# BUSINESS IN BELARUS 2016

STATUS
TRENDS
PERSPECTIVES

IPM RESEARCH CENTER
Research • Forecasting • Monitoring

IPM Research Center, 2016
50Б Zakharova St., Minsk, 220088, Belarus
research@research.by, http://research.by

# Business in Belarus 2016: Status, Trends, Perspectives

**Business in Belarus 2016: Status, Trends, Perspectives**. This issue of the yearbook analyzes development of small and medium business in Belarus and its role in economy, accounting for economic crisis and recent changes in business environment. The report analyzes in detail labor market trends in the sector of small and medium enterprises (SME), evaluates situation with corruption, examines infrastructure support for small and medium businesses, as well as its role in promoting and protecting the interests of the Belarusian business community.

The *Annex* contains the results of the SME survey carried out in April-May 2016.

# CONTENTS

# 1. INTRODUCTION

Over the last several years, the Belarus economy has been through too many upheavals for its small and medium-sized business to remain unscathed. It all started with the collapse of the Russian ruble at the end of 2014, and since then real GDP in Belarus has been declining non-stop. First exports, then domestic demand – at the end of the day, all enterprises had to deal, to a larger or smaller extent, with various manifestations of the crisis. Those that worked with the state faced cuts in government procurement and investment programs which depend on budget financing, those that supplied goods and services to state-owned enterprises were confronted with payment defaults.

The situation in the Russian market was no better until the Belarus ruble devalued to its pre-crisis level. The situation in the consumer market has also taken a turn for the worse, with shrinking real income dragging household consumption down. The only benefit created by the current crisis is that labor has become cheaper, and labor market has transformed from a seller's market into a buyer's market.

This, however, has not helped to curb reduction of employment in the SME sector. On the contrary, its reaction to the worsening conditions was fast and furious – job cuts were used as a cost control measure as early as in 2014, while in 2015 the process, fueled by decrease of the real GDP, accelerated even further. As a result, the share of small and micro-enterprises[1] in total employment went down from 18.5% in 2013 to 18% in 2014, and then on to 17% in 2015.

Why is it that reduction of employment in the SME sector constitute a problem for the national economy? Research shows that, before the onset of the current recession, small and micro-enterprises efficiently absorbed redundant workers released by state-owned enterprises.[2] Where in 2004 small and micro-enterprises accounted for only 10.3% of total employment in the country, by 2013 that indicator went up to 18.5%.

It should be noted that the state sector has been in trouble for a long time. This is especially true for large enterprises. Thus, over the five-year period from 2010 to 2015, job losses were reported by more than 140 of the largest[3] open joint stock companies. In 12 such companies with the highest absolute job cuts, the annual employment reduction rate averaged out at 7.1% (see Table 1.1), which is equivalent to a massive layoff at a "typical" enterprise on that list.[4]

Employment at medium-sized enterprises also took a nosedive (which may, to some extent, be attributed to some companies being reclassified from medium-sized enterprises into small enterprises): in 2010–2015, the average employment reduction rate at such enterprises amounted to 4.2%, with 2/3 of total job losses occurring in 2011–2012, probably, in the wake of the 2011 currency crisis. During the same period, employment at small enterprises was going down too, but at a much slower rate, with average figures being about 0.3% per year for small enterprises (growth reported up to and including 2014) and 1% per year for micro-enterprises (growth reported up to and including 2013).

With anticipated further job losses at state-owned enterprises[5], SME development becomes a critical element of social stability over the next several years. For a long time, improvement of the regulatory environment has been an important factor contributing to ongoing development of small business in the country (Figure 1.1): the positive relation between the number of SMEs and the number of people employed by them, on the one hand, and the ease of doing business, on the other hand, is supported by econometric analyses.[6]

Unfortunately, improvement of the regulatory environment in 2016 was minimal[7]. Also, according to an SME survey, the majority

[1] The overwhelming majority of small and micro-enterprises are privately owned (100% state-owned small and micro-enterprises employed only 5.7% of total workers in the sector), while the share of state-owned middle-sized enterprises is much higher (100% state-owned medium-sized enterprises employed 24.1% of total workers in the sector). This is why small and micro-enterprises are regarded as a viable alternative to the public sector.

[2] World Bank (2015). Republic of Belarus: Regional Development Policy Notes. The Spatial Dimension of Structural Change, World Bank Report ACS13961.

[3] Defined as companies with 2010 staff levels in excess of 1,000 people.

[4] The system based on the use of fixed-term employment contracts enabling dismissal of workers upon expiry of such contracts creates an opportunity for companies to lay off workers without being accused of perpetrating large-scale dismissals.

[5] See, for example, IMF (2016). Republic of Belarus: Staff Report for the 2016 Article IV Consultation, *IMF Country report* 16/298.

[6] World Bank (2015). Republic of Belarus: Regional Development Policy Notes. The Spatial Dimension of Structural Change, *World Bank Report* ACS13961.

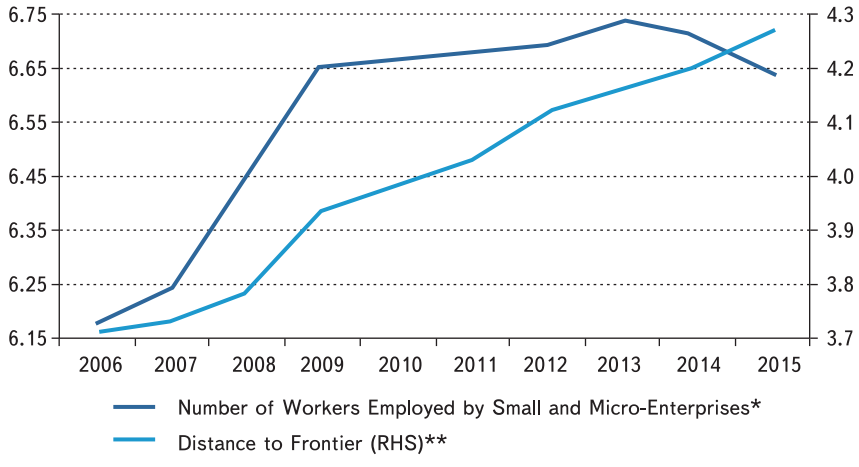
[7] World Bank (2016). *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, Washington, DC: World Bank.

**Table 1.1. Change in Employment by Enterprise Type**

| | Employment, thsd. people | | Change in 2010–2015 | | | Average per Year, % |
|---|---|---|---|---|---|---|
| | 2010 | 2015 | thousand people | % y/y | Contribution to the Increase, p.p.[8] | |
| Total Employment | 4,703.0 | 4,482.6 | –220.4 | –4.69 | –4.69 | –0.96 |
| 12 Largest Open Joint Stock Companies[9] | 97.4 | 67.4 | –30.0 | –30.82 | –0.64 | –7.10 |
| Other Large Open Joint Stock Companies[10] | 348.0 | 310.6 | –37.4 | –10.75 | –0.80 | –2.25 |
| Medium-Sized Enterprises | 462.4 | 373.3 | –89.1 | –19.27 | –1.89 | –4.19 |
| Small Enterprises | 448.9 | 443.1 | –5.8 | –1.30 | –0.12 | –0.26 |
| Micro-Enterprises | 336.1 | 319.7 | –16.3 | –4.86 | –0.35 | –0.99 |
| Individual Entrepreneurs and Their Hired Workers | 251.9 | 281.5 | 29.6 | 11.75 | 0.63 | 2.25 |
| Other Employers | 2,758.3 | 2,687.0 | –71.3 | –2.58 | –1.52 | –0.52 |
| Change in Employment at 12 Largest Open Joint Stock Companies[11] with Largest Job Losses in 2010–2015 | | | | | | |
| OJSC MAZ, Managing Company of BELAVTOMAZ Holding | 23.8 | 17.5 | –6.3 | –26.3 | –6.4 | –5.9 |
| Mogilyovkhimvolokno OJSC | 9.5 | 5.9 | –3.6 | –37.8 | –3.7 | –9.0 |
| Grodno Azot OJSC[12] | 10.9 | 7.7 | –3.2 | –29.2 | –3.3 | –6.7 |
| Vityaz OJSC | 3.6 | 1.2 | –2.4 | –66.6 | –2.4 | –19.7 |
| OJSC Minskpromstroy | 2.8 | 0.6 | –2.2 | –78.1 | –2.3 | –26.2 |
| MAPID OJSC | 8.6 | 6.4 | –2.2 | –25.3 | –2.2 | –5.7 |
| Belshina OJSC | 12.5 | 10.6 | –2.0 | –15.7 | –2.0 | –3.4 |
| BATE, Managing Company of Autocomponents OJSC Holding | 3.5 | 1.7 | –1.8 | –52.2 | –1.9 | –13.7 |
| Construction Company No. 3 (Cavalier of the October Revolution Order) OJSC | 4.7 | 3.0 | –1.7 | –36.3 | –1.7 | –8.6 |
| Naftan OJSC | 12.4 | 10.7 | –1.6 | –13.2 | –1.7 | –2.8 |
| MPOVT OJSC | 2.4 | 0.8 | –1.6 | –65.8 | –1.6 | –19.3 |
| Managing Company of Belarus Wallpaper OJSC Holding | 2.8 | 1.2 | –1.6 | –55.7 | –1.6 | –15.0 |
| **Total for 12 Open Joint Stock Companies** | **97.4** | **67.4** | **–30.0** | **–30.8** | **–30.8** | **–7.1** |

*Source:* In-house calculations based on the data published by the National Statistical Committee of the Republic of Belarus and the Ministry of Finance of the Republic of Belarus.

