representatives corresponds to the question of how often government officials
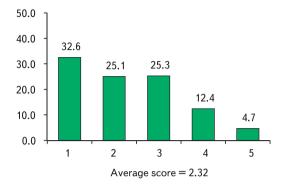
take bribes. Similarly, the question of the frequency of "kickbacks" in the activities of a particular SME is linked to the issue of "spillovers" of public funds to private parties. As a result, there is a very interesting situation when the answers to questions related to personal practice are significantly more positive than those relating to the evaluation of the situation in the whole country.

As we can see, the distribution of responses to the first group of questions is shifted to more positive responses. On the contrary, when it is not about respondents' own sphere of activity, their answers are close to a normal distribution. As a result, the number of those who believe that managers of SMEs often have to pay bribes to civil servants is about 17%. At the same time, almost 38% of SMEs believe that most public officials take bribes. The average score of answers to the question of "kickbacks" that SMEs have to give is 2.42 points, and a similar question about the "spillovers" of public funds in the hands of private actors due to corruption regardless of the area of activity gives a result equal to 2.96 points. Thus, *respondents tend to give more negative assessments of*
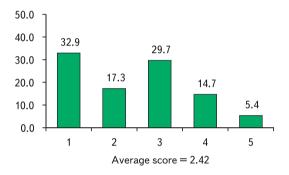
Figure 4.6. Bribes and "kickbacks", %

How often are executives of private companies
in your area forced to bribe representatives
of the authorities
("1" — it never happens, "5" — all the time)

Average score = 2.32

Which statement do you agree
the most?
("1" — government officials do not take bribes at all,
"5" — virtually all government officials take bribes)

Average score = 3.17

How often do 'kickbacks' in exchange
for profitable state orders occur in Belarus?
("1" — it never happens, "5" — significant)

Average score = 2.42

How common is the "spillover" of public funds
in enterprises to individuals and groups
of individuals as a result of corruption?
("1" — it never happens, "5" — it is common)

Average score = 2.96

Source: authors' calculations.
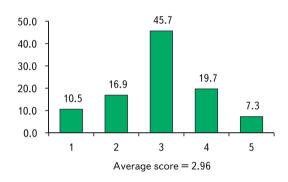
corruption when it is not connected with their specific activities.

4.2.4. Causes and areas of corruption

In the study of the causes of corruption it is important to determine its main initiators. Therefore, corruption should be viewed from two sides: from the demand side and the supply side. The right side of Figure 4.7 shows the distribution of respondents' answers to the question of who the initiators of corruption in the sphere of activity of respondents are – government employees or representatives of businesses. If we consider the extreme responses, more than 40% of SMEs believe that corruption is initiated by officials, and less than 15% of the respondents believe that corruption initiative

comes from the private sector. More than 45% of the surveyed SMEs take a neutral position in this issue. According to them, the cause of corruption is about initiatives of both government officials and business representatives themselves. The results indicate that *there is corruption both from the demand and supply sides in Belarus. However, it is mostly initiated by government officials.*

As for corruptogenicity of the legislation, about 20% of SMEs believe that it generates corruption to a large extent, while more than 35% of respondents do not consider the propensity for corruption in the legislation as a serious problem for business. In general this *problem, based on the obtained average score of 2.76, can be characterized as moderately urgent*.

In order to identify the main causes of corruption, respondents were asked to evaluate them from the list on 5-point scale, where "1" means that this is not an important reason for corruption, and "5" – the cause is very important. Using a 5-point scale makes it possible to obtain the averaged scores and rank the causes of corruption according to their importance. As before, in this case we can use the classification presented in Table 4.2, though this time in relation to the question under consideration. Obtained results are presented in Table 4.12.
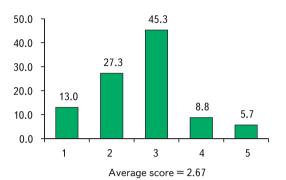
Similarly, we identified policy areas in which corruption is most widespread and areas of business, where corruption on the part of private businesses is more frequent. The evaluation was performed on a 5-point scale, where "1" means that there is

Figure 4.7. Initiators of corruption and corruptogenicity of the legislation, %

Who, in your opinion, is the main initiator
of corruption in your industry?
("1" — corruption is initiated mainly by civil servants,
"5" — corruption is initiated mainly business representatives)
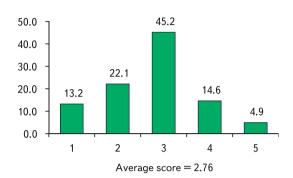
How imperfect is the legislation in your field leading
to corruption (the so-called "corruptogenic laws")?
("1" — the legislation is not corruptogenic at all,
"5" — legislation is very corruptogenic)

Average score = 2.67

Average score = 2.76

Source: authors' calculations.

Table 4.12. Assessment of the main causes of corruption

Causes of corruption	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
A high level of state regulation of the economy	2.91	426	1.153	2.80	3.02
Ongoing reform of government authorities, which leads to a lack of confidence in the future	2.93	426	1.205	2.81	3.04
Low salaries of civil servants	3.02	426	1.371	2.89	3.15
Insufficient administrative monitoring of performance of civil servants	3.21	427	1.198	3.10	3.33
Inadequate performance of anti-corruption bodies	3.28	425	1.201	3.16	3.39
Lack of tax control over income and assets of civil servants and their families	3.29	428	1.286	3.16	3.41
Greed of civil servants	3.47	429	1.283	3.35	3.60
Social tolerance towards corruption	3.49	426	1.227	3.37	3.60

Note. The causes of corruption are ranked in ascending order of the average score.

Source: authors' calculations.

no abuse in this area, and "5" – the abuse is very common. The corresponding results are given in Tables 4.13 and 4.14. In all three cases, the average scores are accompanied by 95% confidence intervals providing for comparison and evaluation of the level of importance of the causes of corruption and the degree of corruption in various spheres of government and business activities.

As follows from Table 4.12, *all identified causes of corruption are assessed by respondents as moderately important* (in all cases average scores statistically significantly exceed the score of 2.5). However, of particular interest here is the ranking of reasons by the average score (the higher the score, the more important the reason is). *In the first place*, as estimated by SMEs, *is such a reason as social tolerance towards corruption. In the second place* (with approximately the same score as for the first place) *is the greed of government officials. The third, fourth and fifth places are given to such reasons as inadequate performance of the authorities responsible for combating corruption, lack of administrative control over the official duties and low wages of civil servants, respectively*.

Among the spheres of government regulation we may note five most exposed, according to SMEs, to abuses: *sanitary and fire control, government contracts and participation in tenders, hygienic registration and certification*, as well as *obtaining various permits from local authorities*. It should be noted that, according to the average scores obtained in all spheres of government regulation presented in Table 4.13, *there is a moderate level of corruption* (except for the payment of taxes, where this level, rather, can be attributed to insignificant).

To evaluate the different types of corruption by public officials, respondents were also asked questions about how such a thing as "govern-

Table 4.13. Areas of state regulation of SMEs with most violations and corruption

Area of state regulation	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
Tax payment	2.60	426	1.176	2.49	2.72
Price regulation	2.63	426	1.099	2.53	2.74
Lease	2.74	421	1.146	2.62	2.85
Obtaining favorable judgments	2.78	422	1.213	2.66	2.90
Customs clearance	2.83	422	1.189	2.72	2.95
Tax audits	2.83	429	1.173	2.72	2.95
Obtaining licenses	3.00	427	1.238	2.88	3.12
Obtaining various permits with local authorities	3.05	426	1.202	2.93	3.16
Hygienic registration and certification	3.08	426	1.176	2.97	3.20
Getting government orders, winning tenders	3.17	420	1.227	3.05	3.28
Fire inspection	3.19	429	1.159	3.07	3.30
Sanitary inspection	3.20	426	1.125	3.09	3.31

Note. The areas of state regulation are ranked in ascending order of the average score.

Source: authors' calculations.

Table 4.14. Areas of corrupt activities of businesses

Area of activity	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				lower value	upper value
Opening a new business	2.75	426	1.250	2.63	2.88
Ensuring the adoption of the necessary legislative or administrative decision	2.79	422	1.174	2.68	2.91
Protection of property and business against the encroachments of competitors	2.87	427	1.176	2.75	2.98
Ensuring the needed judgment	2.90	415	1.210	2.78	3.01
Getting an opportunity of renting premises on favorable terms	3.09	426	1.124	2.98	3.20
Winning an auction/tender to purchase state-owned property	3.10	425	1.161	2.99	3.21
Obtaining permits and licenses	3.19	425	1.208	3.08	3.31
Obtaining government contracts	3.21	426	1.209	3.09	3.33
Winning a public tender	3.22	423	1.201	3.10	3.34
Softening requirements during audits of controlling bodies	3.23	428	1.175	3.11	3.34
Acceleration of the "solution" of the issue	3.57	427	1.177	3.46	3.68

Note. The areas of activity are ranked in ascending order of the average score.

Source: authors' calculations.

ment corruption", when passing laws and regulations that legally allow officials obtaining profit for themselves, is widespread in their area; how "administrative corruption", when officials provide certain persons or firms advantages and benefits for profit, is widespread in their area; how "abuse of power", which is associated with inaction or adoption of certain measures to "solve" any issues of collusion between officials in the interests of a third party, is widespread in their area of activities. As usual, the assessment is carried out on a 5-point scale, where "1" means that such phenomena are absent, and "5" – such phenomena are very common. The analysis shows

that respondents rate indicated corruption cases as moderate. The corresponding average scores are 2.65, 2.86 and 2.79 (in all cases, the lower level of the 95% confidence interval was above 2.5).

With regard to corruption on the supply side, the private business uses this illegal method to promote their interests and, first and foremost, *to accelerate the solution of existing problems, easing requirements for audits of controlling bodies, winning the public tender, government contracts and obtain permits and licenses.* As in the previous case, for all areas listed in Table 4.14 the level of corrup-

tion is estimated by respondents as moderate.
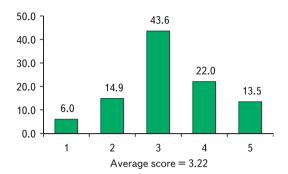
4.2.5. Dynamics of corruption and anti-corruption measures

According to the surveys of SMEs conducted by the IPM Research Center over the years, the problem of corruption is traditionally one of the top problems for small and medium-sized businesses.[48] Figure 4.8 presents the distribution of answers to the questions about

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[48] See http://www.research.by/publications/surveys-of-business; http://www.research.by/analytics/businessbook.
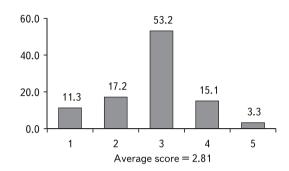
Figure 4.8. Corruption as a problem of small and medium-sized businesses, %

Does corruption hinder doing business
in Belarus?
("1" it does not, "5" is it a significant problem)

How did the situation with corruption
in your area change over the last 2—3 years?
("1" — significantly improved, "5" — significantly worsened)

Average score = 3.22

Average score = 2.81

Source: authors' calculations.

whether corruption is a problem for business in Belarus and how things have changed with the corruption in the areas of operation of SMEs in recent years.

As can be seen from these data, only 6% of SMEs believe that corruption is not a problem for doing business in the country. Consequently, the remaining 94% of respondents admitted that corruption is a problem for business. The degree of importance of this issue is assessed differently: *about 15% of SMEs believe that the problem of corruption exists, but it is insignificant; approximately 44% of respondents see this problem as moderate; 22% of respondents see it as a significant problem; and about 14% believe that corruption a very significant problem*. Thus, about 36% of SMEs indicated corruption as a very serious problem for doing business in Belarus. With regard to the average estimate, the average score of 3.22 shows that the *problem of corruption is generally seen as a moderate problem for business*.

According to the survey of SMEs, only about 28% of respondents believe that the situation with corruption in their field of activity has changed for the better in recent years. Most SMEs (53%) see no change, and 18% believe that corruption has worsened. The average score of the assessment equal to 2.81 indicates that, in general, ac-

cording to SMEs, *the situation with corruption has not changed significantly in recent years*.

Respondents were asked to answer the question "According to the Corruption Perceptions Index of Transparency International in 2013, Belarus was 123 out of 174 countries. Do you agree that the level of corruption in Belarus is really so high?" The assessment was given on a 5-point scale, where "1" means that a respondent strongly agrees with the statement, and "5" – that a respondent strongly disagrees with the statement. The responses were as follows: about 33% of the respondents fully or to some extent agree with this statement, about 42% find it difficult to give an unambiguous assessment, and 25% – do not agree with the position of the country in the corruption ranking. *It should be noted that the majority of assessments characterizing the corruption from the perspective of small and medium-sized businesses, give evidence of a moderate level of corruption in Belarus.*

Table 4.15 presents the methods of combating corruption that businesses intend to use. The assessment was carried out on a 5-point scale, where "1" means that the measure is very effective, and "5" – the measure is completely ineffective. The measures are arranged in the ascending order of the average score of their significance. According to

the responses, SMEs consider these measures as moderately effective. *Among the most effective measures,* they point *lodging complaints to higher officials for illegal actions of their subordinates, taking action to combat corruption through a business association and participation in the activities of expert councils of the legislative and executive authorities to conduct examinations of their decisions and develop recommendations regarding businesses*.

It is interesting to note that respondents rate quite highly the opportunity of lodging anonymous complaints about corruption. For example, more than 40% of respondents believe that it is a very or fairly effective method of combating corruption, and about 36% of respondents consider this method moderately effective. About 25% of SMEs question the effectiveness of this method of combating corruption.

The entrepreneurs surveyed evaluate the effectiveness of public authorities in fighting corruption as moderate (with the average score of 2.95, and the lower level of the confidence interval exceeding the threshold value of 2.5). Approximately 28% of respondents consider such efforts very or quite effective, 49% – moderately effective, and about 23% – to a greater or lesser extent ineffective. Activities of business associations to fight corruption were rated by SMEs

Table 4.15. Methods of combating corruption by business

Methods	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
Claims in the courts against the unlawful actions of officials in relation to businesses	3.03	428	1.225	2.91	3.15
Complaints to law enforcement officials for misconduct of officials in relation to businesses	3.20	429	1.171	3.09	3.32
Participation in activities of expert councils of businessmen of the legislative and executive authorities to conduct examinations of their decisions and develop recommendations regarding businesses	3.23	423	1.176	3.12	3.34
Action through the business association in opposition to corrupt officials	3.32	425	1.151	3.21	3.43
Complaints to higher officials for wrongful actions of their subordinates	3.41	429	1.154	3.30	3.52

Note. The methods are ranked in ascending order of the average score.

Source: authors' calculations.

Table 4.16. Most effective instruments for combating corruption

Instruments	Corruption level (average score)	Number of observations	RMSD	95% confidence interval	
				Lower value	Upper value
Higher wages to civil servants	3.05	428	1.328	2.92	3.18
Reducing corruptogenicity of the legislation	3.07	426	1.190	2.95	3.18
Reduction of the degree of state regulation of the economy	3.17	424	1.160	3.05	3.28
Increasing requirements for the selection for the public service	3.41	428	1.240	3.29	3.52
Strengthening the tax control over income and assets of civil servants and their families	3.50	422	1.175	3.39	3.61
Strengthening the administrative control of the official duties of civil servants	3.51	429	1.159	3.39	3.62
Building social intolerance to corruption	3.56	427	1.189	3.44	3.67
Improving the efficiency of anti-corruption bodies	3.65	430	1.102	3.55	3.76
Increasing criminal penalties for corruption offenses	3.67	430	1.149	3.56	3.78

Note. The tools are ranked in ascending order of the average score.

Source: authors' calculations.
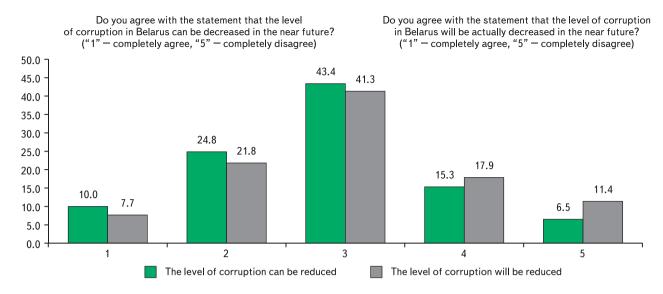
surveyed lower than the activities of government. The average score was 3.31.[49] Only about 17% of SMEs believe that business associations fight corruption effectively, and about 36% of the respondents believe that such method is ineffective.

[49] The assessment of the efficiency of combating corruption by public authorities and business associations was carried out on a 5-point scale, where "1" means that the methods are very effective, and "5" – the methods are completely ineffective, i.e. the higher the score they have, the higher their efficiency is.

Table 4.16 provides the most effective instruments to combat corruption. The assessment was carried out on a 5-point scale, where "1" means that the instrument is very effective, and "5" – the instrument is completely ineffective. The instruments are arranged in ascending order of the average score of their significance. All instruments, according to the received average score and 95% confidence interval, are, in the opinion of the respondents, moderately effective or effective.

The top instrument in this list is *stricter criminal penalties for corruption offenses (this measure is estimated as effective). Then it is followed by improving the performance of anti-corruption bodies (effective measure), the formation of social intolerance to corruption (moderately effective measure), strengthening administrative control over the professional activities of civil servants (moderately effective measure) and strengthening of fiscal control over income and assets*

Figure 4.9. Prospects for reducing corruption

Do you agree with the statement that the level of corruption in Belarus can be decreased in the near future? ("1" — completely agree, "5" — completely disagree)

Do you agree with the statement that the level of corruption in Belarus will be actually decreased in the near future? ("1" — completely agree, "5" — completely disagree)

■ The level of corruption can be reduced ■ The level of corruption will be reduced

Source: authors' calculations

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of civil servants and their families (moderately effective measure). It should be noted that the representatives of SMEs tend to choose rather direct and tough enough measures to fight corruption. Indirect measures to promote an environment that prevents corruption are rated by respondents somewhat lower.

To summarize, we will present the data on the prospects for reducing corruption in the country, according to SMEs. As can be seen from Figure 4.9, about 35% of the respondents believe that corruption can be reduced, and about 22% believe that it is hardly possible to do it. Interestingly, when it comes to actual reducing of corruption in Belarus, the percentage of the first group somewhat decreases, while of the second group – increases. Consequently, a significant share of respondents presents methods and tools to fight corruption, but has high hopes for their practical implementation.

4.3. Key findings

According to international experience and empirical studies, corruption leads to slower economic growth. The main transmission channels of this main negative impact are investment, including foreign direct investment, the restriction of competition and entrepreneurship, and the volume and structure of government revenues and expenditures. Ultimately, all this has a negative impact on the sustainable development of the countries affected by the negative impact of corruption.

Empirical studies suggest that the higher level of corruption leads to the lower ratio of investment to GDP. The deterioration of the country's place in the corruption ranking of Transparency International's by one point has a negative impact on the inflow of foreign direct investment (FDI) equivalent to the increase in the tax burden by 4.69 percentage points. In addition, corruption has a negative impact on government revenues, primarily by reducing the amount of taxes collected. Studies show that a 1-point increase in the corruption index, based on *ICRG* data, leads to a decrease in the ratio of government revenues to GDP of 1.5%, and to a 2.7% decrease in the ratio of tax revenues to GDP. Moreover, the ratio of the income tax coming into the treasury to GDP reduces to 0.63%. There is a clear link between the level of corruption and the size of the shadow economy in the country. The estimates, based

on the corruption index calculated for *Political Risk Services*, show that a decrease in corruption leads to the reduction of the shadow economy by 9.7%. This means that the fight against corruption is an important component of sustainable economic development of the country.

According to the estimated of highly recognized international organization Transparency International, Belarus in 2013 and 2012 was 123rd out of 177 countries (in 2011 the country ranked 143rd), which suggests a very high level of corruption in the country. Given the complexity of assessing corruption and subjective assessments in most cases, it is necessary to carry out a more detailed study of this phenomenon in relation to the various areas of activity.

The survey of private enterprises of small and medium-sized businesses in Belarus on corruption perceptions yielded interesting empirical information on the state of corruption in the country, to assess its level, to identify the underlying causes and areas where corruption manifests itself, as well as effective measures to counter it. The analysis conducted allows us to draw some conclusions.

(1) The resulting average score of the level of corruption of 2.79 falls

within the range corresponding to the average (moderate) level of corruption, based on the classification accepted in this study. Therefore, in general, small and medium-sized enterprises of Belarus assess corruption in Belarus as moderate. Since the assessments of the level of corruption by economic types of activities are not statistically different, it can be concluded that, in general, they correspond to the average level, and corruption by type of activity can also be assessed as moderate.

(2) In terms of regional differences in the level of corruption, all regions, according to the assessments of SMEs, can be divided into three groups: 1) with a low level of corruption; 2) with a moderate level of corruption; and 3) with a high level of corruption. The first group includes Brest, Minsk, Mogilev, Grodno, as well as Vitebsk, Gomel and Grodno regions. The second group consists of the city of Gomel and Minsk and Brest regions. And finally, the third group includes Vitebsk and Mogilev region. If we consider the generalized data for the regional center (the capital) and the region, we have only two groups that stand out here: those with low and moderate levels of corruption. The first group includes Minsk and Minsk region and Gomel and Gomel region, and the second – Grodno and Grodno region, Vitebsk and Vitebsk region, Brest and Brest region, Mogilev and Mogilev region.

(3) The analysis showed the better economic situation of the company and its dynamics are, the lower the respondents assess the level of corruption, and vice versa. In addition, corruption is assessed lower by those who are aimed at the development of the company and more optimistic in assessing the dynamics of the business environment.

(4) A moderate overall level of corruption stemming from these estimates corresponds to a moderately negative impact on its solving problems of economic development and improving performance. In addition, respondents tend to give more negative assessments of corruption when this does not apply to their specific activities.

(5) The results indicate that there is corruption both from the demand and supply sides in Belarus. However, it is mostly initiated by government officials. The analysis shows that among the main causes of corruption the first place is taken by social tolerance towards corruption. In the second place is the greed of government officials. The third, fourth and fifth places are given to such reasons as inadequate performance of the authorities responsible for combating corruption, lack of administrative control over the official duties and low wages of civil servants, respectively.

(6) Among the spheres of government regulation we may note five areas most exposed to abuses: sanitary and fire control, government contracts and participation in tenders, hygienic registration and certification, as well as obtaining various permits from local authorities. With regard to corruption on the supply side, the private business uses this illegal instrument to promote their interests, first and foremost, to accelerate the solution of existing problems, easing requirements for audits of controlling bodies, winning public tenders, government contracts and obtain permits and licenses.

(7) About 36% of SMEs indicated corruption as a very serious problem for doing business in Belarus. With regard to the average estimate, the average score of 3.22 shows that the problem of corruption is generally seen as a moderate problem for business. Overall, according to SMEs, the situation with corruption has not changed significantly in recent years. Noteworthy, the majority of assessments of corruption show that the problem of corruption is generally seen by SMEs as a moderate problem for business.

(8) The most effective measures to combat corruption include lodging complaints to higher officials for illegal actions of their subordinates, taking action to combat corruption through a business association and participation in the activities of expert councils of the legislative and executive authorities to conduct examinations of their decisions and develop recommendations regarding businesses. Respondents rate quite highly the opportunity of lodging anonymous complaints about corruption.

(9) The effective instruments to combat corruption include stricter criminal penalties for corruption offenses, improving the performance of anti-corruption bodies, the formation of social intolerance to corruption, strengthening administrative control over the professional activities of civil servants and strengthening of fiscal control over income and assets of civil servants and their families. It should be noted that the representatives of SMEs tend to choose rather direct and tough measures to fight corruption. Indirect measures to promote an environment that prevents corruption are rated by respondents somewhat lower.

5. SMALL AND MEDIUM-SIZED BUSINESS SUPPORT INFRASTRUCTURE IN BELARUS

SMEs in Belarus have become one of the main "locomotives" of the national economy not only providing jobs and showing high growth rates, but actively participating in the innovative development of the country, which is essential for the transition of the Belarusian economy. The nationwide survey held by the Independent Institute of Socio-Economic and Political Studies (IISEPS) in June 2013 showed that nearly a third of the Belarusian population (30.4%) put their hopes on the economic development of the country driven by Belarusian entrepreneurs.[50] Obviously, the government of Belarus, including the government at the highest level, has been of the same opinion focusing on various instruments to support and stimulate the development of SME in Belarus in the last five years.

In particular, to this end, the Government provided for this in Directive No. 4 *On the Development of Entrepreneurship and Stimulation of the Economic Activity in the Republic of Belarus* of December 31, 2010 and declared the year of 2011 as the Year of Entrepreneurship. Despite its failure to fully implement the plans in 2011–2012 (due to many objective circumstances related to the financial crisis of 2011 and the decrease in the purchasing power of the population in the domestic market), the government keeps supporting Belarusian SMEs hoping that the share of these enterprises in the gross domestic product will increase to 30% by the end of 2015. This indicator is provided by the Program of State Support of Small and Medium-Sized Businesses for 2013–2015 approved by the Council of Ministers

of December 29, 2012.[51] By 2020, the Government put an even more ambitious goal – to bring the share of SMEs in the Belarusian GDP to at least 50%, and the production is expected to grow by 3–4 times.[52]

As one of the objectives, the Program designates the "development of a constructive dialogue of the government with the representatives of business and public organizations (associations) of entrepreneurs."[53] To this end, the government created 30 public consultative (expert) councils with the government authorities, through which they were holding the dialogue with, among others, Belarusian SMEs. However, since the number of Belarusian small and medium-sized enterprises is large enough (about 90,000 according to the National Statistical Committee of the Republic of Belarus), there is an objective necessity of their collective (group) representation in front of the Belarusian government authorities. In this case, the main representatives and defenders of the interests of domestic SMEs are business associations uniting companies of various fields, regions, etc.

Until the early 2010s, Belarusian business associations had played the role far from a leading one (albeit very active) in the development of legislation and policy. The peak of their "popularity" in the business community was in 2010 – the period of the development of the Directive, in which business

alliances directly participated. However, the economic events of 2011, as well as changes in the rules and conditions of business activities related to the process of Eurasian integration of Belarus, posed a serious challenge to the authority of business associations as seen by domestic small and medium-sized enterprises.