**Figure 1.1. Change in the Number of Workers Employed by Small and Micro-Enterprises and Ease of Doing Business (log scale)**




*Notes*. * Number of workers employed by small and micro-enterprises was influenced by ban on employment of non-family members by individual entrepreneurs and limit on number of hired workers in 2008, and change in SME registration methodology in 2009.

** Distance to Frontier is one of the Doing Business indicators of the World Bank. It measures the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005.[13]

*Source*: National Statistical Committee of the Republic of Belarus, World Bank (*Doing Business*, Distance to Frontier database).

of representatives of that sector noted a deterioration of "conditions for conducting entrepreneurial activities[14]." This can be attributed not only to the general deterioration of economic conditions; for example, the year before, more than one third of respondents (representatives of Belarus small and medium-

[8] Percentage points.
[9] The list of the enterprises is provided in the second part of the table.
[10] Other open joint stock companies with 2010 staff levels in excess of 1,000 people.
[11] We drew a list of open joint stock companies where 2010 staff levels were in excess of 1,000 people, and then reduced that list to 12 companies with the largest absolute job losses.
[12] The OJSC Grodno Azot group included OJSC Grodnokhimvolokno; the figure for 2010 represents the number of workers employed by both enterprises.
[13] See http://www.doingbusiness.org/data/distance-to-frontier.
[14] IPM Research Center, see http://www.research.by/publications/surveys-of-business/1601/.

sized enterprises) stressed that the situation with administrative barriers had worsened.[15]

Moreover, while in 2015 the share of respondents who believed that existing external barriers to development of their business were surmountable stood at 80%, in 2016 that indicator dropped to 60%. Accordingly, in the current recessionary environment, the efforts of the state to encourage development of the SME sector are not sufficient to enable it to absorb all potentially redundant workers who may be laid off by state-owned enterprises.

Therefore, in addition to the traditional issues, this Yearbook reviews the impact of the crisis on small and medium-sized enterprises, and their reaction to the crisis. Special emphasis is placed on changes in the labor market (as perceived by managers of small and medium-sized enterprises), and labor policies pursued by the companies in the sector. The authors also provide general recommendations regarding the amendments that need to be made to the existing regulatory environment to give a fresh impetus to SME sector development.

Contributions to the *Yearbook* were kindly offered by I. Pelipas, I. Tochitskaya, G. Shymanovich, D. Urban, E. Grushetskaya, and A. Chubrik. The authors would like to express their gratitude to survey and roundtable participants who provided their insights regarding the ways to promote entrepreneurial activities in Belarus. The IPM Research Center thanks *NOVAK* Axiometric Research Laboratory for its assistance in the preparation and implementation of the SME poll. We also thank our partners, Yar. Romanchuk, Head of the Mises Research Center, and V. Karyagin, Chairman of the Minsk Chapter of the Union of Entrepreneurs and Employers. The authors express special gratitude to Natalia Belan, Head of Eurasian Projects at the Center for International Private Enterprise (CIPE), for her invaluable contribution to the development of free enterprise in Belarus.

[15] Uryutina, D. (2015). Internal Barriers to Development of Business in Belarus, IPM Research Center *Working Paper*, 15/02.

# 2. SMALL AND MEDIUM-SIZED BUSINESS DEVELOPMENT TRENDS IN BELARUS

## 2.1. Introduction

The government program *Small and Medium-Sized Business in Belarus in 2016–2020* was adopted in the beginning of 2016 to promote development of small and medium-sized enterprises. The *Small and Medium-Sized Business Support Program* had been implemented in Belarus earlier, in 2013–2015. Approval of *Development Strategy for Small and Medium-Sized Business until 2030* is anticipated in 2017.

The key target indicators set by all these documents revolve around increasing the share of small and medium-sized enterprises (SMEs) in the GDP, and boosting their contribution to employment. In 2015, the plan was to increase the share of SMEs in the country's GDP to 30%. For 2020, this target has been upped to 32%. By the same token, SMEs and individual enterprises are expected to employ 35% of all Belarus workers and employees. During a discussion of the SME development strategy until the year of 2030, participants opined that the sector's share in the GDP could be as high as 50%[16]. These figures by far exceed the actual current contribution of SMEs to the national economy (24.2% of GDP in 2015, including individual entrepreneurs), and imply rapid growth of small business over the next several years.

The government purports to encourage development of small and medium-sized business, perceiving it as "one of the drivers of sustainably high employment and economic growth.[17]" In an environment heavily affected by structural upheavals in the national economy and contraction of the government sector, the SME sector is considered to be an important job provider. It is hoped that, due to its greater flexibility and mobility, this sector may become the "foundation for the emergence of conditions conducive to intensive economic growth" as it will be able to better adapt to the "frequently changing market conditions.[18]"

The purpose of this chapter is to undertake an in-depth scrutiny of evolution of the SME sector, and assess changes in its economic condition in an unstable macroeconomic environment. The resultant conclusions will help us determine the extent to which the existing SME sector is capable of stabilizing the economic situation and offering gainful employment to workers and employees laid off by large state-owned enterprises during their possible restructuring.

To understand the scale and rate of development of small and medium-sized businesses in Belarus, in the *second* section we undertake an analysis of statistical data describing SME contribution to key macroeconomic metrics. In the *third* section, we will discuss the findings of a poll that was conducted among SME representatives in the spring of 2016 (see *Annex*), and focused, among other things, on their economic well-being in the current economic crisis. In the *fourth* section, we analyze influence of external factors on the current state of, and selection of development strategies by, the SME sector. Our main conclusions are presented in the *fifth* section.

## 2.2. Macroeconomic Indicators of the SME Sector

Development of the SME sector is a critical economic policy task closely related to the challenges presented by public sector restructuring. It is assumed that the SME sector can partially absorb redundant workers and employees laid off by large state-owned enterprises as a result of both structural reforms and long-term economic stagnation. However, evolution of the key indicators of the SME sector over the last several years belies the illusion of its steady growth. On the contrary, its role as one of the key job providers in Belarus has been declining.

In 2015, small and medium-sized businesses employed 27.3% of total gainfully employed population, an actual drop compared to previous years. The decline from the peak level achieved in 2013 has reached 1.1 percentage points (see Table 2.1). Taking into consideration the overall reduction of gainfully employed population in an extremely adverse demographic situation, in absolute terms SME employment statistics have taken an even worse nosedive.

Over two years, the number of people employed by SMEs has gone down by 8.2%. Most of that decrease can be attributed to micro enterprises, where employment decline in 2013-2015 has been as high as 17% (see

[16] http://www.pravo.by/main.aspx?guid=210563.

[17] Decree of the Council of Ministers dated February 23, 2016, No. 149 *On Government Program "Small and Medium-Sized Business in Belarus in 2016-2020"*, http://www.economy.gov.by/dadvfiles/001340_53062_Programma.pdf.

[18] Ibid.

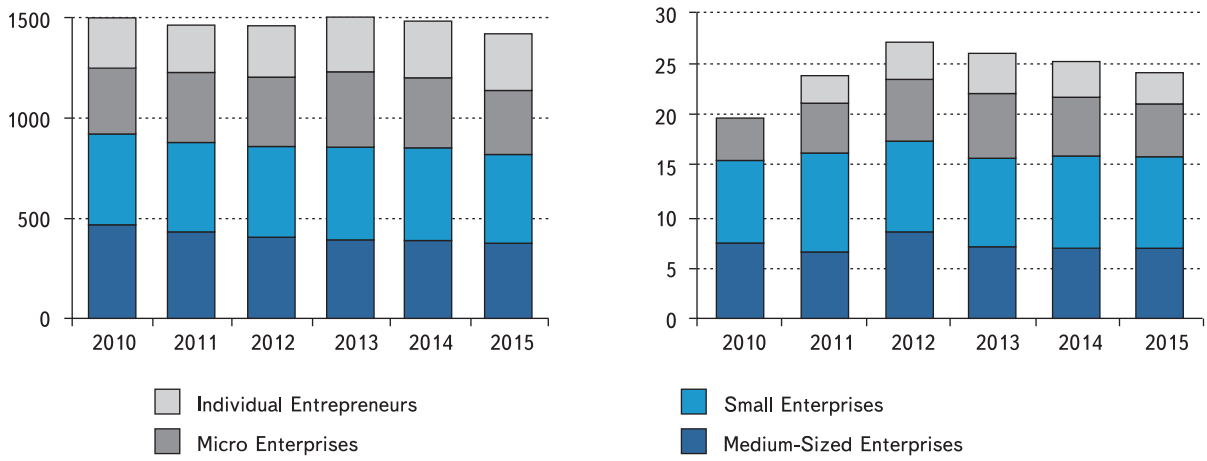
**Table 2.1. SME Sector Contribution to Major Macroeconomic Indicators, 2009–2015, %**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| GDP | 18.8 | 19.8 | 21.2 | 23.5 | 21.9 | 21.7 | 21.1 |
| Employment | 28.1 | 28.0 | 27.5 | 27.6 | 28.4 | 28.0 | 27.3 |
| Production Output | 20.0 | 20.0 | 22.2 | 22.6 | 20.8 | 20.9 | 20.6 |
| Industrial Production | 14.7 | 15.1 | 17.5 | 19.4 | 15.6 | 16.0 | 15.7 |
| Investments | 38.0 | 39.7 | 36.0 | 37.9 | 38.9 | 42.3 | 36.7 |
| Exports | 37.9 | 42.9 | 46.1 | 41.3 | 37.3 | 41.5 | 48.1 |
| Imports | 33.5 | 37.4 | 31.1 | 34.7 | 35.7 | 35.0 | 35.5 |
| Retail Trade Turnover | 41.9 | 40.9 | 37.6 | 34.5 | 36.1 | 33.3 | 31.7 |
| Wholesale Trade Turnover | 80.3 | 81.5 | 90.6 | 76.1 | 81.6 | 79.1 | 83.2 |
| Revenues | 37.7 | 37.2 | 39.5 | 37.7 | 37.7 | 37.1 | 37.9 |

*Note.* Data covers micro enterprises (number of employees up to 15), small enterprises (number of employees from 16 to 100), medium enterprises (number of employees form 101 to 250).

*Source:* National Statistical Committee of the Republic of Belarus.

**Figure 2.1. Share of Individual Entrepreneurs, Small and Medium-Sized Businesses in Total Employment (*a*) and GDP (*b*)**




**(a) Number of Employees, thousand**

**(b) Share in GDP, %**

*Note.* Statistical data on the share of individual entrepreneurs in GDP is available only for 2011 and subsequent years. The number of employees, as it applies to individual entrepreneurs, includes both such entrepreneurs and individuals hired by them under labor contracts.

*Source:* National Statistical Committee of the Republic of Belarus.

Figure 2.1*a*). At small enterprises, employment decrease started only in 2014, and its scale is considerably less impressive (4%). The number of people employed by medium-sized enterprises over the last several years has also been dropping, but that is part of a long-term trend curtailing both the number of such enterprises and their personnel.

Reduction of SME employment figures is set off, although to a relatively small extent, by the growing number of workers employed by individual entrepreneurs under labor contracts. Changes in employment statistics demonstrate that during the current crisis SMEs have been cutting their labor costs more actively than the other sectors of the economy. On the one hand, that testifies to higher flexibility of the labor market in the SME sector, on the other hand, it undermines the assumption that this sector, in its current state, can help defuse the tension that economic stagnation generates in the labor market.

Reduction of the SME sector's share in employment is mirrored by its contribution to the GDP (Figure 2.1*b*). Compared to 2013, the share of small and medium-sized business in the GDP has gone down by 0.8 percentage points to 21.1% (see Table 2.1). As with employment, the steepest decline over the last several years has been posted by micro enterprises (from 6% of the GDP in 2013 to 5.2% in 2015).

The shares of small and medium-sized enterprises in the GDP have been rather stable, with the exception of a 2012 peak (see Figure 2.1*b*) caused by re-export of petroleum products, which was statistically reflected in the growth of production of petroleum products and solvents by medium-sized enterprises. With shrinking employment, this may testify to a certain improvement of productivity in the SME sector relative to the rest of the economy[19], which can be attributed both to the

[19] Labor productivity in the SME sector is below average, as attested by the fact that its contribution to employment is higher than its contribution to the GDP. This can be explained by the economies of scale and lower labor intensity at large enterprises.

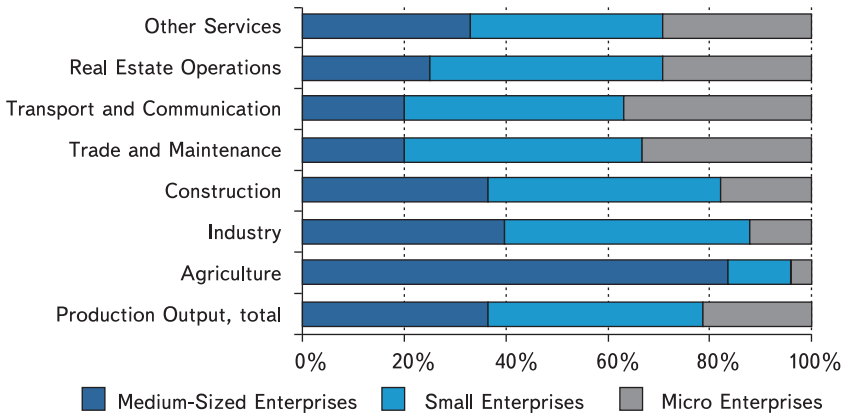
**Table 2.2. SME Share in Output (with a breakdown by types of operations, 2009–2015, %**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| Total | 27.0 | 26.5 | 29.3 | 29.5 | 28.8 | 29.2 | 28.6 |
| Agriculture, Hunting and Forestry | 36.0 | 35.9 | 35.3 | 35.0 | 33.4 | 34.3 | 37.0 |
| Fishing and Fish Farming | 73.3 | 75.1 | 78.6 | 73.3 | 73.7 | 70.8 | -- |
| Mining Industry | 4.2 | 7.1 | 3.2 | 3.1 | 4.0 | 4.1 | 4.1 |
| Processing Industry | 18.2 | 18.1 | 20.3 | 20.5 | 18.6 | 18.5 | 18.3 |
| Production and Distribution of Electric Power, Gas and Water | 0.8 | 0.6 | 1.0 | 1.1 | 1.4 | 1.2 | 1.2 |
| Construction | 41.1 | 39.2 | 39.2 | 41.0 | 45.3 | 44.0 | 39.7 |
| Trade; Maintenance of Motor Vehicles, Household and Personal Appliances | 61.9 | 67.7 | 67.2 | 73.8 | 60.6 | 59.7 | 55.9 |
| Hotels and Restaurants | 45.1 | 35.4 | 34.2 | 34.6 | 38.8 | 38.9 | 41.1 |
| Transport and Communication | 21.3 | 21.6 | 23.1 | 22.6 | 24.4 | 25.1 | 26.2 |
| Financing | 49.5 | 32.8 | 43.1 | 34.8 | 31.4 | 46.7 | 55.6 |
| Real Estate Operations, Lease and Consumer Services | 50.1 | 53.1 | 59.6 | 54.1 | 55.7 | 56.4 | 55.9 |
| Education | 29.6 | 21.7 | 21.2 | 24.7 | 33.2 | 30.8 | 35.7 |
| Health Care and Social Services | 46.7 | 43.8 | 41.4 | 43.8 | 48.8 | 51.1 | 54.5 |
| Utilities, Social and Personal Services | 39.9 | 39.8 | 46.8 | 52.2 | 44.2 | 47.6 | 46.6 |

*Note.* In the formula used to compute SME shares in the table above, the enumerator is SME output based on their core activities, and the denominator is total output by certain categories of Belarus business entities, including commercial entities (with the exception of banks) and non-commercial entities which had, on the average, at least 16 employees during the calendar year preceding the reporting year, and manufactured products for subsequent sale to legal entities or individuals. As a result, SME contribution to total industrial production is, in fact, overstated. The extent of this distortion can be measured by comparing aggregate SME contribution to total output figures in this table and in Table 2.1. It should be noted, though, that in the majority of cases the resultant figure accurately reflects the role played by the SME sector in various types of operations.

*Source:* calculations based on data published by the National Statistical Committee of the Republic of Belarus.

**Figure 2.2. SME Output Structure (with a breakdown by enterprise size)**




*Source:* National Statistical Committee of the Republic of Belarus.

growth of relative efficiency of the sector and to changes in the sectoral makeup of its portfolio.

Evolution of contribution by the SME sector to total output (which generally follows its contribution to the GDP) is indicative of considerable sectoral shifts in SME development. For example, despite the general downward trend, over the last two years SMEs have increased their share in total agricultural output (see Table 2.2).

In the SME sector, agricultural specialization is typical mostly for medium-sized enterprises (see Figure 2.2), with agricultural products accounting for a quarter of their total output (26.5% in 2015). This is due to the fact that many agricultural producers meet the definition of a "medium-sized enterprise." One of the consequences of this situation is the less pronounced link between development of medium-sized enterprises and changes in the general business and economic environment, as in Belarus government support has a stronger impact on agriculture than do market factors.

Contrary to the general trend, the role of small and medium-sized business has probably increased in service sectors other than *Trade and Maintenance* (see Table 2.2). It is, however, difficult to find unequivocal statistical data that would confirm the trend, as a considerable portion of such services is provided by state-owned non-commercial entities whose operations are not included into the calculation of SME contribution to total output of goods (works, services). At the same time, in SMEs' traditional industries – processing, trade, and construction – their contribution was either dwindling or relatively stable.