Nevertheless, we can say that the role and influence of business associations in Belarus gradually grew in the 2010s amidst these challenges, as well as the number of SMEs in the Belarusian economy. The relatively recent examples of their successful performance may include the decision of the Belarusian government to back out from introducing the institution of special importers, which had been preceded by very active actions of Belarusian business associations. Their representatives carried out awareness campaigns about the disadvantages of such economic practices for the country and their potential harm in terms of attracting foreign investment.[54]

In general, given the variety of in-country and regional processes, the key objectives of the activities of the Belarusian business associations today include the following:

- effective protection of the interests of the Belarusian business in general and SMEs in particular;

- participation in improving the business climate (development of new or liberalization of existing legislation);

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[50] See http://iiseps.org/dannye/41.

[51] Resolution No. 1242 of the Council of Ministers of the Republic of Belarus of December 29, 2012, see http://pravo.by/main.aspx?guid=3871&p2=5/36745.
[52] See http://www.belta.by/ru/all_news/economics/Dolja-malogo-i-srednego-biznesa-v-VVP-Belarusi-k-2020-godu-dolzhna-sostavit-ne-menee-50_i_664062.html.
[53] Ibid.

[54] http://naviny.by/rubrics/economic/2014/06/23/ic_articles_113_185869/. http://primetass.by/News/show.asp?id=111461, http://bdg.by/news/economics/29660.html.

Table 5.1. Membership of businesses in business unions

	2010		2011		2012		2013		2014	
	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%
Yes	28	7.2	63	15.5	31	7.8	41	10.0	34	7.9
No	362	92.8	344	84.5	369	92.2	368	90.0	397	92.1
Total	389	100.0	407	100.0	400	100.0	409	100.0	431	100.0

Source: IPM Research Center.

Table 5.2. Membership of businesses in business unions by some factors

Are you member of business union?	Yes		No		Total	
	Number	%	%	Number	Number	%
Total	34	7.9	92.1	397	431	100.0
Type of activity						
Trade	11	8.3	91.7	122	133	100.0
Catering	3	13.6	86.4	19	22	100.0
Manufacturing	6	8.8	91.2	62	68	100.0
Construction	6	10.0	90.0	54	60	100.0
Transport and communications	2	5.0	95.0	38	40	100.0
Number of employees						
From 1 to 10	13	6.9	93.1	175	188	100.0
From 11 to 50	12	7.7	92.3	144	156	100.0
From 51 to 100	3	9.4	90.6	29	32	100.0
From 101 to 200	5	19.2	80.8	21	26	100.0
Over 200	1	3.7	96.3	26	27	100.0
Year of foundation						
1996	5	12.2	87.8	36	41	100.0
1997–2004	8	6.7	93.3	111	119	100.0
2005–2009	14	9.6	90.4	132	146	100.0
2010–2014	7	5.8	94.2	113	120	100.0
Gender of the respondent						
Man	14	6.7	93.3	196	210	100.0
Woman	20	9.0	91.0	201	221	100.0

Source: IPM Research Center.

− rapid response to regional processes, including integration economic processes.

This section presents the views of representatives of Belarusian SMEs about the performance of business associations in Belarus, their role in protecting interests of Belarusian SMEs, as well as prospects and interest in participating in the development of these associations and their activities.

5.1. Belarusian business unions and their participants

5.1.1. Profile of the Belarusian business union member

In May 2014, the share of participants in business associations (among surveyed SMEs) declined slightly compared with the results of the survey in 2013 – 7.9% against the previous 10% (Table 5.1). However, estimating the trend over a longer period of time – 2010–2014 –

we can conclude that the number of members of business associations generally remained the same, and the changes themselves are within the statistical error.

The largest proportion of members of business unions among the SMEs surveyed was observed in such areas of the Belarusian economy as catering (13.6%), construction (10.0%), manufacturing (8.8%), and trade (8.3%). We should note the increase in the number of members of business associations in catering, where there were no members at all in 2013.

Among the SMEs surveyed, members of business unions mostly included relatively large enterprises with the number of employees from 50 to 200 people, but the largest number came from smaller firms – from 1 to 50 people. It is these companies that accounted for almost three-quarters of all members of business unions. However, the share of members of business

unions among these enterprises, which was slightly below the average, does not meet the interest of small firms in the collective representation and protection of its own interests, which must be objectively higher than that of the largest private enterprises. The latter, according to the survey, were rarely involved in business unions, which may be logical, since large and powerful firms are much less likely to need the support of business unions.

In 2014, the trend of previous years, when older firms founded before 1996 most often reported that they were members of business unions, continued. However, in contrast to the results of previous years, the membership in business unions was more often stated by female representatives – 9.0% versus 6.7 % of men.

The economic situation of members of business unions was most often characterized as stable – in 61.8% of cases (Table 5.3). One can also note

Table 5.3. Economic situation of enterprises depending on the membership in business-unions

	Union members		Union non-members		Total	
	Number	%	Number	%	Number	%
Bad	2	3.7	52	96.3	54	100.0
Below average	3	8.3	33	91.7	36	100.0
Stable	21	8.6	223	91.4	244	100.0
Above average	6	7.9	70	92.1	76	100.0
Good	2	10.5	17	89.5	19	100.0
Total	34	7.9	395	92.1	429	100.0

Source: IPM Research Center.

Table 5.4. Aims of membership in business unions (several answers can be provided)

	Number	%
Skills development	10	29.4
Support in business internationalization	6	17.6
Legal services	21	61.8
Assistance in attracting financial resources (investors' search)	7	20.6
Assistance in business operation	7	20.6
Improving the business climate in the country	9	26.5
Sharing experience between union members	10	29.4
Total	34	100.0

Source: IPM Research Center.

Table 5.5. Aims of membership in business unions by size of the enterprise (several answers can be provided)

	From 1 to 10	From 11 to 50	From 51 to 100	From 101 to 200
Skills development	46.2	16.7	66.7	0.0
Support in business internationalization	30.8	8.3	0.0	20.0
Legal services	61.5	75.0	33.3	40.0
Assistance in attracting financial resources (investors' search)	15.4	25.0	33.3	20.0
Assistance in business operation	15.4	8.3	33.3	60.0
Improving the business climate in the country	23.1	25.0	66.7	20.0
Sharing experience between union members	23.1	50.0	0.0	20.0

Source: IPM Research Center.

that members of business unions rarely reported about their poor economic status than non-members: 5.9% and 13.2%, respectively. The Belarusian SMEs who described their economic situation as good more often included members of business associations – in 10.5% of cases with an average of 7.9%.

Based on the survey results, we can make an indicative profile of a Belarusian business union member among small and medium-sized enterprises. Most likely it will be a SME with an average number of employees from 50 to 200 people, founded either before 1996 or after 2004, whose main activity is trade, catering, manufacturing (industrial sector) or construction.

The obtained results suggest that members of Belarusian business unions are very heterogeneous in terms of age of enterprises, their size and areas. This, in turn, implies that companies will seek different benefits from their membership in such associations.

5.1.2. Joining business unions by Belarusian SMEs – benefits and constraints

The surveyed Belarusian SMEs chose legal assistance as the main reason for joining business associations. The frequency of choice of this response was 61.8% (Table. 5.4). Compared with the previous year, the "importance" of this reason in the eyes of Belarusian SMEs increased by 17.9 percentage points.[55] The biggest decline in popularity was for the option "Assistance in business operations" – by 20.9 percentage points down to 20.6%. Other forms of support from business unions were of equal interest for small and medium-sized businesses, with

_____
[55] Percentage points.

the exception of support for the internationalization of activities, the frequency of selection of which was only 17.6% (previous year – 26.8%). This suggests that international cooperation is of little interest for Belarusian small and medium businesses, or else they do not count on the help of business associations in these matters. Skills development and sharing experience between union members were of a relatively high popularity, just as a year ago (29.4% each).

Small businesses, employing up to 50 people, are more interested in legal services when joining business associations, while larger firms were more concerned with skills development, assistance in business operations and improving the business climate in the country as a whole (Table 5.5).

However, despite the obvious benefits of participation in business

Table 5.6. Main reasons why entrepreneurs do not join business unions (several answers can be provided)

	Number	%
High membership fees	28	7.1
I believe business unions cannot solve my problems	159	40.1
It is better not to use services of such organizations for political reasons	30	7.6
Lack of information about their activity	169	42.6
Hope to solve problems independently	110	27.7
Unsatisfactory quality of the services provided	21	5.3
Total	397	100.0

Source: IPM Research Center.

Table 5.7. Main reasons why entrepreneurs do not join business unions by the size of the enterprise (several answers can be provided)

	From 1 to 10	From 11 to 50	From 51 to 100	From 101 to 200	From 1 to 10
High membership fees	7.4	5.5	3.4	19.0	7.7
I believe business unions cannot solve my problems	39.2	36.6	37.9	52.4	50.0
It is better not to use services of such organizations for political reasons	8.5	6.9	0.0	14.3	7.7
Lack of information about their activity	50.6	35.9	48.3	28.6	30.8
Hope to solve problems independently	23.9	36.6	24.1	9.5	19.2
Unsatisfactory quality of the services provided	5.7	4.8	6.9	0.0	7.7

Source: IPM Research Center.

Table 5.8. Satisfaction with the level of the dialogue (intensity of the dialogue) between businesses (business unions) and public authorities

Are you satisfied with the level of the dialogue (intensity of the dialogue)?	2013		2014	
	Number	%	Number	%
Yes	82	20.0	133	30.9
No	247	60.4	282	65.4
NA/don't know	80	19.6	16	3.7
Total	409	100.0	431	100.0

Source: IPM Research Center.

Table 5.9. Satisfaction with the level of the dialogue (intensity of the dialogue) between businesses (business unions) and public authorities depending whether respondents are members of business unions or not

Are you satisfied with the level of the dialogue (intensity of the dialogue)? / Are you a member of business unions?	Yes	No	NA/don't know
Yes	52.9	41.2	5.9
No	29.0	67.5	3.5
Total	30.9	65.4	3.7

Source: IPM Research Center.

associations and interest of Belarusian SMEs in certain services, the number of participants has varied only slightly in recent years. For several reasons, SMEs take a cautious stance on the question of their membership in associations. Some of the reasons for such caution were discovered during the survey of domestic enterprises (Table 5.6).

Oddly enough, one of the main reasons for the refusal of joining business unions, just like in 2013, is the opinion of business managers about the inability of unions to effectively solve problems of their members. This was stated by

40.1% of respondents (35.9% – in 2013). In this regard, 27.7% of the representatives of SMEs said that they hoped to address emerging challenges independently. Another very actual problem is the lack of information about the activities of such unions.

Thus, despite the improving performance of business associations, the business community still knows little about them. High membership fees, political aspects, the poor quality of services provided – all this, as in the previous year, were not a tangible obstacle for Belarusian SMEs towards joining business unions.

The lack of information about the activities of business associations is experienced mostly by small businesses, employing up to 50 people (Table 5.7). In addition, they put more hopes for independent problem solving. Larger SMEs consider pointless to join business unions because they believe that these unions cannot solve their problems.

Businesses in Belarus often negatively assess the level of dialogue between business associations and authorities. This was stated by 65.4% of respondents, while a positive assessment to the dialogue was given by only 30.9% of respondents (Table 5.8).

Table 5.10. Areas where entrepreneurs experience unequal conditions for doing business in comparison with the public sector, %

	Number	%
Taxation	130	30.2
Attitude of supervisory bodies	176	40.8
Rental rates	152	35.3
Commodity prices	79	18.3
Conditions for obtaining permits and licenses	78	18.1
Access to credit resources	85	19.7
Local authorities' attitude	91	21.1
Judiciary bodies' attitude	36	8.4
Public procurement	59	13.7
Conditions are equal	46	10.7
Total	431	100.0

Source: IPM Research Center.

On the one hand, the percentage of positive assessments significantly increased compared with 2013 (by 10.9 percentage points). On the other hand, negative assessments were given more frequently – by 5 percentage points up to 65.4%.

At the same time it should be noted that members of business unions are much more positive about the level of dialogue between businesses and government than non-members (Table 5.9). Thus, union members gave positive assessments in most cases (52.9%), while non-members – in 29.0%.

Overall, given the above, we can draw the following conclusions. Firstly, activities of business unions, their effectiveness in addressing both individual and collective problems of Belarusian business (as evidenced by reasons of businesses to join this associations and the remaining hierarchy of goals in recent years), the dialogue of business unions with public authorities and the results of this dialogue (the level of satisfaction that increased by half over the last year) remain practically unknown to local SMEs. This sets a general goal for managers and current members of business associations of promoting its activities in order to provide for further sustainable expansion.

Second, the proportion of participants of business associations has remained virtually unchanged in re-

cent years. This suggests that, in its current form, business associations have reached the level of a kind of "saturation" when the subsequent increase in the number of members is expected to a very limited extent. The old mechanisms to attract new members used in the previous decade, obviously, no longer work, and therefore they need to be updated. The potential success of the new mechanism is also evidenced by the fact that even among members of business unions slightly more than half of the respondents consider their dialogue with the authorities satisfactory. Thus, business associations should not only take a closer look at the current problems of the business, but also to demonstrate their ability to solve these problems, as it has already been shown in the case of countering the emergence of new barriers for doing business (the matter connected with the introduction of special importers).
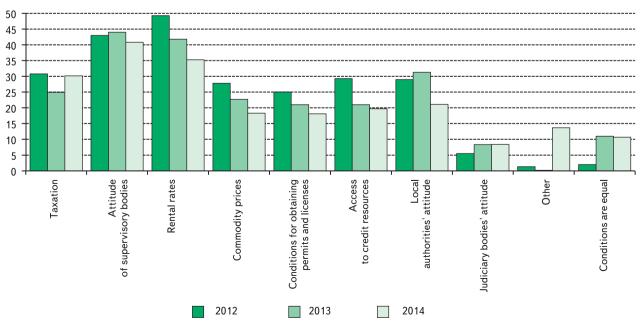
5.2. Major problems of Belarusian SMEs

5.2.1. Internal problems

The scope of activities of business unions in Belarus remains fairly

Figure 5.1. Inequality of doing business conditions compared to the public sector in 2012–2014, %

Source: IPM Research Center.

Figure 5.2. Inequality of doing business conditions compared to the public sector for members and non-members of business unions, %

Source: IPM Research Center.
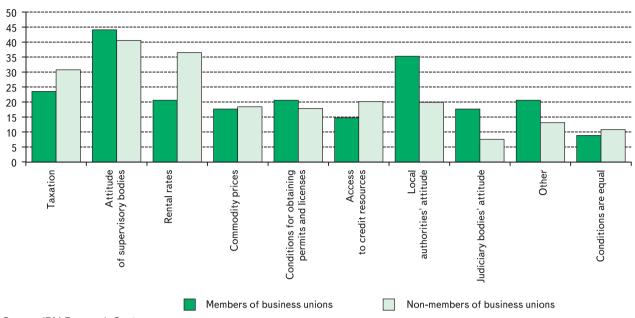
Table 5.11. The impact of changes in the business environment on doing business over the last year

	−3	−2	−1	0	1	2	3	Mean
Business registration	0.9	3.0	10.5	58.6	15.0	6.8	5.1	0.25
Obtaining different permits	3.3	7.0	16.6	49.2	16.8	6.1	1.2	−0.08
Administrative procedures	4.4	5.1	19.8	47.3	15.9	6.5	0.9	−0.12
Number of inspections	4.9	7.7	21.2	47.6	12.4	4.7	1.6	−0.25
Amount of penalties	10.1	14.3	22.3	40.4	8.5	3.1	1.4	−0.62
Lease payments	14.8	14.4	26.1	34.8	5.4	3.5	0.9	−0.84
Pricing	8.4	7.2	20.1	47.2	10.3	5.8	0.9	−0.35
Tax burden	6.5	10.3	19.9	48.8	10.3	3.5	0.7	−0.41
Time required for tax assessment and payment	2.8	8.4	14.7	54.8	13.8	4.2	1.4	−0.14
Credit accessibility	10.1	10.3	16.6	44.3	12.9	4.4	1.4	−0.41
Ease of foreign trade operations	4.5	5.0	12.8	60.8	13.3	2.9	0.7	−0.15
Wage calculation	2.1	5.6	11.2	60.0	16.9	3.5	0.7	−0.03
Cost and complexity of auction and tender processes	3.3	5.7	11.2	67.1	8.3	3.6	0.7	−0.15
Property rights protection	1.4	3.6	13.8	62.9	12.4	4.3	1.7	0.01

Note. "-3" – "significant worsening of the situation", "0" – "no changes", "3" – "significant improvement".

Source: IPM Research Center.

Table 5.12. The impact of changes in the business environment on doing business in 2013 and 2014

	2013	2014
Business registration	0.56	0.25
Obtaining different permits	0.11	−0.08
Administrative procedures	−0.03	−0.12
Number of inspections	−0.23	−0.25
Amount of penalties	−1.24	−0.62
Lease payments	−1.75	−0.84
Pricing	−0.85	−0.35
Tax burden	−1.01	−0.41
Time required for tax assessment and payment	−0.15	−0.14
Credit accessibility	−0.19	−0.41
Ease of foreign trade operations	−0.23	−0.15
Wage calculation	0.38	−0.03
Cost and complexity of auction and tender processes	−0.18	−0.15
Property rights protection	−0.14	0.01

Source: IPM Research Center.

Table 5.13. Chances for improvement of the rank of Belarus in business environment ratings

	Survey 2011		Survey 2012		Survey 2013		Survey 2014	
	Number	%	Number	%	Number	%	Number	%
Yes	77	18.9	122	30.5	101	24.8	180	42.1
No	267	65.6	201	50.2	170	41.7	248	57.9
NA/don't know	63	15.5	77	19.2	137	33.6	–	–
Total	407	100.0	400	100.0	408	100.0	428	100.0

Source: IPM Research Center.

Table 5.14. Chances for improvement of the rank of Belarus in business environment ratings depending whether respondents are members of business unions or not

	Members	Non-members	Mean
Yes	55.9	40.9	42.1
No	44.1	59.1	57.9
Total	100.0	100.0	100.0

Source: IPM Research Center.

Table 5.15. The assessment of the effects of accession of Belarus to the CU and creation of the CEA

	Members of business unions		Non-members of business unions		Total	
	Number	%	Number	%	Number	%
Positive	15	44.1	178	44.8	193	44.8
No effect	13	38.2	167	42.1	180	41.8
Negative	6	17.6	52	13.1	58	13.5
Total	34	100.0	397	100.0	431	100.0

Source: IPM Research Center.

Table 5.16. Assessments of the future impact of the continued economic integration within EEU on Belarusian businesses

	Members of business unions		Non-members of business unions		Total	
	Number	%	Number	%	Number	%
Positive	15	44.1	175	44.1	190	44.1
No effect	13	38.2	160	40.3	173	40.1
Negative	6	17.6	57	14.4	63	14.6
NA/don't know			5	1.3	5	1.2
Total	34	100.0	397	100.0	431	100.0

Source: IPM Research Center.

wide. One of the areas is the elimination of the current inequality in business conditions in comparison with the public sector, which was noted by representatives of Belarusian SMEs (Table 5.10). The reason for this inequality lies in a high social importance of preserving jobs in state enterprises, in connection with which government and regulatory authorities can often approach certain issues and be more tolerant when dealing with the public sector of the economy. However, in this case private enterprises are at a disadvantage and spend more effort, time and money per unit of production, which will undoubtedly have a negative impact on their competitiveness and development.

In 2014, respondents most often mentioned unequal business conditions compared to the public sector in such areas as the attitude of the supervisory bodies (about 40.8% of the surveyed respondents), rental rates (35.3%), and taxation (30.2%). Most often inequality was noted in the area of the attitude of the judiciary (8.4%) and public procurement (13.7%). Only 10.7% of Belarusian

SMEs expressed the view that the conditions of private and state-owned enterprises are the same in all areas.

However, it should be noted that the respondents stated positive change in most cases, just like in 2013 (Figure 5.1). In particular, significant improvements have taken place in respect of local authorities (10.2 percentage points), rental rates (6.5 percentage points), and commodity prices (4.4 percentage points). Belarusian SMEs have noticed worsened conditions in comparison with the public sector in the field of taxation (+5.3 percentage points).

Members of business unions provided fewer responses about the inequality of conditions than non-members in such areas as taxation (less by 7.2 percentage points), rental rates (15.9 percentage points), and access to credit (5.4 percentage points). However, it is noteworthy that members of business associations significantly more often reported about unequal conditions in respect of attitudes of

local authorities and the judiciary (Figure 5.2). Overall, these results confirm that members of business unions receive the necessary assistance in the operation of business, but in terms of relations with the authorities, these associations have not yet met the expectations of their members.

Despite some positive trends in leveling out the business environment, according to the survey, the issue of rent in 2014 was ranked first among those worsening business conditions were recorded last year (Table 5.11). Adverse changes in the conditions were noted in relation to all of the proposed options, with the exception of business registration (with an average of 0.25) and the protection of property rights (0.01).

On the other hand, compared with 2013, the changes became less noticeable as perceived by Belarusian SMEs in 2014. The dynamics of negative changes on issues such as fines, rents pricing, payroll and so forth. Decreased significantly (Table 5.12). This leads to a gener-

Figure 5.3. Assessment of the impact of joining by Belarus of the Customs Union and participation in the creation of Common Economic Area on Belarusian business in 2013–2014

Members of business unions   Non-members of business unions

■ Positive   ■ No effect   ☐ Negative   ■ N/A; don't know

Source: IPM Research Center.
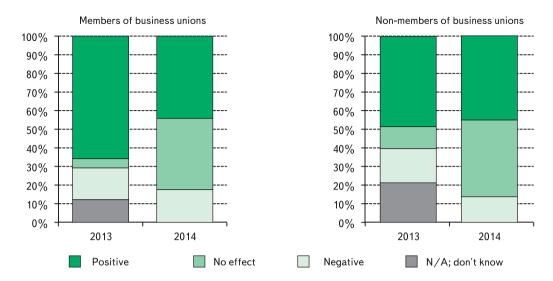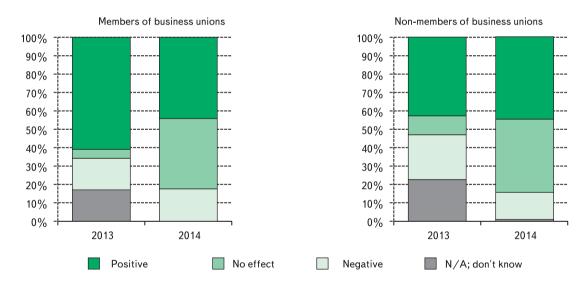
Figure 5.4. Assessment of the future impact of further economic integration of the EEU on Belarusian business in 2013–2014

Members of business unions   Non-members of business unions

■ Positive   ■ No effect   ☐ Negative   ■ N/A; don't know

Source: IPM Research Center.

ally positive conclusion about some stabilization of the business environment in Belarus while minimizing the negative processes that create new obstacles to the successful conduct of business activities.

The stabilization of the Belarusian economy after the crisis in 2011, the gradual recovery of the domestic demand and minimal new adverse changes in the business environment led to a raised belief among Belarusian businesses in 2014 that Belarus has a chance to improve its rankings in the quality of the business environment (Table 5.13). It is noteworthy that this represents one of the objectives of the Program of State Support for Small and Medium-Sized Enterprises in 2013-2015. While less than a quarter of Belarusian SMEs spoke positively about the prospects of Belarus to improve the rankings on the quality of the business environment in 2013, in 2014 (after the option "N/A/I don't know" was deleted from the survey), their share increased by 17.3 percentage points – up to 42.1%. This, however, is still somewhat lower than the proportion of pessimistic SMEs who responded to this question.

However, members of business unions in most cases believed that Belarus would improve its place in the ratings, as opposed to those SMEs who were not members of business associations (Table 5.14).

Table 5.17. Ability of enterprises to compete in the market of the Customs Union and Common Economic Area

Can your enterprise compete in the markets of CU and CEA?	Members of business unions		Non-members of business unions		Total	
	Number	%	Number	%	Number	%
Yes	18	52.9	161	40.6	179	41.5
No	16	47.1	236	59.4	252	58.5
Average	34	100.0	397	100.0	431	100.0

Source: IPM Research Center.

In general we can say that the Belarusian business environment, despite some minor improvements noted in the survey by domestic small and medium-sized enterprises, still has some obstacles, eliminating of which under the leadership of business unions (or at least a public demonstration of efforts to address) may help the latter to recruit additional members.

5.2.2. External challenges

Internal business environment today is not the only challenge to successful business and development of Belarusian SMEs. With increasing regional integration processes and the involvement in them of Belarus, the competition will gradually increase not only with national, but also with foreign enterprises. Given this, business unions should focus on the participation of Belarus in the Eurasian integration (Customs Union, the Common Economic Area, and starting from 2015 the Eurasian Economic Union).

In 2014, there was no significant difference between members and non-members of business unions on the perception of the results of Belarus' accession to the Customs Union and the Common Economic Area, as well as the prospects for the country's participation in the Eurasian Economic Union (Table 5.15, 5.16). The vast majority of respondents either evaluated these indicators positively or believed that the Eurasian integration did not have and would not have any impact on the Belarusian business in the near future.

Compared with 2013, members of business associations have become much less positive about the results and prospects of Belarus' participation in the Eurasian integration groupings. The proportion of those who welcomed the results of Belarus' participation in the Customs Union and the Common Economic Area fell sharply by 21.8 percentage points down to 44.1%, and those who looked positively at the prospects of Belarus' participation in the EEU – by 16.9 percentage points down to 44.1% (see Figure 5.3). The responses of non-members of business unions to these questions over the past year proved to be more consistent.

In general, such a development could be expected, since business unions failed to defend the interests of a number of SMEs on certification of products within the Customs Union in 2013. In June 2013 individual entrepreneurs went on strikes in a number of cities in Belarus protesting against the introduction of the technical regulations of the Customs Union on the Safety of Products of Consumer Goods Industry mandatory for execution on the territory of all the three countries from July 1, 2013. The technical regulations stipulated a ban on the sale of the consumer goods without confirming their compliance and labeling of a single mark of products on the market of the Member States of the Customs Union within the Customs Union.

The only result of business activities of the unions in this situation was that the Ministry of Economy agreed to postpone the entry into force of the Regulations for individual entrepreneurs trading in the markets and shopping malls to July 1, 2014, and after that it extended the period for sale of the remaining consumer goods imported into Belarus before July 1, 2014.

However, there are examples of positive outcomes of participation in business associations for the Belarusian SMEs after the start of the Eurasian integration. For instance, members of business associations consider themselves more competitive in the Customs Union and CEA than SMEs who are not members of such unions, and report about their competitiveness in more than half of the cases (Table 5.17). On the one hand, on the basis of the above, it can be concluded that business associations cannot effectively protect interests of Belarusian SMEs in all matters related to the country's participation in the Eurasian integration. This, of course, reduces the credibility of such organizations, testifies to their limited opportunities in the dialogue with the authorities in matters of defending the interests of the business community.