The share of SMEs in industrial production is slightly lower than their shares in the GDP and total output, but it did remain rather stable (see Table 2.1). The spike registered in 2012–2013 is completely attributable to petroleum product re-export schemes. In recent years, industrial production in the SME sector has been shrinking at the same rate as in the economy as a whole. Within the sector, the share of industrial production by small enterprises is increasing (in 2015 by 3 percentage points to 47%), while contribution of medium-sized enterprises has been going down (by 2.2% percentage points to 41%).

An important indicator of the subsiding importance of SMEs in the Belarus economy, and of the sector's eroding profile, is the decrease of its share in trade (see Table 2.2) and retail turnover (see Table 2.1). During the period from 2009 to 2015, SMEs' contribution to retail turnover has gone down by more than 10 percentage points. A considerable part of that decrease occurred in the last several years due to the adoption of more stringent laws governing retail trade, and expansion of major trade networks. The new conditions for doing business have had the most devastating effect on micro enterprises – many of which specialize in trade and generate a sizeable portion of total trade services offered by the SME sector (see Figure 2.2).

Belarus SMEs play an extremely important role in wholesale turnover, being responsible for more than 80% of wholesale trade transactions (see Table 2.1). Small enterprises are the key player with more than 50% of total wholesale turnover. This can be explained by the active use of intermediaries, particularly in foreign trade, boosting the share of the SME sector both in exportation and importation of goods.

From the formal viewpoint, the SME sector is also a major investor (see Table 2.1). The scale and the constantly changing volume of investments are related to investment activities of small enterprises, especially under construction contracts. Most such work is performed in the *Real Estate Operations and Lease* sector, i.e. involves provision of intermediary services in the construction market. Therefore, this indicator does not accurately reflect the actual investment activity of small and medium-sized business. Moreover, over the last several years, the share of SMEs in total direct construction services has sustained a significant drop (see Table 2.2).

Generally speaking, most macroeconomic indicators offer a distorted view of the actual state of affairs in the SME sector. In many cases, inflated values are demonstrably attributable to idiosyncrasies of Belarus business practices which require extensive involvement of intermediaries most of which qualify as small enterprises. The most realistic picture of SME sector evolution is provided by its contribution to industrial output net of re-export of petroleum products. A World Bank report[20] shows that the movement of this indicator (alongside with the number of enterprises and their employees) is linked to changes in the business and macroeconomic environment in the country.

Certain other indicators, such as the share of the SME sector in employment, GDP, and retail turnover, can also be used to generally examine the role of small and medium-sized business in the economy. Their movement in recent years demonstrates that the situation in the SME sector is deteriorating, and its importance for the national economy is decreasing. However, to obtain a more reliable picture of SME sector development, we need to talk to its representatives.

## 2.3. SME Sector Development: Poll Findings

### *2.3.1. Assessment of Current Economic Position*

Despite the significant deterioration of the economic environment and macroeconomic indicators of the SME sector, representatives of small and medium-sized business, on the average, assess their current economic position neutrally. According to a poll[21] conducted in the spring of 2016 (see *Annex*), the average score that respondents assign to the economic position of their enterprises is statistically not different from 3 (see Figure 2.3*a*). This means that on the average the situation of SMEs is neither good nor bad.

The scores have slightly improved compared to the previous year's poll, and the predominant mood is considerably more optimistic vis-à-vis the early 2010-es. The improvement occurred due to the fact that fewer enterprises assumed a neutral stance, and more enterprises selected one of the positive scores (see Figure 2.3*b*). Thus, in 2016 almost a quarter of all respondents (24.7%) assessed the economic position of their enterprises as good ("rather good" or "very good"). The share of pessimists was similar at 23.8% of respondents. In 2012, there had been 8.8% of positive scores vs. 35.0% of negative scores.

There are no significant differences in distribution of assessment of the economic position by such indicators as sectoral affiliation or size of the enterprise. Construction enterprises have slightly lower-than-average scores, but the average score is still virtually identical to 3 (Figure 2.4*a*). In terms of size, enterprises with the number of employees ranging from 51 to 100 stand out with an average economic position score a little higher than 3, but due to the small size of the subsample it is impossible to determine with any certainty whether this difference is meaningful (Figure 2.4*b*).

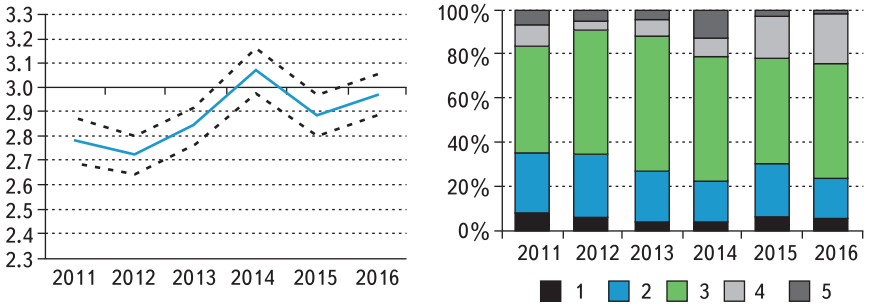
Nonparametric test performed to verify identity of sample distributions revealed that respondents differed in their assessment of economic position only subject to the year of establishment of the enterprise[22]. Newer SMEs established after 2010, on the average, assessed their position more optimistically. Their average score was statistically higher than 3, i.e. was positive (Figure 2.4*c*). Conversely, enterprises established during an earlier period of time

[20] World Bank (2015). Republic of Belarus: Regional Development Policy Notes. The Spatial Dimension of Structural Change, World Bank Report ACS13961.

[21] http://www.research.by/publications/surveys-of-business/1601/.

[22] The Kruskal – Wallis test rejected the zero hypothesis that distribution of answers to the question regarding the current economic position of enterprises is the same regardless of the year of establishment at the 5% level of significance.

**Figure 2.3. Assessment by Representatives of Small and Medium-Sized Business of the Current Economic Position of Their Enterprises, 2011–2016**




**(a) Average score** **(b) Distribution of scores**

*Note:* Scores are assigned on a scale from 1 to 5, where 1 is "very poor" and 5 is "very good." The dotted lines represent the 95% confidence interval.

*Source:* IPM Research Center.

(1997–2004) had an average score of considerably less than 3, i. e. they assessed their position as poor. This difference is partially attributable to the relatively short life cycle of small and medium-sized enterprises in Belarus. The constantly changing SME regulations and the dynamically growing markets arguably grant a comparative advantage to recently created enterprises.

On the whole, economic position scores are not capable of fully reflecting the evolution of the SME sector. Those scores are biased due to their inherent relativity, as enterprises inevitably assess their position relative to the general state of the economy. The problem is resolved when we consider answers to the question about how the economic position of the enterprise has changed since last year.

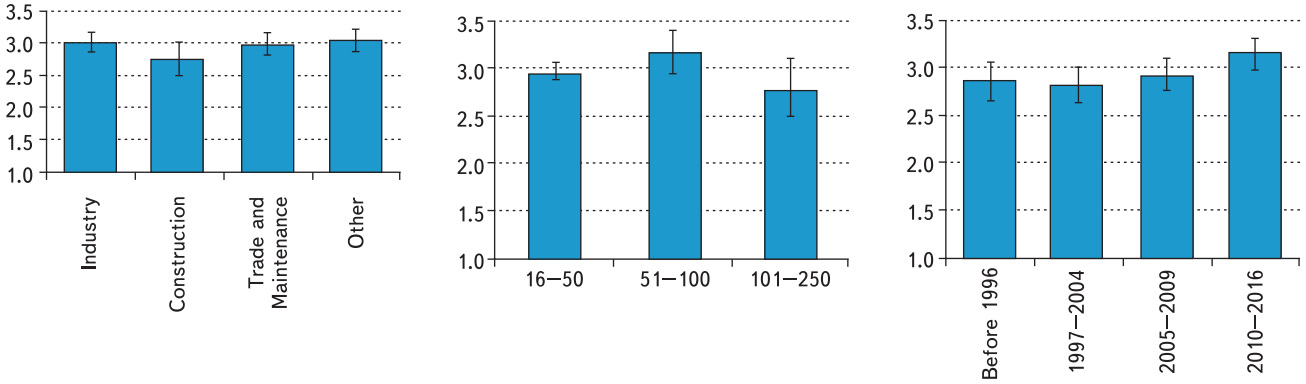
Another factor which may introduce a certain bias into poll findings is the nature of samples. *First*, samples may change from poll to poll. For example, in 2016 the sample consisted exclusively of enterprises with the number of employees ranging from 16 to 250, while in previous years it also included micro enterprises. *Second*, samples are naturally made up of going-concern enterprises, while those that were hit the hardest by the crisis and went bankrupt are left out.

### *2.3.2. Assessment of Changes in Economic Position*

Distribution of the respondents' answers to the question regarding changes in the economic position of their enterprises gives a clearer picture of the negative trends affecting the SME sector. Over the last *two* years, most respondents note a deterioration of their economic position. In the spring of 2016, 56.9% of respondents said that the economic position of their enterprises had become more or less worse during the past year. In 2015 the share of such respondents was even higher at 60.6%. Incidentally, the share of positive answers to the question regarding changes in the economic position of enterprises in 2015 was also higher (2015: 15.4%; 2016: 10.3%; Figure 2.5*b*). As a result, over the last two years, the average score with which the respondents assessed changes in the economic position of their enterprises has remained virtually unchanged.