On the other hand, the Belarusian businesses today and in the foreseeable future have no alternative business associations that could establish a dialogue with the authorities on various integration issues. Since the participation of Belarus in the Eurasian integration continues, business associations should intensify their efforts to attract new members under the auspices of protecting the interests of Belarusian business from possible adverse changes in the business environment. To do this, in our opinion, it is necessary to focus on a deeper analysis of the Treaty establishing the Eurasian Economic Union and to assess the potential impact of the

convergence of sanitary, veterinary and other policies of Belarus, Russia and Kazakhstan, as provided for in the Treaty, on the activities of domestic SMEs.

5.2.3. The prospect for the increase in the share of SMEs in the Belarusian economy

The share of private small and medium-sized businesses in the Belarusian economy has grown steadily in the past five years. In May 2013, at the VI Astana Economic Forum, Rustam Akberdin, Director of the Department of Entrepreneurship of the Eurasian Economic Commission, stated that Belarus is a leader among all the countries of the Customs Union in the contribution of SMEs to the national economy – 22% versus 20% and 19% in Russia and Kazakhstan, respectively. In December 2013, Petr Prokopovich, Deputy Prime Minister of Belarus, said that the share of small and medium-sized businesses in the GDP was 24%, and it increased to 25% in March 2014. The Government expects the share of SMEs to increase to 30% by the end of 2015 (as provided for, among all other documents, by the Program of State Support of Small and Medium-Sized Enterprises in the Republic of Belarus for 2013-2015), and up to 50% by 2020.[56] By this time, Belarus should move closer to the developed western countries, where the contribution of small and medium-sized businesses in GDP is as follows: for EU countries – 60% (in 2012; with SMEs accounting about 67% of total employment in the total of the European Union[57]), and for the US economy – 44% of GDP (2011).[58]

This initiative is reflected in the Resolution of the Council of Ministers *On the Program of the State Support of Small and Medium-Sized Enterprises in the Republic of Belarus* for 2013–2015 of December 29, 2012.

The Resolution specifies that SMEs employed approximately 1 460 000 people, or nearly a third of the economically active population, in 2011. The share of employed with SMEs rose from 28.6% of the total employment in the economy in 2007 to 31.4% in 2011. At the same time the share of GDP produced by small and medium-sized businesses tends to increase. In 2011, this indicator was 22.9% (an increase compared to 2007 by 1.3 times).

To this end, as of April 1, 2014 as part of measures to implement the Directive on the Development of Entrepreneurship and Stimulation of Business Activity in the Republic of Belarus, 167 acts of legislation (17 laws, 35 edicts, 5 decrees and 3 orders of the President, 66 resolutions of the Council of Ministers, 5 resolutions of the National Bank, 36 departmental legal acts) were adopted and affected virtually all spheres of social relations.[59]

According to the Ministry of Economy of the Republic of Belarus, the reforms specified in the laws above are aimed at

– furthering the development of fair competition of business entities regardless of their form of ownership;

– adoption of most active measures for the protection and development of private property; creating conditions for the smooth implementation of business activity;

– elimination of unnecessary administrative barriers in the interaction between public authorities and legal entities and citizens;

– completion of the harmonization of the tax system of the Republic of Belarus with the systems effective in European countries; ensuring that the tax laws stimulate conscientious fulfillment of tax obligations and business initiative; increased use in the Republic of Belarus of international standards in accounting with a drastic reduction in the financial statements;

– focusing control (supervision) activities on prevention, the transition to the predominant use of preventive measures aimed at preventing offenses in business activities;

– improvement of infrastructure and financing of small businesses in order to enhance business activity and ensure effective business support (legal, organizational and financial), especially at the start-up and development stages; providing economic incentives for private businesses to participate in the development of the business environment of business entities of private ownership, public associations, including business associations (associations);

– developing a legal framework that encourages the development of public-private partnerships in the Republic of Belarus;

– providing a clear legal regulation and stability of legislation, improving the quality of normative legal acts regulating business activities.

The short-term objectives of the Program, according to the Ministry of Economy of the Republic of Belarus, are as follows: to provide legal regulation of public-private partnership, the activities of companies, microfinance; to further improve relations in the field of licensing, pricing and

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[56] See http://bdg.by/news/economics/27054. html http://www.belta.by/ru/all_news/economics/Dolja-malogo-i-srednego-biznesa-v-VVP-Belarusi-k-2020-godu-dolzhna-sostavit-ne-menee-50_i_664062.html.
[57] EU SMEs in 2012: at the crossroads. Annual report on small and medium-sized enterprises in the EU, 2011/12 URL: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf.

[58] The Panel session of Entrepreneurship in Kazakhstan: Challenges and Opportunities at the VI Astana Economic Forum URL: http://www.eurasiancommission.org/ru/nae/news/Pages/24-05-2013-2.aspx.
[59] See http://www.economy.gov.by/dadvfiles/001723_904109_Text_01042014.doc.

insurance activities, and the order of doing business and the sale of goods by individual entrepreneurs; to create a unified anti-monopoly system; to develop the Institute of franchising; to transit to the provision of services and procedures associated with doing business electronically and others.

An important component of the Program, as well as actions taken and planned to implement it, is a focus not only on improving the business environment for existing small and medium-sized enterprises, but also 1) on stimulation of business activities among different categories of citizens, and 2) the development of dialogue with the business community. Thus, on the one hand, Belarusian business unions will be able to attract new members who primarily need a consulting support. On the other hand, business unions are required to take a more active role in the implementation of the Program, which will indicate their willingness and ability to participate in improving the business environ-

ment and to lead a dialogue on this issue with the authorities.

5.3. The National Business Platform in Belarus and ways to improve it

5.3.1. Awareness and opinion about the NPBB among Belarusian SMEs

One of the activities of business associations to promote the dialogue with the public authorities is the annual National Business Platform of Belarus developed in recent years. This document aims to analyze the most pressing challenges for Belarusian SMEs (which is carried out by, among others, domestic SMEs), on the basis of which the expert community offers its own vision of solving the most urgent problems to improve the business climate in the country.

In 2014, more than a quarter of Belarusian SMEs were aware of the National Business Platform (Table

5.18). In general, this figure corresponds to the results of the previous years, although it is possible to note some positive changes. Apparently, the share of domestic SMEs who are aware of this initiative of business unions has also reached a certain limit, and itsfurther increase will depend on the use by business unions of new approaches to promote their activities.

Over the past five years, the proportion of SMEs aware of the National Business Platform has been traditionally significantly higher among members of business unions (Figure 5.5). In particular, in 2014 about 61.8% of members of business unions knew about the National Business Platform against only 23.4% of non-members. The changes, compared with the previous year, are minor and lie within statistical error.
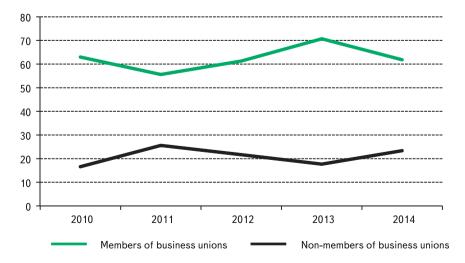
According to the survey, the knowledge about the National Business Platform was often demonstrated by representatives of companies

Table 5.18. Awareness of the National Business Platform in Belarus in 2011–2014

Do you know about the NPBB?	2010		2011		2012		2013		2014	
	Number	%	Number	%	Number	%	Number	%	Number	%
Yes	77	19.9	123	30.2	99	24.8	94	23.0	114	26.5
No	312	80.1	284	69.8	301	75.2	315	77.0	317	73.5
Total	389	100.0	407	100.0	400	100.0	409	100.0	431	100.0

Source: IPM Research Center.

Figure 5.5. Awareness of the National Business Platform in Belarus depending on whether they are members of business unions or not

Source: IPM Research Center.

Figure 5.6. Awareness of the National Business Platform in Belarus depending on the area of activities, size and year of establishment of the enterprise

Source: IPM Research Center.
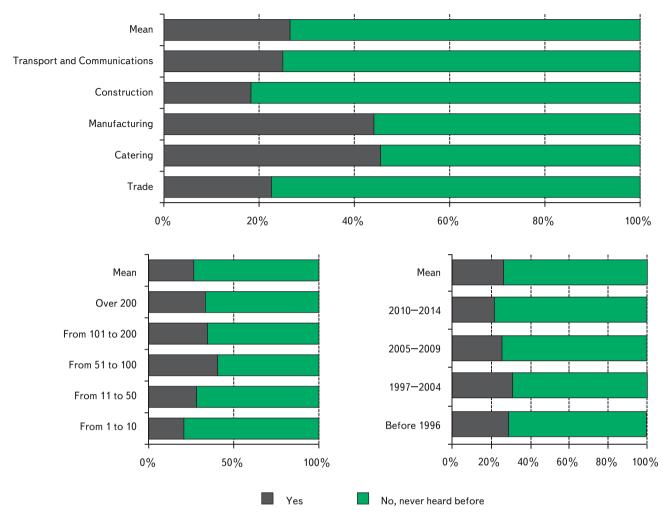
Table 5.19. Level of support to the National Business Platform

Do you support the NPBB?	Number	%
Yes, incl.	93	81.6
completely	6	5.3
likely to support	87	76.3
Unlikely to support	21	18.4
Do not support at all	0	0.0
Total	114	100.0

Source: IPM Research Center.

Table 5.20. Level of support to the National Business Platform in 2011–2014, %

Do you support the NPBB?	2010	2011	2012	2013	2014
Yes, incl.	84.1	79.6	79.8	76.6	81.6
completely	16.8	20.3	18.2	16.0	5.3
likely to support	67.3	59.3	61.6	60.6	76.3
Unlikely to support	15.9	14.6	14.1	6.4	18.4
NA/don't know	–	5.7	6.1	17.0	–
Total	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

operating in manufacturing and catering – 44.1% and 45.5%, respectively, with an average of 26.5% (Figure 5.6). Depending on the number of staff working at the company, mostly medium-sized enterprises are aware about the National Business Platform (often with the number of employees from 51 to 200 people (40.6%)). Thus, efforts to attract the smallest enterprises, who find it so hard to protect

Table 5.21. Level of support of the National Business Platform in Belarus depending on membership in business unions

Do you support the NPBB?	Are you a member of a business union?			
	Yes		No	
	Number	%	%	Number
Yes, incl.	20	95.3	78.5	73
completely	3	14.3	3.2	3
likely to support	17	81.0	75.3	70
Unlikely to support	1	4.8	21.5	20
Total	21	100.0	100.0	93

Source: IPM Research Center.

Table 5.22. Level of support of the National Business Platform in Belarus in 2011–2014 depending on membership in business unions, %

	Members of business unions					Non-members of business unions				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Yes, incl.	93.1	88.5	89.5	96.6	95.3	81.7	76.1	72.1	67.7	78.5
completely	23.5	37.1	31.6	27.6	14.3	15.0	13.6	14.0	10.8	3.2
likely to support	70.6	51.4	57.9	69.0	81.0	66.7	62.5	58.1	56.9	75.3
Unlikely to support	5.9	2.9	5.3	3.4	4.8	18.3	17.0	17.4	7.7	21.5
NA/don't know	–	0.0	5.3	0.0	–	–	2.3	10.5	24.6	–
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IPM Research Center.

Table 5.23. Awareness and level of support to the National Business Platform in Belarus depending on membership in business unions in 2011–2014, %

	Know about the Platform	Support its ideas
Members in business unions		
2010	63	94
2011	56	89
2012	61	90
2013	71	97
2014	62	95
Non-members of business unions		
2010	17	82
2011	26	76
2012	22	72
2013	18	68
2014	23	79

Source: IPM Research Center.

their own interests in the dialogue with the government, is a potential direction of efforts for business unions. Depending on the year of foundation of the company, we have the following pattern. The managers of older enterprises founded before 2004 (29.3% and 31.1%, respectively) more often stated that they were aware of the National Business Platform. Consequently, business unions should focus on working with younger SMEs.

Among those who know about the National Business Platform, the overwhelming majority of respondents (81.6%) support the document to this or that extent (5.3% – fully support, 76.3 – likely to support). It is noteworthy that, as in the previous years, none of the representatives of Belarusian SMEs, who were aware

of the National Business Platform, stated that they did not support its initiatives at all (Table 5.19).

Despite the fact that the level of support for the National Business Platform in 2014 increased by 5 percentage points compared with 2013, we can note some negative trends. For instance, the share of those who fully support the Platform fell by 11.7 percentage points to 5.3%, while the proportion of those who are unlikely to support the National Business Platform, on the contrary, increased by 12 percentage points to 18.4% (Table 5.20). However, this is due to the fact that during the survey of 2014 respondents were not offered the option of "N/A/don't know" due to which about a half of the previously "undecided" stated that they were unlikely to support

the platform's initiatives. In general, the level of support to the platform by Belarusian SMEs remains very high.

The National Business Platform is supported by the vast majority of members of business unions – 95.3% (Table 5. 21). Among those who were not members of business associations, the figure was 78.5%. The proportions of responses "unlikely to support" (the Platform – *note from the Author*) differ significantly between members and non-members of business associations – 4.8% and 21.5%, respectively.

Over the past five years, the ratio of support levels by the National Business Platform among members and non-members of business associa-

Table 5.24. The role of the National Business Platform in Belarus in business community consolidation on protection of their interests

Role	2013		2014	
	Number	%	Number	%
Significant role	18	19.2	46	40.4
Insignificant role	44	46.8	53	46.5
No role	12	12.8	15	13.2
NA/don't know	20	21.3	–	–
Total	94	100.0	114	100.0

Source: IPM Research Center.

Table 5.25. The role of the National Business Platform in Belarus in business community consolidation on protection of their interests depending on membership in business unions

Role	Are you a member of a business union?			
	Yes		Yes	
	Number	%	Number	%
Significant role	11	52.4	37.6	35
Insignificant role	9	42.9	47.3	44
No role	1	4.8	15.1	14
Total	21	100.0	100.0	93

Source: IPM Research Center.

Table 5.26. The role of the National Business Platform in business environment improvement

Role	2013		2014	
	Number	%	Number	%
Significant role	20	21.3	46	40.4
Insignificant role	45	47.9	53	46.5
No role	14	14.9	15	13.2
NA/don't know	15	16.0	–	–
Total	94	100.0	114	100.0

Source: IPM Research Center.

Table 5.27. The role of the National Business Platform in business environment improvement depending on membership in business unions

Role	Are you a member of a business union?			
	Yes		Yes	
	Number	%	Number	%
Significant role	10	47.6	38.7	46
Insignificant role	10	47.6	46.2	53
No role	1	4.8	15.1	15
Total	21	100.0	100.0	114

Source: IPM Research Center.

Table 5.28. The importance of goals of the NPBB in Belarus in 2014

	1	2	3	4	5	Average score
Fair competition	0.9	3.5	35.1	31.6	28.9	3.842
Effective debureaucratization	0.9	7.0	45.6	20.2	26.3	3.640
Regulatory optimization	1.8	4.4	42.1	24.6	27.2	3.711
Honest privatization	1.8	5.3	23.7	39.5	29.8	3.904
Responsible partnership	0.9	3.5	28.9	36.0	30.7	3.921
Labor market and social partnership	0.9	7.9	39.5	22.8	28.9	3.711

Note: "1" – "most important goal", "5" – "least important goal".

Source: IPM Research Center.

tions remained almost unchanged (Table 5.22).

In general, the level of awareness about the National Business Platform and the level of support depending on the membership of entrepreneurs in business associations can be represented as follows.

In contrast to the last year, Belarusian small and medium-sized enterprises, who know about the National Business Platform, more often state that this document and its practical implementation play a significant role in the consolidation of the business community to protect their interests and improve the business climate (Table 5.24, 5.26). This was indicated by 40.4%

Figure 5.7. The importance of goals of the National Business Platform in Belarus depending on the area of activities
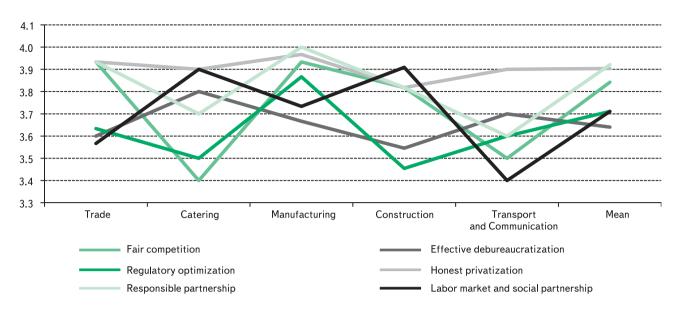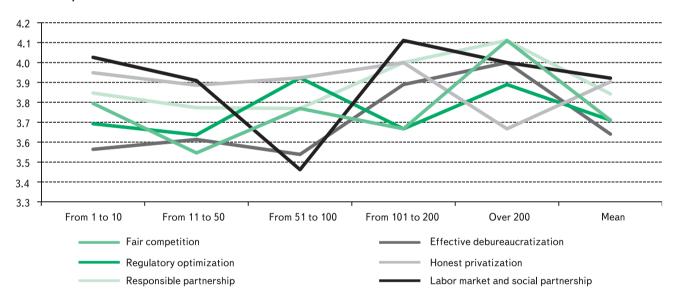
Figure 5.8. The importance of goals of the National Business Platform in Belarus depending on the size of the enterprise

Source: IPM Research Center.

of respondents (in each case) in the survey in 2014 compared with 19.2% and 21.3%, respectively, in 2013. The SMEs who are not members of business associations were much more skeptical about the role of the Platform in the business consolidation and improvement of the business climate – 15.1% versus 4.8% in both cases (Table 5.25, 5.27).

Thus, based on the survey of Belarusian SMEs, it can be concluded that the National Business Platform maintains a fairly high popularity in the business environment, especially among members of business union members. At the same time, non-members of business unions are much more likely to report a positive role of the Platform in the consolidation of the business community and improve the business climate. This suggests that the National Business Platform has a great potential in engaging Belarusian

SMEs in the activities of business associations and collective defense of the interests of the business community.

5.3.2. Areas of the National Business Platform in Belarus in 2014

In 2014, Belarusian SMEs believed responsible business partnership to be the top priority of the National

Business Platform. The average level of the importance of this task was 3.921 (Table. 5. 28).Entrepreneurs also noted the importance of the task of conducting a fair privatization (3.904), which last year came last in the priorities. The least important of the proposed e in 2014 was the problem of effective de-bureaucratization, though its average level of importance – 3.640 – was slightly lower than that of a partnership of business and government.

The distribution of the importance of objectives of the National Business Platform, depending on the scope and size of the company, is shown in Figure 5.7.

The foci of Belarusian SMEs are reflected in varying degrees in the National Business Platform of Belarus in 2014, which was presented on March 5 at the XV Assembly of Business Circles of Belarus.

In 2014, Belarusian SMEs believed that the most important priority of the National Business Platform is responsible partnership of business and government. The average level of the importance of this goal was 3.921 (Table 5.28). In addition, businesses noted the importance of the goal of conducting fair privatization (3.904), which was given last of the options last year. The least important of the proposed objectives in 2014 was effective de-bureaucratization, though its average level of importance – 3.640 – was slightly lower than that of partnership between business and government.

In the context of public-private partnership, it is essential for the implementation of the objectives specified in the Platform to benefit businesses, the state, and the Belarusian society.

As stated in the document, for the Belarusian business the platform assumes a reduction in the cost and availability of credit, a guarantee of the equality of economic conditions of the private and public sectors, engaging small and medium-sized businesses in the process of privatization and enterprise restructuring and modernization of the economy, reducing the tax burden for all enterprises regardless the form of ownership, reducing the costs of compliance with the requirements of government agencies, the creation of high-quality institutions to complete the integration of Belarus into the world economy under the WTO standards, etc. The Platform for the **Belarusian state** implies the creation of institutions and mechanisms that allow the economy to operate based on sources other than loans and debt accumulation; acceleration of structural reforms; diversification of sources of budget revenues, exports and modern jobs; the creation of conditions to stop the outflow of highly qualified personnel, promote foreign direct investment and provide for the repatriation of Belarusian capital from abroad; an increase in labor productivity in state enterprises, etc. **For the society in the country**, the Platform implies increased household income and purchasing power of pensions and salaries; creating new modern jobs, increasing mobility in the labor market; increasing opportunities for additional income; intensification of investment in improving the environment and others.

In general, it can be noted that the National Business Platform, being an annually adjusted document, fairly quickly responds to changes in the needs of the Belarusian business community, as well as to a constantly changing in-country and regional environment. However, we have to admit that, due to its versatility, it is not always easy for representatives of various SMEs to state the objectives that were most important for them. We believe that some classification of the objectives of the Platform into universal and sectoral could make it more attractive for Belarusian businessmen, indicating an individual-based approach of business unions to solve problems of specific SMEs.

5.4. Key findings

Belarusian business associations remain the most effective advocates and representatives of the business community. They are actively involved in law drafting activities and liberalization of the business environment attempting to form an intensive dialogue between domestic SMEs and public authorities. The impact of their activities is evidenced in the results of the survey of SMEs who stated that they felt more confident and secure, being members of business associations.

However, the efficiency of business unions in addressing the problems of small and medium-sized businesses have not yet reached its peak. The main reason for this can be considered the fact that while the number of SMEs in the Belarusian economy and their contribution to production has grown in recent years, the employment and GDP share of participants of the business associations has remained virtually the same. We have to admit that business associations cannot provide for a new intensive growth by gradually developing the Belarusian private sector.

In our opinion, the main targets for Belarusian business associations in the coming years should be the following:

1. Emphasis on the provision of legal services, as well as the exchange of experience between participants of business unions and professional development of their staff (the main objectives of SME participation in business unions);

2. Strengthening of the advocacy and outreach to popularize the main activities of the organizations and attract new members (the main obstacle to the participation of SMEs in business associations);

3. Shaping the institutional environment for regular contacts between representatives of the government (at various levels) with the business community;

4. In-depth analysis of the challenges for Belarusian small and medium businesses posed by Russia and Kazakhstan with the deepening of the Eurasian economic integration;

5. Creation of sectoral specification for the analysis and solution of problems of Belarusian small and medium-sized businesses (for example, within the framework of the National Business Platform), which, however, should not go against the centralization of the business community in the discussion of common problems.

APPENDIX.
BELARUSIAN SMES' DEVELOPMENT IN 2014

1*a*. What is the main sphere of activity of your company?

	Number	%
Trade	133	30.9
Catering	22	5.1
Manufacture	68	15.8
Construction	60	13.9
Transport and communications	40	9.3
Consumer services	27	6.3
Consulting services	2	0.5
Education	4	0.9
IT services	14	3.2
Tourism	18	4.2
Advertising	14	3.2
Publishing	7	1.6
Real estate	11	2.6
Other	11	2.6
Total	431	100.0

1*b*. If you work in the field of trade, what is the direction of flows of goods and services provided by you?

	Number	%
Mainly exports	23	8.2
Mainly imports	34	12.1
About the same share of exports and imports (or re-export of imported goods or products processed from them)	25	8.9
Focus on the domestic market, a minimum share of exports and imports	199	70.8
Total	281	100.0

2. What is the number of workers at your company?

	Number	%
From 1 to 10	188	43.8
From 11 to 50	156	36.4
From 51 to 100	32	7.5
From 101 to 200	26	6.1
Over 200	27	6.3
Total	429	100.0

3. What is the year of foundation of your company?

	Number	%
Before 1996	41	9.6
1997–2004	119	27.9
2005–2009	146	34.3
2010–2014	120	28.2
Total	426	100.0

4. Region

	Number	%
Minsk	109	25.3
Minsk region	67	15.5
Brest and Brest region	50	11.6
Grodno and Grodno region	51	11.9
Vitebsk and Vitebsk region	55	12.7
Gomel and Gomel region	55	12.8
Mogilev and Mogilev region	44	10.3
Total	431	100.0

5. Respondent's gender

	Number	%
Male	210	48.7
Female	221	51.3
Total	431	100.0

6. What is the current economic situation in your company?

	Number	%
Good	54	12.6
Above average	36	8.4
Stable	244	56.9
Below average	76	17.7
Bad	19	4.4
Total	429	100.0

7. How did the economic situation in your company change over the last year?

	Number	%
Significantly improved	19	4.4
Slightly improved	93	21.6
Remained the same	191	44.3
Slightly worsened	98	22.7
Significantly worsened	30	7.0
Total	431	100.0

8. Please assess your company's performance in 2013.

	Decreased	%	Remained the same	%	Increased	%
Turnover (sales volume)	111	26.2	182	42.9	131	30.9
Profit	142	33.0	162	37.7	126	29.3
Employment	81	18.8	256	59.5	93	21.6
Investments	96	23.2	266	64.3	52	12.6

9. What negative external changes was your company most sensitive to last year?
(No more than 5 options can be given)

	Number	Frequency of choice
Decline in the purchasing power of the population across the country	246	57.5
Delays (non-payments) in payments for delivered products	137	32.0
Decrease of demand from SOEs	77	18.0
Limited access to banks' financial resources; tightening of the borrowing conditions	72	16.8
Decreased demand for company's products in external markets	45	10.5
Restrictions in the currency market; unstable foreign currency exchange	137	32.0
Decreased demand from authorities (public procurement)	34	7.9
Lack of skilled labor	108	25.2
Other	13	3.0
Total	428	100.0

10. Which objectives are you focused on at the moment?

	Number	%
Expansion, business development	139	32.3
Maintaining the level achieved	219	50.8
Survival	73	16.9
Total	431	100.0

11. How did the competition in the market change over the last year?

	Number	%
Increased	249	57.8
Remained the same	166	38.5
Decreased	16	3.7
Total	431	100.0

12. How, in your opinion, did business conditions change during the last year?

	Number	%
Business conditions significantly improved	14	3.2
Business conditions slightly improved	84	19.5
Business conditions remained the same	218	50.6
Business conditions slightly deteriorated	89	20.6
Business conditions deteriorated significantly	26	6.0
Total	431	100.0

13. How did changes in the business environment affect your business activity over the last year?
(On a scale from –3 to 3, where "–3" – the situation deteriorated significantly; "0" – remained the same; "3" – improved significantly)