That score is considerably lower than it was in 2014 (Figure 2.5*a*), when SMEs, on the average, assessed

**Figure 2.4. Assessment of the Current Economic Position of the Enterprise with a Breakdown by Sectoral Affiliation (*a*), Size (*b*), and Year of Establishment (*c*)**

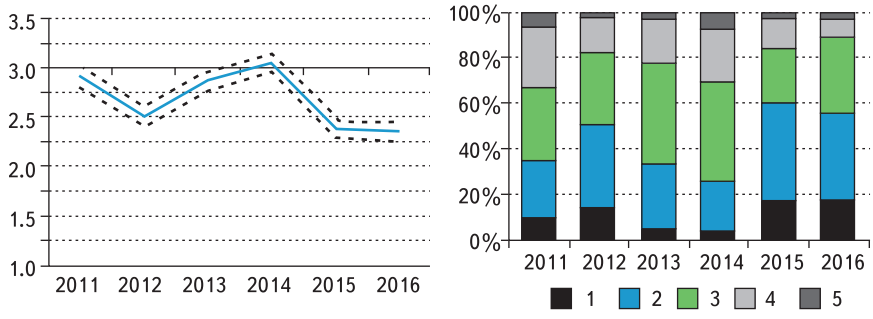



**(a) Sectoral affiliation** **(b) Number of employees** **(c) Year of establishment**

*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "very poor" and 5 is "very good." The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

**Figure 2.5. Assessment by Representatives of Small and Medium-Sized Business of Changes in the Economic Position of Their Enterprises over the Past Year**

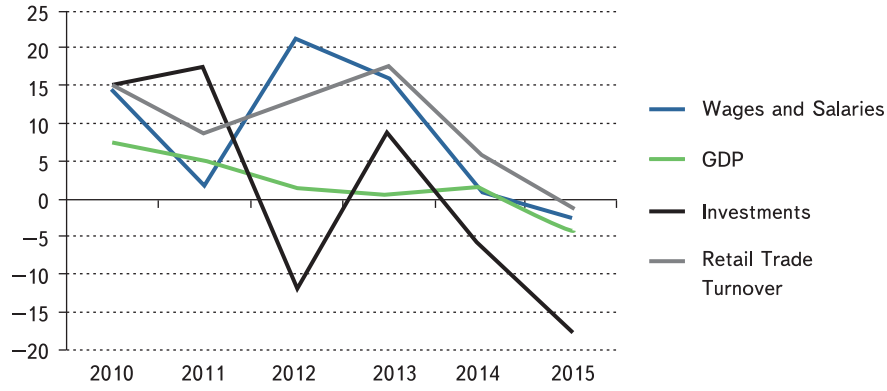



**(a) Average score** **(b) Distribution of scores**

*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "significantly deteriorated" and 5 is "significantly improved." The dotted lines represent the 95% confidence interval.

*Source:* IPM Research Center.

**Figure 2.6. Rates of Growth of the Key Macroeconomic Indicators in Real Terms, % year-on-year**




*Source:* National Statistical Committee of the Republic of Belarus.

changes in their economic position neutrally. Comparably low scores were received only in the beginning of 2012, when the Belarus economy was dealing with the aftermath of a shock provoked by the 2011 currency crisis.

On the whole, assessments of changes in the economic position in the SME sector are linked to the rate of growth of macroeconomic indicators. Similarities are most clearly seen if we look at the movement of real wages and salaries and real retail turnover, both dealing with household consumption (Figure 2.6). For example, rapid deceleration of growth of average wages and salaries in 2011 and 2014–2015 transformed into negative assessment of changes in the SME sector in 2012 and 2015–2016, respectively (see Figure 2.5*a*). Assessments of changes in the SME sector and retail turnover demonstrate an even tighter fit. Notably, retail turnover growth rates remained positive, as this indicator slightly overstates domestic demand, among other things, due to the existence of the cross-border trade effect.

Behavior of investments, the second most important component of domestic demand, is not apparently aligned with changes in assessment of the economic position of SMEs. As a result, GDP movements have a relatively modest impact on the position of the SME sector. This underlines the fact that small and medium-sized business in Belarus is largely domestically oriented, with household consumption as its primary target. Production of investment goods and export goods basically lies beyond the scope of competence of most small and medium-sized enterprises.

Nevertheless, certain differences in the perception of changes in the economic position of enterprises can be linked to SME characteristics. According to the nonparametric Kruskal – Wallis test, distribution of answers given by respondents depends on the year of establishment of the enterprise and its sectoral affiliation (Figure 2.7)[23]. In particular, enterprises working in the *Services* sector assess changes in their economic position differently from *Construction* and *Retail Trade* enterprises. They are mostly represented by enterprises engaged in provision of financial, real estate, and communication services, including computer services, which are among those least affected by the crisis. Accordingly, they maintain a more positive view of their economic position than their counterparts in the other sectors (Figure 2.7*c*).

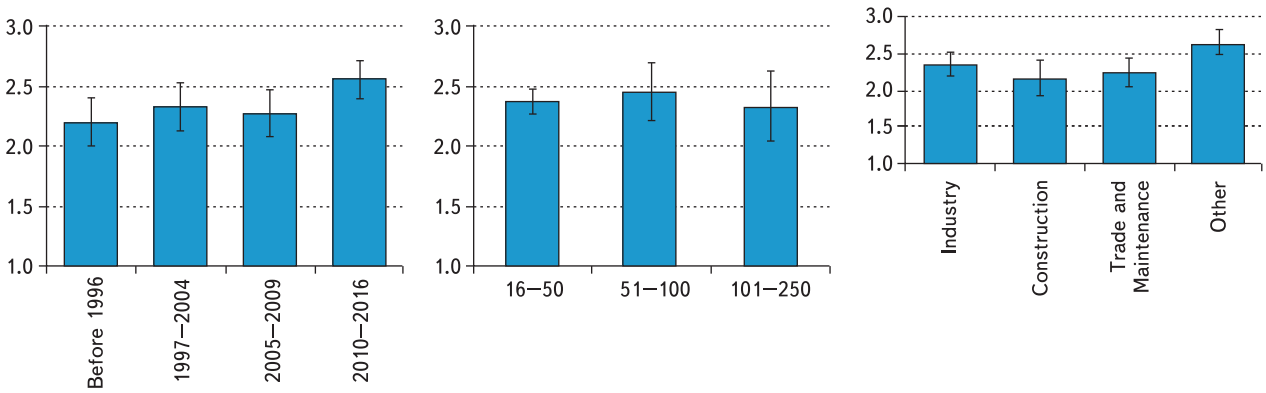
As for the year-of-establishment criterion, the youngest enterprises generally have a more upbeat view of changes in their economic position (see Figure 2.7*a*). However, even such enterprises, on the average, noted that their affairs had taken a turn for the worse, even though their general opinion of their current economic position remained positive (see Figure 2.4*c*).

### *2.3.3. Assessment of Changes in Certain SME Economic Indicators*

Deterioration of the economic position of SMEs is directly manifested in dropping sales. The Pearson correlation coefficient in answers to these questions is 0.68. In 2016, 59.6% of respondents noted that

[23] The size of the enterprise does not have any significant impact on assessment by respondents of the economic position of their enterprises (see Figure 2.7*b*).

**Figure 2.7. Assessment by Representatives of Small and Medium-Sized Business of Changes in the Economic Position of Their Enterprises (with a breakdown by year of establishment (*a*), size (*b*), and sectoral affiliation (*c*))**

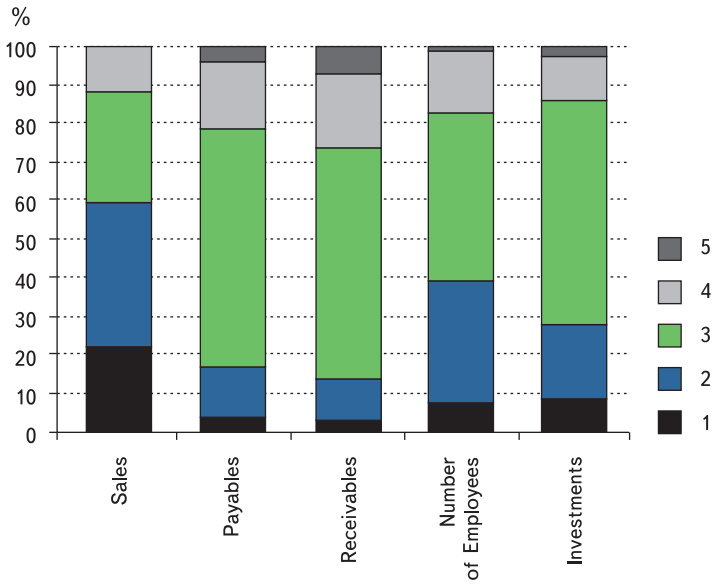



**(a) Year of establishment** **(b) Number of employees** **(c) Sectoral affiliation**

*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "significantly deteriorated" and 5 is "significantly improved." The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

**Figure 2.8. Distribution of Assessment by SME Representatives of Changes in Certain Economic Indicators of Their Enterprises**




*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "significantly decreased" and 5 is "significantly increased."