	–3	–2	–1	0	1	2	3	Total
Business registration	0.9	3.0	10.5	58.6	15	6.8	5.1	100.0
Different permits obtainment	3.3	7.0	16.6	49.2	16.8	6.1	1.2	100.0
Administrative procedures	4.4	5.1	19.8	47.3	15.9	6.5	0.9	100.0
Number of inspections	4.9	7.7	21.2	47.6	12.4	4.7	1.6	100.0
Penalties amount	10.1	14.3	22.3	40.4	8.5	3.1	1.4	100.0
Rent payment	14.8	14.4	26.1	34.8	5.4	3.5	0.9	100.0
Pricing	8.4	7.2	20.1	47.2	10.3	5.8	0.9	100.0
Tax burden	6.5	10.3	19.9	48.8	10.3	3.5	0.7	100.0
Time required for tax calculation and payment	2.8	8.4	14.7	54.8	13.8	4.2	1.4	100.0
Access to credit	10.1	10.3	16.6	44.3	12.9	4.4	1.4	100.0
Ease of foreign trade operations	4.5	5.0	12.8	60.8	13.3	2.9	0.7	100.0
Wage calculation	2.1	5.6	11.2	60	16.9	3.5	0.7	100.0
Cost and complexity of auction and tender processes	3.3	5.7	11.2	67.1	8.3	3.6	0.7	100.0
Property rights protection	1.4	3.6	13.8	62.9	12.4	4.3	1.7	100.0

14. In what spheres, in your opinion, do businesses experience unequal conditions for doing business compared to the public sector?
(No more than 3 options can be given)

	Number	%
Taxation	130	30.2
Attitude of supervisory bodies	176	40.8
Rental rates	152	35.3
Commodity prices	79	18.3
Conditions for obtaining permits and licenses	78	18.1
Access to credit resources	85	19.7
Local authorities' attitude	91	21.1
Judiciary bodies' attitude	36	8.4
Government contracts	59	13.7
Other	46	10.7
Total	431	100.0

15. Assess major problems associated with tax laws *(assessment of the problem on a scale from "1" to "5", where "1" is "not a problem" and "5" is "a very serious problem")*

	1	2	3	4	5	Total
Number of taxes and duties	16.2	17.1	37.7	20.4	8.7	100.0
Total amount of taxes (tax burden)	11.3	17.8	34.3	25.1	11.5	100.0
Frequency of changes in the tax legislation	14.7	19.7	35.8	19.9	10.0	100.0
Regularity of filing of returns and taxes and duties payments	27.1	20.2	33.6	14.1	4.9	100.0
Time and efforts spent on tax calculations	24.0	19.8	31.3	17.4	7.5	100.0
Open access to tax information	32.5	18.1	31.3	12.9	5.2	100.0

16. Assess major problems associated with inspections and penalties *(assessment of the problem on a scale from "1" to "5", where "1" is "not a problem" and "5" is "a very serious problem")*

	1	2	3	4	5	Total
Penalties amount	11.4	19.8	33.6	22.4	12.8	100.0
Adequacy of punishment to the offence	12.1	20.3	34.5	22.8	10.3	100.0
Number of inspections	21.1	21.8	31.9	17.6	7.5	100.0
Availability of information on rules and regulations	27.3	20.3	36.7	10.3	5.4	100.0
Time required for assistance during inspections	17.8	15.9	32.8	24.4	9.1	100.0

17. Assess major problems associated with licensing and permits *(assessment of the problem on a scale from "1" to "5", where "1" is "not a problem" and "5" is "a very serious problem")*

	1	2	3	4	5	Total
Time and efforts spent on obtaining licenses and permits	19.2	14.8	34.7	23.9	7.5	100.0
Availability of information on licenses and permits	25.9	19.5	34.4	16.7	3.5	100.0
Number of licenses and permits	21.9	15.8	35.1	20.9	6.4	100.0
Financial costs to obtain licenses and permits	16.4	14.8	32.9	26.1	9.9	100.0

18. What internal factors (controllable by the company) help you in doing business successfully? *("–3" – complicates extremely; "0" – doesn't matter; "3" – very helpful)*

	–3	–2	–1	0	1	2	3	Total
Team availability/absence	3.5	2.3	7.0	16.0	13.0	18.1	40	100.0
Managers' professional level	4.0	1.9	6.3	14.5	14.3	22.7	36.4	100.0
Presence/absence of practice of delegation of authority from top management to lower-level management; reduction of centralization in decision-making	3.3	2.1	7.0	29.7	19.2	17.6	21.1	100.0
Market knowledge, ability to predict market conditions	1.2	1.4	5.4	14.0	19.4	20.6	38.1	100.0
Ability to produce competitive product	1.2	0.9	5.9	21.9	13.9	17.9	38.4	100.0
Relations with authorities and influential people	0.9	1.6	6.5	33.6	22.0	13.8	21.5	100.0
Level of legislation knowledge, and ability to defend one's rightness	1.2	1.2	4.7	25.9	19.3	17.9	29.8	100.0
Presence / absence of contacts with the public sector	2.1	1.6	8.4	37.1	20.7	14.2	15.9	100.0
Presence / absence of production capacity to meet the demand	2.1	1.2	8.7	32.2	20.2	15.8	19.8	100.0
Presence/absence of working capital and funds for the development of the enterprise	5.1	5.1	8.6	20.7	15.4	17.5	27.5	100.0

19. What external factors (not dependent on your company) affect your successful doing business? *("–3" – complicates extremely, "0" – doesn't matter, "3" – very helpful)*

	–3	–2	–1	0	1	2	3	Total
Level of competition in the market	18.5	15.9	20.8	19.6	13.1	7.2	4.9	100.0
Business conditions compared to the public sector	6.7	10.9	19.5	46	10.7	4.4	1.6	100.0
Bureaucratic procedures (registration, permits, licenses, documentation procedure and so on)	13.5	12.8	26.0	31.2	9.5	5.1	1.9	100.0
Level of property rights and private business interests protection	6.5	9.8	18.5	42.5	11.9	7.2	3.5	100.0
Corruption level	10.5	10.5	23.4	42.5	7.5	2.6	3	100.0
Foreign exchange regulation	13.3	10.4	23.5	37.2	10.9	2.6	2.1	100.0
Tax regulation and tax rates	9.9	10.8	28.4	36.6	8.2	3.5	2.6	100.0
System of inspections and penalties	16.5	15.8	28.2	27.5	5.2	5.2	1.6	100.0
Rates on banks' and other financial institutions' loans	10.6	15	31.5	29.8	6.6	5.4	1.2	100.0
Economic policy of other countries	12.3	14.2	21.7	39.2	6.1	4.7	1.7	100.0
Rental rates	6.8	7.3	13.4	59.7	7.5	4.2	0.9	100.0

20. What do you see as the most significant obstacles for doing business in Belarus? *(From "5" – the biggest obstacle to "1" – insignificant)*

	1	2	3	4	5	Total
Access to financial resources	15.1	18.3	29.9	23.0	13.7	100.0
Ineffective state administration	13.0	16.0	40.0	20.2	10.7	100.0
Restrictive labor market regulation	15.9	19.3	38.0	19.3	7.5	100.0
Tax rates	10.2	21.1	31.1	26.0	11.6	100.0
Tax regulation	11.4	20.7	35.0	22.6	10.3	100.0
Corruption and crime	14.5	21.9	27.7	25.2	10.7	100.0
Low labor force ethics level	9.5	20.9	34.3	25.3	10.0	100.0
Inadequate infrastructure	14.1	25.8	36.4	16.2	7.5	100.0
Inadequate labor force education	12.1	24.1	34.3	18.9	10.5	100.0
Unstable policy	14.9	24.5	34.3	17.0	9.3	100.0
Government instability	16.6	24.7	33.8	15.2	9.8	100.0
Inflation	3.0	9.8	28.7	27.7	30.8	100.0
Crime and theft	17.2	27.0	25.1	20.0	10.7	100.0
Currency market regulation	10.4	18.9	37.3	21.7	11.8	100.0
Low level of healthcare	23.3	27.1	30.6	12.2	6.8	100.0
Enforcing contracts	18.5	20.8	35.6	19.0	6.1	100.0
Securing property rights and the protection of property (physical)	17.3	23	37.5	17.1	5.2	100.0
Securing property rights and the protection of property rights (intellectual)	19.6	24.3	37.5	13.0	5.7	100.0
Independence and competence of courts	16.2	21.3	37.7	17.1	7.7	100.0
Independence and competence of media and information resources	20.1	22.5	38.4	13.3	5.6	100.0

21. Do you think the country will improve its position in doing business ratings in the current year (*Doing Business*)?

	Number	%
Yes	180	42.1
No	248	57.9
Total	428	100.0

22. In case the privatization process recommences in Belarus, which way you think is the most preferred for the economy?

	Number	%
Entities subject to privatization should be sold to domestic investors without any restrictions (through an open and transparent tender), with restrictions for the foreign capital	162	37.7
Entities subject to privatization should be sold to any buyers, both domestic and foreign, through an open and transparent tender without any restrictions	169	39.3
Entities subject to privatization should be sold to domestic investors without any restrictions (through an open and transparent tender), with restrictions for the capital from Russian and Kazakhstan (countries of the Customs Union)	42	9.8
Entities subject to privatization should be sold to domestic investors without any restrictions (through an open and transparent tender), with restrictions for the foreign capital, except for the capital from Russian and Kazakhstan (countries of the Customs Union)	31	7.2
I'm against privatization; I consider state administration more efficient	26	6.0
Total	430	100.0

23. Are you or your company interested to take part in privatization of state-owned companies in Belarus?
(No more than 4 options can be given)

	Number	%
No	198	45.9
Yes, provided there are transparent and fair privatization processes in place	121	28.1
Yes, provided property rights are guaranteed	105	24.4
Yes, at reasonable (not speculative) prices	91	21.1
Yes, provided there is access to the necessary financial resources	62	14.4
Yes, provided there is private land ownership in place	44	10.2
Yes, provided there are state privileges granted	31	7.2
Total	431	100.0

24. How soon are you ready to take part in privatization transactions (in case your conditions are met)?

	Number	%
During a year	41	9.5
In the next 2–5 years	105	24.4
In the long run	94	21.8
I am not interested in privatization	191	44.3
Total	431	100.0

25. In the privatization of which state-owned property are you interested in and can afford?
(All possible answers)

	Number	%
Enterprise	72	16.7
Land	108	25.1
Rented premises	177	41.1
Other	1	0.2
Total	431	100.0

26. In your opinion, what are the effects of the accession of Belarus to the Customs Union and its participation in the Common Economic Area (CES)?

	Number	%
Positive	193	44.8
Negative	58	13.5
Will not affect	180	41.8
Total	431	100.0

27. In our opinion, how will further Eurasian economic integration (Customs Union, CES and Eurasian Economic Union) affect Belarusian businesses?

	Number	%
Positively	190	44.6
Negatively	63	14.8
Will not affect	173	40.6
Total	426	100.0

28. Which markets are most important for your company? *("1" – doesn't matter; "5" – very important)*

	1	2	3	4	5	Total
Domestic market in Belarus	2.6	3.2	8.8	23.4	61.9	100.0
Russia and Kazakhstan	33.6	13.0	22.5	17.2	13.7	100.0
Ukraine	50.6	15.1	22.5	8.4	3.5	100.0
Other CIS countries	50.8	15.1	20.9	8.6	4.6	100.0
Poland, Lithuania, Latvia	56.4	16.2	12.8	8.6	6.0	100.0
European Union	62.2	12.5	14.6	5.1	5.6	100.0
Other countries in the world	67.1	10.9	13.0	6.0	3.0	100.0

29. Can your company compete successfully in the market of the Customs Union and CES?

	Number	%
Yes	179	41.5
No	252	58.5
Total	431	100.0

30. If not, what are the reasons?

	Number	%
High cost of production	65	25.8
Lack of own funds for product production (advertising and PR)	143	56.7
Low product quality in comparison with other members of the Customs Union	42	16.7
Administrative barriers to market access by members of the Customs Union	58	23.0
Total	252	100.0

31. What are the opportunities for your company development in 2014?
(Not more than 5 options can be given)

	Number	%
Simplified access to raw materials, finance and components	135	31.3
Search for new business models/solutions	288	66.8
Foreign direct investment promotion	55	12.8
Modernization of production facilities	120	27.8
Increased use of give and take schemes and subcontracts	34	7.9
More active presence in the markets of Russia and Kazakhstan	52	12.1
Other	11	2.6
NA/don't know	8	1.9
Total	431	100.0

32. Do you feel the growth of competition in your field in the domestic market of Belarus due to a more active presence of companies from Russia and Kazakhstan?