*Source:* IPM Research Center.

over the past year sales at their enterprises had considerably decreased or somewhat decreased (Figure 2.8), which is consistent with the total percentage of respondents who stated that the economic position of their enterprises had deteriorated. Only 11.8% of respondents claimed their sales had increased. This negative trend has persisted for two years. In 2015, 63.4% of respondents said that sales at their enterprises had decreased. With positive answers at 15.1%, this means that the average scores in 2015 and 2016 had been the same.

To enable comparison of the findings with those from earlier polls where the scatter factor was somewhat lower, we performed a scale normalization in accordance with the following formula:

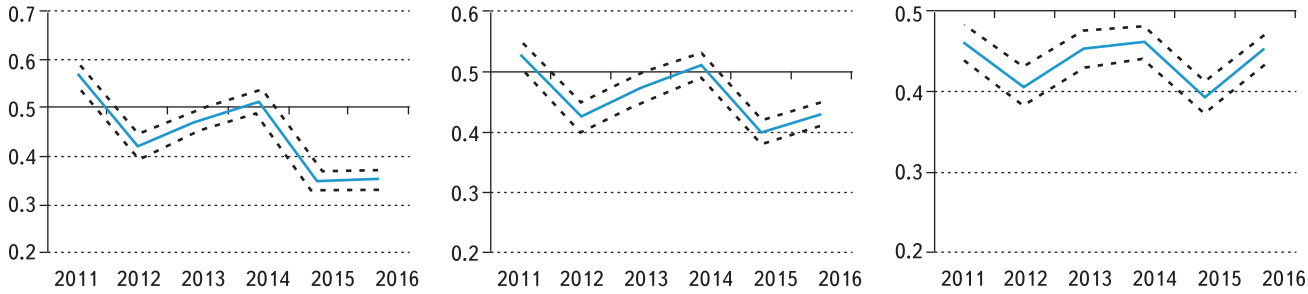
$$x_i' = \frac{1}{1+e^{-\frac{x_i-\bar{x}}{\sigma}}},$$

where $\bar{x}$ is scale mode, and $\sigma$ is standard deviation. The profile of the resultant chart (Figure 2.9a) is consistent with the pattern we received for the general question regarding changes in the economic position of enterprises.

In particular, in 2013–2014, when there still remained some residual effect from the growth of real individual incomes, respondents, on the average, assessed changes in the volume of sales neutrally. Positive answers were predominant only in 2011, when domestic demand had been warmed up by lax economic policies pursued in 2010. The subsequent currency crisis and the temporary tightening of monetary policy drove SME sales down, but the depth and duration of that slump were considerably less impressive than in 2015–2016.

Beside dropping sales, in the recent years SMEs have also had to deal with accumulation of overdue receivables generated by counterparty payment defaults. According to the findings of the 2016 poll, 26.5% of respondents have been affected by that issue (see Figure 2.8). Only

**Figure 2.9. Average Assessment by SME Representatives of Changes in Certain Economic Indicators of Their Enterprises**




**(a) Sales** **(b) Employment** **(c) Investments**

*Note.* The dotted lines represent the 95% confidence interval. The scale has been normalized in the range from 0 to 1, where 0 is "significantly decreased", 1 is "significantly increased", and 0.5 is "not changed."

*Source:* author's calculations based on IPM Research Center data.

13.4% of respondents claimed their receivables had decreased and, accordingly, the average score of that indicator exceeds 3.[24] The overdue payables issue is less acute, and the average score is basically equal to 3, signaling stability of SME sector payables. At least in part, this can be explained by the fact that small and medium-sized business has limited access to credit resources.

Financial limitations of the sector dampen its investment activity. As a result, contraction of SME investments, as driven by economic stagnation, is rather insignificant. In 2016, 27.8% of respondents said their investments had gone down, with positive changes claimed by 13.9% of respondents (see Figure 2.8). This proportion is much better than that demonstrated by sales. Moreover, the final average score is not much different from the scores registered in most previous years, including 2013–2014 (see Figure 2.9*c*) when the sector was growing.

SME reactions to the crisis are more noticeable in the area of employment. According to the findings of the 2016 poll, 39.3% of respondents reported a decrease of the number of their workers and employees, while 16.8% said they had hired more people (see Figure 2.8). In 2015, distribution of answers had an even more pronounced shift towards lower employment, while during the more favorable years perception of changes in employment – similarly to changes in sales – was neutral (see Figure 2.9). Therefore, SMEs are quite flexible when it comes to the need to adapt to the changing economic environment, as evidenced by the sector's declining employment figures over the last several years.

Behavior of economic indicators is, to some degree, dependent on the type of enterprise. There exist meaningful differences in distribution of the respondents' answers to questions regarding production output, number of employees, and volume of investments depending on their sectoral affiliation and year of establishment.[25] Small and medium-sized enterprises working in the *Trade and Maintenance* sector had a particularly negative perception of declining sales (Figure 2.10*a*). On the one hand, those enterprises heavily rely on domestic demand which sustained a massive drop in 2015–2016. On the other hand, the high percentage of respondents mentioning lower sales among trade enterprises is easily explained by the particularly high value of that indicator in this particular sector.

Assessment of the scale of reduction of the other economic indicators by trade enterprises was close to SME sector averages (see Figure 2.11*a* and Figure 2.12*a*).

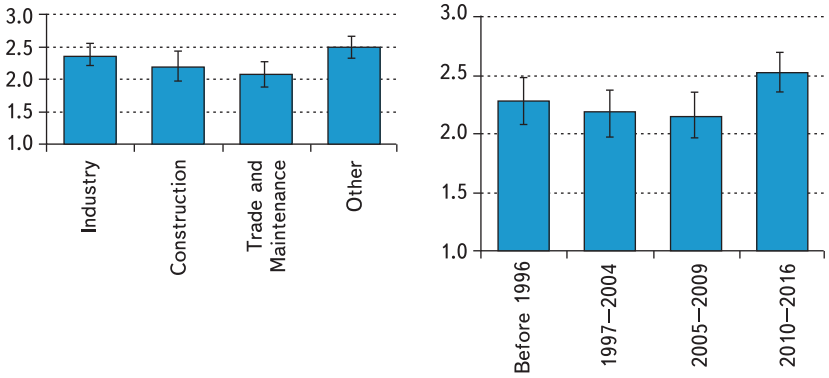
A sales slump comparable to that registered in the *Trade* sector was also noted by representatives of construction enterprises (see Figure 2.10*a*) which were hurt both by the diminishing purchasing power of the population, and by the dearth of investment capital and general slowdown of construction activity. As a result, construction enterprises posted the largest decline of employment and investments (see Figure 2.11*a* and Figure 2.12*a*). To a certain extent, the considerable decrease of the number of people employed by such SMEs can be ascribed to the high mobility of the sector's labor market due to the short-term and seasonal nature of employment.

Answers given by representatives of industrial SMEs are basically the same as poll averages, the only difference being that they attached less significance to reduction of the volume of investments. Statistically, the average score assigned by these SMEs to changes in the volume of investments is not different from

[24] The average score was 3.17, which is statistically higher than 3 (level consistent with neutral assessment). The excess indicates that receivables have increased.

[25] According to the nonparametric Kruskal – Wallis test for independent samples at the 5% level of significance.

**Figure 2.10. Average Assessment of Changes in Sales (with a breakdown by sectoral affiliation (*a*) and year of establishment (*b*))**

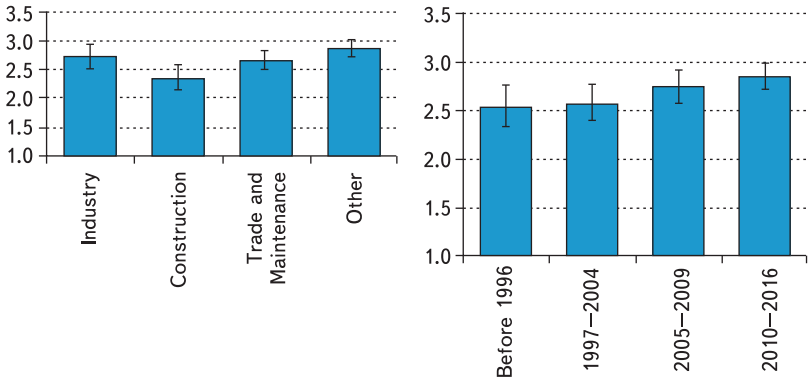



**(a) Sectoral affiliation** **(b) Year of establishment**

*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "significantly decreased" and 5 is "significantly increased." The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

**Figure 2.11. Average Assessment of Changes in the Number of Employees (with a breakdown by sectoral affiliation (*a*) and year of establishment (*b*))**

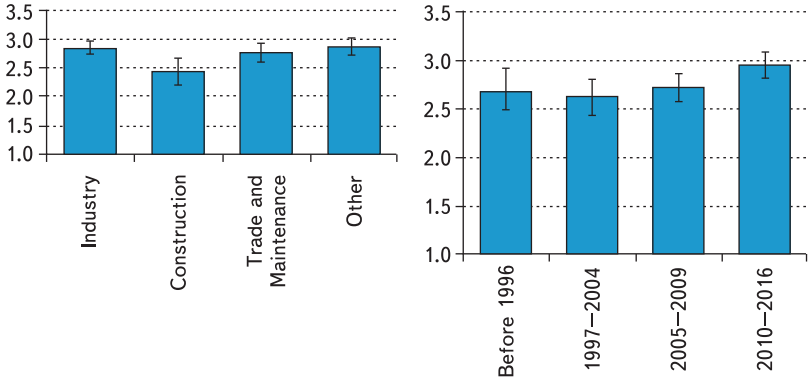



**(a) Sectoral affiliation** **(b) Year of establishment**

*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "significantly decreased" and 5 is "significantly increased." The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

**Figure 2.12. Average Assessment of Changes in the Volume of Investments (with a breakdown by sectoral affiliation (*a*) and year of establishment (*b*))**




**(a) Sectoral affiliation** **(b) Year of establishment**

*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "significantly decreased" and 5 is "significantly increased." The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

3 (see Figure 2.12*a*), i.e. on the average, the inflow of investments to small and medium-sized industrial enterprises in 2015 and early 2016 did not decline. This is largely attributable to the low base effect, as investments into the sector had sustained a heavy fall during the previous years.

The least negative perception of declining sales and generally deteriorating economic position was registered among the enterprises working in the *Other Services* sector (financial and communication services). Moreover, those enterprises did not note any decrease of employment and investments, with average scores being not different from 3 (see Figure 2.11*a* and Figure 2.12*a*), which signifies lack of change.

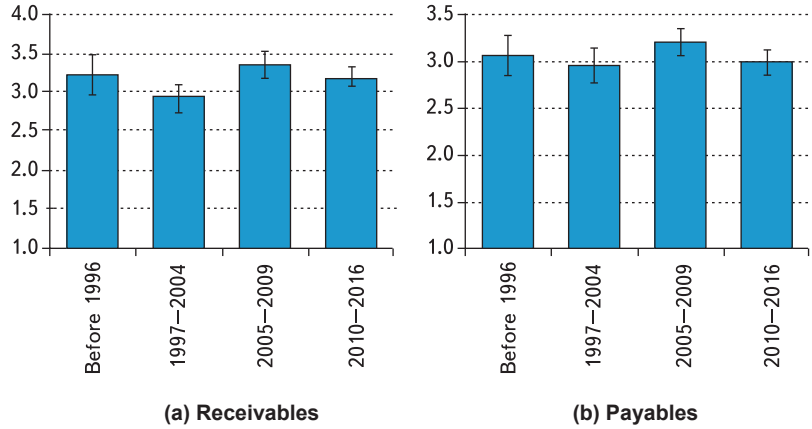
Dependence of distribution of answers on the year of establishment can be observed for assessment of changes both in sales, employment and investments, and in payables and receivables. New enterprises established after 2010 were the least affected by the sales slump. Their assessment of that slump is strikingly different from that by enterprises and companies established in the 2000-es (see Figure 2.10*b*). Probably, small and medium-sized enterprises that are created during periods of rapid economic growth (like the one we witnessed in the last decade) are not as well prepared for operating in an inclement macroeconomic environment as recently established enterprises.

New enterprises have not noted any significant decrease of employment or investments, either. Their average score when they answered the relevant questions was not different from 3, which makes them stand out in the sample (see Figure 2.11*b* and Figure 2.12*b*). As regards the employment issue, there is generally a direct correlation between the perception of the issue and the age of the enterprise. The most significant job cuts were registered at enterprises established in the 1990-es. Reduction of investments

at all enterprises established before 2010 was more or less uniform. The older enterprises generally experience a more urgent need to cut their labor costs. This may be attributable to the fact that most of them are large industrial enterprises, some of them established as far back as in the Soviet times and subsequently denationalized. They could have inherited the excessive employment problem which exacerbated in recent years against the backdrop of shrinking sales.

An analysis of changes in payables and receivables (Figure 2.13) shows that enterprises created during the period from 1997 to 2004 are in the most favorable position, while enterprises established in 2005–2009 have encountered the most severe difficulties.

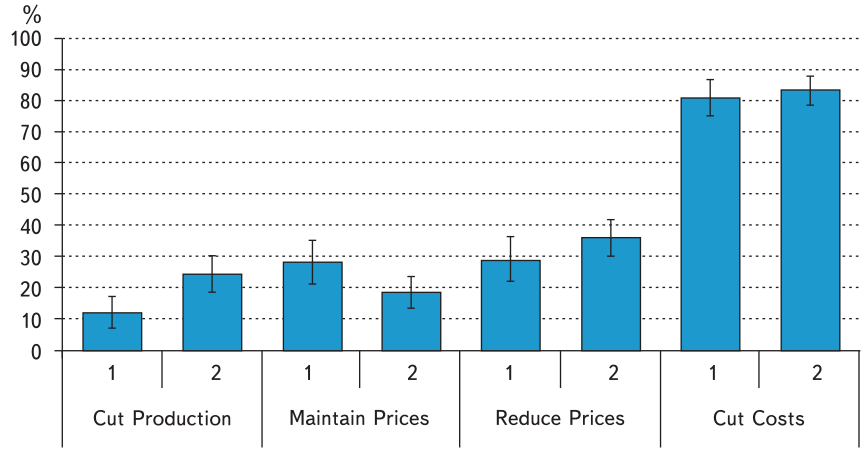
**Figure 2.13. Average Assessment of Changes in Receivables (*a*) and Payables (*b*) (with a breakdown by year of establishment)**




*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "significantly decreased" and 5 is "significantly increased." The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

**Figure 2.14. Frequency of Selection of Crisis Reactions Depending on the Level of Successfulness of the Enterprise, %**




*Note.* 1 – Group of SMEs which have not perceived any notable deterioration of their economic indicators. 2 – Group of SMEs whose economic indicators have deteriorated (see Insert). The segments represent the 95% confidence interval.

*Source:* author's calculations based on IPM Research Center data.

## 2.4. Influence of External Factors on the Current State of, and Selection of Development Strategies by, the SME Sector

Deterioration of the economic position of the SME sector was caused both by the impact of the economic crisis and by the current state of business environment. The main reaction of individual enterprises to the crisis has been to cut costs. 82.4% of respondents were forced to resort to that measure. The probability of selecting this particular strategy did not depend on the economic position of the enterprise, its size or sectoral affiliation. The key differences were observed in the policies that enterprises used to price their products and maintain production volumes. Enterprises with minimal crisis sensibility attempted to keep their prices and refrain from scaling back production. Conversely, enterprises worst hit by the crisis cut both their prices and their outputs.

There is a negative correlation[26] between the assessment of changes in the economic position of the enterprise and the probability that it will react to the crisis by production cuts. SMEs which did not claim that their economic position had deteriorated resorted to production cuts more seldom than on the average (Figure 2.14). The price-keeping strategy directly correlates with the assessment of changes in the economic position of the enterprise[27]. This implies that the measure was typical for the relatively more successful companies which had not perceived any notable deterioration of their economic position over the past year.

To illustrate this dependence based on the answers to questions dealing with changes in sales, number of employees, investments, receivables and payables, we defined *two* groups of enterprises which perceived deterioration of their economic position as relatively more or less material (see Insert). In the group made up of the relatively more successful SMEs which have not

[26] Pearson correlation coefficient is –0.214 (significant at 1% level).

[27] Pearson correlation coefficient is 0.135 (significant at 1% level).

experienced a material deterioration of their economic indicators, only 11.9% of respondents said that they had decreased their production volumes. In the group of the less successful enterprises whose economic indicators have grown worse, the share of such answers was two times higher (24.7%, see Figure 2.14). In addition to that, the more successful enterprises much more frequently took steps to maintain their prices (28.1% of respondents *vs*. 18.5% in the group of the less successful enterprises). Conversely, enterprises which felt that their economic position had deteriorated more often than not reduced their prices.

The pace of development of enterprises is also affected by the state of business environment. Pearson correlation coefficient for the relationship between assessment of changes in conditions for doing business over the past year and assessment of the current economic position is 0.448. Accordingly, enterprises with positive perception of changes in their economic condition had a better-than-average attitude towards changes in the business environment.

Nevertheless, even companies which remained successful despite the crisis (selected by applying the cluster analysis method) had a mostly negative perception of changes in conditions for doing business. Their average score was 2.4, which is considerably less than 3, i.e. materially worse than neutral. The scores assigned by the less successful enterprises averaged out at an even lower 1.94 (Figure 2.15). Therefore, these respondents noted a material deterioration of the business environment, which contributed to a decline of their economic indicators.