	Number	%
Yes, competition with companies from Russia	100	23.2
Yes, competition with companies from Kazakhstan	14	3.2
No	330	76.6
Total	431	100.0

33. Are you a member of any business unions?

	Number	%
Yes	34	7.9
No	397	92.1
Total	431	100.0

34. My business union provides to me the following services

	Number	%
Personnel qualification development	10	29.4
Support in internationalization of activities	6	17.6
Legal services	21	61.8
Assistance in financial resources attraction (investors' search)	7	20.6
Assistance in business operation	7	20.6
Representation of firm's interests at central authorities	0	0.0
Business climate improvement in the country	9	26.5
Sharing experience among organization members	10	29.4
Total	34	100.0

35. If you are not a member of any business union, what is the reason for that?
(Not more than 3 options can be chosen)

	Number	%
High membership fees	28	7.1
I believe business unions are helpless in solving my problems	159	40.1
It is better not to use the services of such organizations for political reasons	30	7.6
Lack of information about such unions	169	42.6
Hope to solve problems independently	110	27.7
Unsatisfactory quality of the services provided	21	5.3
Total	397	100.0

36. Do you know about the creation of the National Platform for Business in Belarus?

	Number	%
Yes	114	26.5
No, never heard before	317	73.5
Total	431	100.0

37. If you know about the National Platform for Business in Belarus (NPBB), then do you support its main ideas?

	Number	%
Yes	6	5.3
More likely support	87	76.3
Unlikely to support	21	18.4
Don't support	0	0.0
Total	114	100.0

38. Range the importance of goals of the NPBB in Belarus in 2014?
("1" – most important goal, "5" – least important goal)

	1	2	3	4	5	Total
Fair competition	0.9	3.5	35.1	31.6	28.9	100.0
Effective debureaucratization	0.9	7.0	45.6	20.2	26.3	100.0
Regulatory optimization	1.8	4.4	42.1	24.6	27.2	100.0
Honest privatization	1.8	5.3	23.7	39.5	29.8	100.0
Responsible partnership	0.9	3.5	28.9	36.0	30.7	100.0
Labor market and social partnership	0.9	7.9	39.5	22.8	28.9	100.0

39. If you know about NPBB, what is its role in business community consolidation on protection of their interests?

	Number	%
Significant role	46	40.4
Insignificant role	53	46.5
No role	15	13.2
Total	114	100.0

40. If you know about NPBB, what is its role in business climate improvement?

	Number	%
Significant role	46	40.4
Insignificant role	53	46.5
No role	15	13.2
Total	114	100.0

41. Are you satisfied with the level of dialogue (the intensity of the dialogue) between businesses (business associations) and public authorities?

	Number	%
Yes	133	32.0
No	282	68.0
Total	415	100.0

42. How common is corruption in Belarus in one way or another in the area of activities of your company?
("1" – it never happens, "5" – it is widespread)

	1	2	3	4	5	Total
Number	96	85	105	103	42	431
%	22.3	19.7	24.4	23.9	9.7	100.0

43. Please rate the extent to which corruption hinders dealing with various economic challenges facing Belarus? *("1" – does not hinder at all, "5" – hinders significantly)*

	1	2	3	4	5	Total
Economic growth	8.6	16.2	34.6	25.5	15.1	100.0
Development of the internal market for goods of domestic producers	11.1	15.1	36.9	25.1	11.8	100.0
Foreign investment promotion	13.5	16.5	35.5	22	12.5	100.0
Growth and development of the private sector	9.3	11.6	34.6	27.1	17.4	100.0
Improved public governance	11.1	15.5	36.7	22.3	14.4	100.0
Growth of the welfare of citizens	12.8	15.1	28.8	28.1	15.3	100.0
Resolution of commercial disputes in courts	11.6	14.8	39.7	22.5	11.4	100.0

44. In your opinion, what share of private companies' turnover is not reflected in accounting reports?
("1" – it never happens, "5" – significant)

	1	2	3	4	5	Total
Number	153	113	94	56	15	431
%	35.5	26.2	21.8	13	3.5	100.0

45. How often are executives of private companies in your area forced to bribe representatives of the authorities *("1" – it never happens, "5" – all the time)*

	1	2	3	4	5	Total
Number	139	107	108	53	20	427
%	32.6	25.1	25.3	12.4	4.7	100.0

46. How often do 'kickbacks' in exchange for profitable state orders occur in Belarus?
("1" – it never happens, "5" – all the time)

	1	2	3	4	5	Total
Number	141	74	127	63	23	428
%	32.9	17.3	29.7	14.7	5.4	100.0

47. How much, in your opinion, will the facts of corruption in your activities increase the cost of the final product (assess the burden on the consumer)?
("1" – will not increase the cost, "5" – will significantly increase the cost)

	1	2	3	4	5	Total
Number	117	82	144	68	16	427
%	27.4	19.2	33.7	15.9	3.7	100.0

48. Which statement do you agree the most?
("1" – government officials do not take bribes at all, "5" – virtually all government officials take bribes)

	1	2	3	4	5	Total
Number	38	76	152	99	63	428
%	8.9	17.8	35.5	23.1	14.7	100.0

49. How common is the "spillover" of public funds in enterprises to individuals and groups of individuals as a result of corruption?

("1" – it never happens, "5" – it is common)

	1	2	3	4	5	Total
Number	45	72	195	84	31	427
%	10.5	16.9	45.7	19.7	7.3	100.0

50. Who, in your opinion, is the main initiator of corruption in your industry?

("1" – corruption is initiated mainly by civil servants, "5" – corruption is initiated mainly business representatives)

	1	2	3	4	5	Total
Number	55	115	191	37	24	422
%	13	27.3	45.3	8.8	5.7	100.0

51. To what extent, in your opinion, is "public corruption" spread in your area when are such laws and regulations that legally allow officials to gain benefits adopted?

("1" – it never happens, "5" – it is common)

	1	2	3	4	5	Total
Number	91	79	164	73	21	428
%	21.3	18.5	38.3	17.1	4.9	100.0

52. How imperfect is the legislation in your field leading to corruption (the so-called "corruptogenic laws")?

("1" – the legislation is not corruptogenic at all, "5" – legislation is very corruptogenic)

	1	2	3	4	5	Total
Number	56	94	192	62	21	425
%	13.2	22.1	45.2	14.6	4.9	100.0

53. To what extent, in your opinion, is "administrative corruption" spread in your area when officials provide certain persons or firms advantages and benefits for profit?

("1" – it never happens, "5" – it is common)

	1	2	3	4	5	Total
Number	73	75	159	82	40	429
%	17	17.5	37.1	19.1	9.3	100.0

54. Assess administrative causes of corruption in your field?

("1" – it is not a cause, "5" – it is a major cause of corruption)

	1	2	3	4	5	Total
Low salaries of civil servants	19.2	17.1	24.4	21.1	18.1	100.0
Greed of civil servants	9.1	14.9	23.3	25.2	27.5	100.0
Inadequate performance of anti-corruption bodies	8.7	17.2	30.1	25.4	18.6	100.0
Insufficient administrative monitoring of performance of civil servants	9.8	16.4	33.7	22.7	17.3	100.0
Ongoing reform of government authorities, which leads to a lack of confidence in the future	15.7	18.3	34.3	20.9	10.8	100.0
A high level of state regulation of the economy	13.1	21.4	37.1	18.1	10.3	100.0
Social tolerance towards corruption	8.5	12.4	26.5	27.7	24.9	100.0
Lack of tax control over income and assets of civil servants and their families	11.2	14.5	32.5	17.8	24.1	100.0

55. To what extent, in your opinion, is "abuse of power" associated with inaction or adoption of certain measures to "work out" any issue by officials in cahoots with the third party?

("1" – it never happens, "5" – it is common)

	1	2	3	4	5	Total
Number	78	80	146	90	29	423
%	18.4	18.9	34.5	21.3	6.9	100.0

56. In your opinion, what areas/business regulatory authorities have the largest number of bribing and corruption? ("1" – very rare, "5" – frequent corrupt practices)

	1	2	3	4	5	Total
Price regulation	19.7	21.4	39.4	14.8	4.7	100.0
Obtaining licenses	15.9	18.7	26.5	28.3	10.5	100.0
Hygienic registration and certification	10.6	20.9	32.6	22.8	13.1	100.0
Sanitary inspection	8.0	17.6	34.5	26.3	13.6	100.0
Fire inspection	8.4	17.7	37.3	20.0	16.6	100.0
Tax payment	23.2	22.5	34.7	12.4	7.0	100.0
Tax audits	16.1	22.1	35.0	17.7	9.1	100.0
Customs clearance	16.8	20.6	35.5	17.3	9.7	100.0
Getting government orders, winning tenders	12.6	13.3	36.4	20.5	17.1	100.0
Obtaining various permits with local authorities	14.3	16.2	32.6	25.6	11.3	100.0
Obtaining favorable judgments	20.4	16.6	37.7	15.9	9.5	100.0
Lease	17.3	23.3	34.2	18.5	6.7	100.0

57. In your opinion, in which cases is the business most likely to commit acts of corruption?
("1" – very rare abuses, "5" – very frequent abuses)

	1	2	3	4	5	Total
Opening a new business	22.1	18.8	32.2	17.4	9.6	100.0
Acceleration of the "solution" of the issue	5.4	14.5	26.7	27.4	26	100.0
Obtaining permits and licenses	12.7	13.4	31.1	28.9	13.9	100.0
Softening requirements during audits of controlling bodies	9.1	17.8	31.5	26.2	15.4	100.0
Protection of property and business against the encroachments of competitors	14.3	24.1	33.7	17.6	10.3	100.0
Obtaining government contracts	11.3	15.7	30.8	26.8	15.5	100.0
Winning a public tender	9	18.7	32.6	21.7	18	100.0
Ensuring the needed judgment	17.1	16.6	35.4	20.5	10.4	100.0
Winning an auction	9.9	18.4	38.6	18.4	14.8	100.0
The opportunity of renting premises on favorable terms	10.8	17.4	34.5	27.7	9.6	100.0
Ensuring the adoption of the necessary legislative or administrative decision	18.2	19	36.3	18.7	7.8	100.0

58. In your opinion, how did the situation with corruption in your area change over the last 2–3 years?
("1" – significantly improved, "5" – significantly worsened)

	1	2	3	4	5	Total
Number	48	73	226	64	14	425
%	11.3	17.2	53.2	15.1	3.3	100.0

59. Rate how effective the efforts of the government to fight corruption are
("1" – very effective, "5" – completely ineffective)

	1	2	3	4	5	Total
Number	29	93	211	66	32	431
%	6.7	21.6	49	15.3	7.4	100.0

60. Rate how effective the efforts of business unions and associations to fight corruption are?
("1" – very effective, "5" – completely ineffective)

	1	2	3	4	5	Total
Number	21	52	202	84	71	430
%	4.9	12.1	47	19.5	16.5	100.0

61. In your opinion, what methods are most effective on the part of business in the fight against corruption?
("1" – completely ineffective, "5" – very effective)

	1	2	3	4	5	Total
Complaints to higher officials for wrongful actions of their subordinates	19.1	29.1	33.8	9.3	8.6	100.0
Complaints to law enforcement officials for misconduct of officials in relation to businesses	14.0	28.0	33.1	14.2	10.7	100.0
Claims in the courts against the unlawful actions of officials in relation to businesses	14.3	19.2	36.4	15.7	14.5	100.0
Action through the business association in opposition to corrupt officials	19.3	21.6	40.2	10.4	8.5	100.0
Participation in activities of expert councils of businessmen of the legislative and executive authorities to conduct examinations of their decisions and develop recommendations regarding businesses	18.2	18.2	42.6	10.6	10.4	100.0

62. How effective do you think the practice of anonymous reports of corruption cases is?
("1" – completely ineffective, "5" – very effective)

	1	2	3	4	5	Total
Number	54	120	155	44	57	430
%	12.6	27.9	36.0	10.2	13.3	100.0

63. Which instrument to fight corruption, in your opinion, is most effective?
("1" – completely ineffective, "5" – very effective)

	1	2	3	4	5	Total
Reducing corruptogenicity of the legislation	9.9	19.7	37.3	16.4	16.7	100.0
Higher wages to civil servants	16.4	16.8	28.5	19.6	18.7	100.0
Increasing criminal penalties for corruption offenses	4.4	11.2	26.3	27.4	30.7	100.0
Improving the efficiency of anti-corruption bodies	4	10.2	28.4	30	27.4	100.0
Strengthening the administrative control of the official duties of civil servants	6.1	11.4	31.7	25.9	24.9	100.0
Increasing requirements for the selection for the public service	8.6	13.6	29.7	23.1	25	100.0
Reduction in the degree of state regulation of the economy	9	18.4	37.3	19.8	15.6	100.0
Building social intolerance to corruption	6.3	11.5	31.4	23.2	27.6	100.0
Strengthening the tax control over income and assets of civil servants and their families	6.4	12.6	30.1	26.3	24.6	100.0

64. According to the Corruption Perceptions Index of the Transparency International, Belarus was 123 out of 174 countries in 2013. Do you agree with the fact that the level of corruption in Belarus is really so high?
("1" – completely agree, "5" – completely disagree)

	1	2	3	4	5	Total
Number	56	85	178	72	38	429
%	13.1	19.8	41.5	16.8	8.9	100.0

65. Do you see corruption as the real problem for doing business in Belarus?
("1" – it is not a problem at all, "5" – it is a significant problem)

	1	2	3	4	5	Total
Number	58	95	188	64	26	431
%	13.5	22.0	43.6	14.8	6.0	100.0

66. Do you agree with the statement that the level of corruption in Belarus <u>can be</u> decreased in the near future?
("1" – completely agree, "5" – completely disagree)

	1	2	3	4	5	Total
Number	43	107	187	66	28	431
%	10.0	24.8	43.4	15.3	6.5	100.0

67. Do you agree with the statement that the level of corruption in Belarus <u>will be actually</u> decreased in the near future?
("1" – completely agree, "5" – completely disagree)

	1	2	3	4	5	Total
Number	33	94	178	77	49	431
%	7.7	21.8	41.3	17.9	11.4	100.0

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