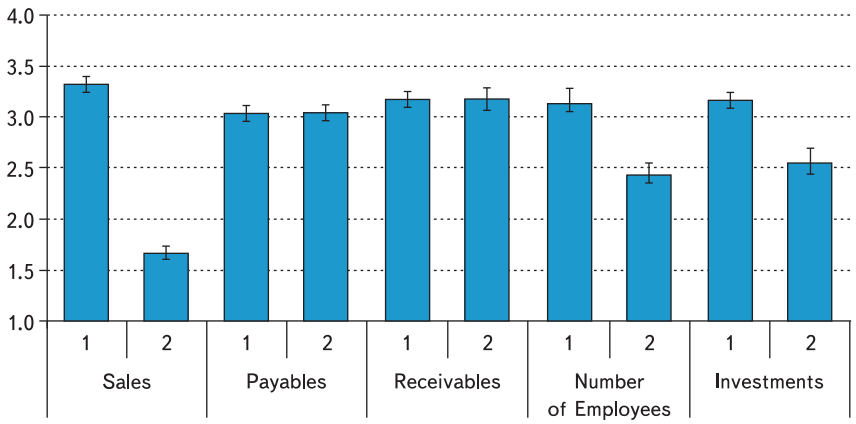
Perception of changes in the economic position of enterprises is also related to perception of surmountability of external barriers. Answers to the relevant questions are correlated: the more optimistic the enterprise's perception of changes in its economic position, the higher the probability that it believes that external barriers can be overcome[28]. Out of the enterprises which, based on the findings of cluster analysis, were assigned to the group of enterprises whose economic position had not deteriorated, 71.5% said that the existing external barriers were surmountable, and that such barriers encouraged them to identify more efficient business models and look for high-potential markets. In the group of enterprises whose economic indicators had grown worse, the share of those believing that external barriers are surmountable and will not result in their eventual termination was considerably lower (53.7%; Figure 2.16).

Accordingly, assessment of changes in the economic position varies considerably depending on perception of external barriers. Among the enterprises which consider external barriers to be surmountable, average assessment

### Insert. Cluster Analysis

Two groups of enterprises differing by the level of efficiency in dealing with the aftermath of the crisis were defined on the basis of their perception of changes that had occurred to some of their economic indicators. To do that, we performed hierarchical cluster analysis using the method of intra-group connections assessed by squared Euclidian distance. The key indicator that shaped assignment of enterprises to this or that particular group was their assessment of changes in their sales volume. An important role was also played by assessment of changes in investment and employment levels, while assessment of changes in payables and receivables did not have any noticeable effect on assignment of each particular enterprise to one of the groups. Accordingly, the first group (Cluster 1) was formed of enterprises which, on the average, posted a modest increase of sales, number of employees and volume of investments, and the second group (Cluster 2) was formed of enterprises characterized by a significant sales slump and a noticeable reduction of the number of employees and volume of investments (see Figure I1). The groups accounted for 39.5% and 60.5% of the sample, respectively.

**Figure I1. Average Assessment of Changes in Certain Economic Indicators Depending on the Cluster**

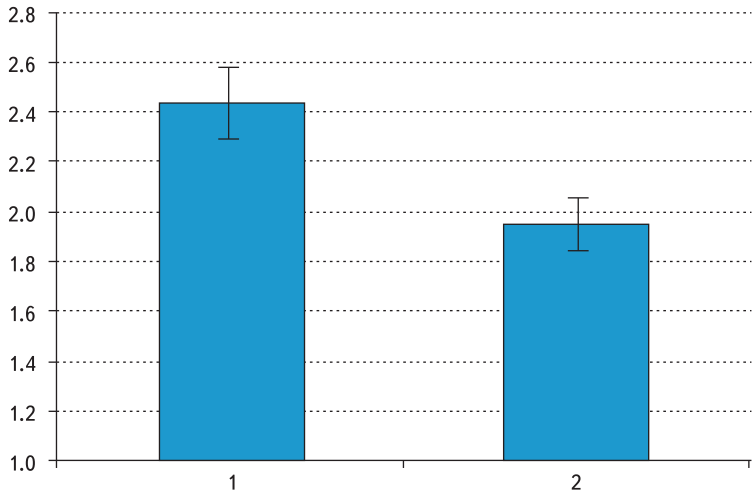



*Note.* Y-axis: scores are assigned on a scale from 1 to 5, where 1 is "significantly decreased" and 5 is "significantly increased." The segments represent the 95% confidence interval. X-axis: "1" and "2" are numbers of the clusters.

*Source:* author's calculations based on IPM Research Center data.

[28] Pearson correlation coefficient is 0.22 (significant at 1% level).

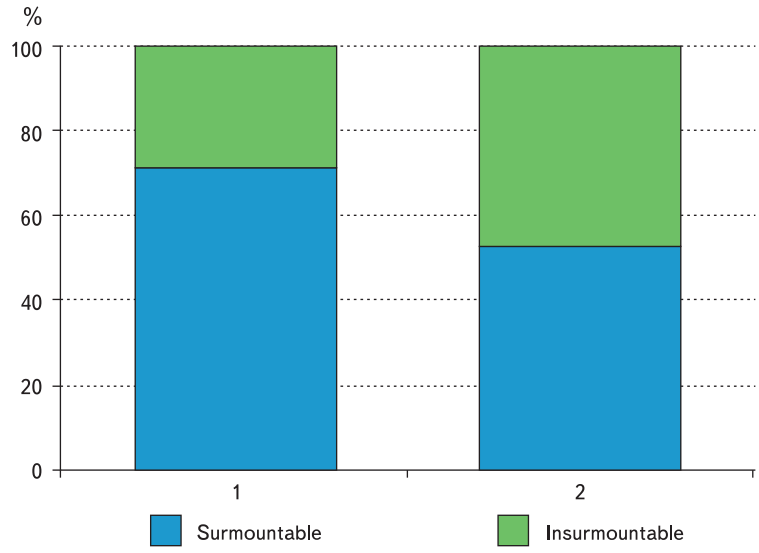
**Figure 2.15. Average Assessment of Changes in Conditions for Doing Business Depending on the Level of Successfulness of the Enterprise**




*Note.* Y-axis: scores are assigned on a scale from 1 to 5, where 1 is "significantly deteriorated" and 5 is "significantly improved." The segments represent the 95% confidence interval. X-axis: "1" – group of small and medium-sized enterprises which have not experienced a significant deterioration of their economic indicators, "2" – group of enterprises whose economic indicators have significantly deteriorated (see Insert).

*Source:* author's calculations based on IPM Research Center data.

**Figure 16. Assessment of Surmountability of External Barriers Depending on the Level of Successfulness of the Enterprise**




*Note.* "1" – group of small and medium-sized enterprises which have not experienced a significant deterioration of their economic indicators, "2" – group of enterprises whose economic indicators have significantly deteriorated (see Insert).

*Source:* author's calculations based on IPM Research Center data.

of changes in their economic position was 2.5 (Figure 2.17), which is higher than the average (see Figure 2.5). Conversely, the enterprises perceiving external barriers as insurmountable assessed changes in their economic position at a level which was much lower than the average.

Therefore, the current economic position of enterprises is largely determined by how they reacted to the crisis, and how they were affected by changes in external environment related to conditions of doing business. Accordingly, these factors, among other things, contributed to SME decisions regarding their development strategies. According to the findings of the poll conducted in the spring of 2016, the share of SMEs intending to expand production was only 24%. In 2014, such development strategy was contemplated by 32.3% of respondents. Besides, over the past year, there has been a slight increase in the share of enterprises which are going to scale down their business operations (from 8.4% to 11.7%; Figure 2.18).

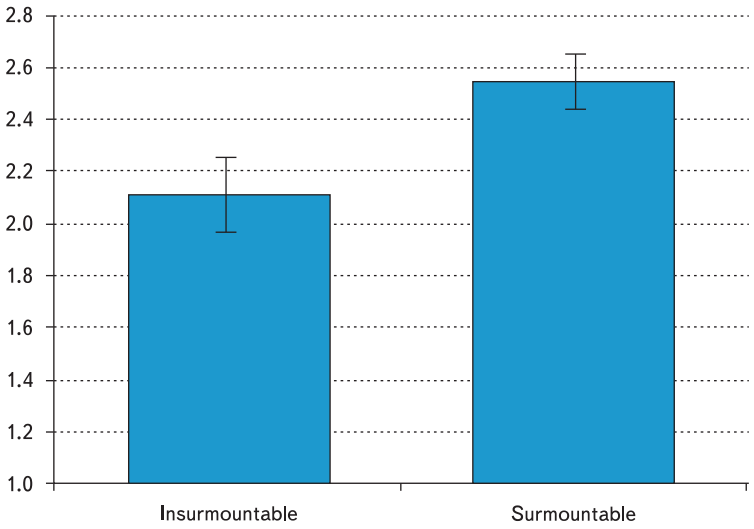
There exists a direct relationship between the enterprise's internal tasks and its assessment of its economic position. Having ranked the three business development tasks (scale down, maintain, expand) from 1 to 3, we calculated the coefficient of correlation between selection of the development strategy and assessment of the economic position. The value of the coefficient (0.527) shows that the economic position of the sector has considerable influence on task selection by enterprises.

For the enterprises seeking to expand their business, the average score describing their assessment of changes in their economic position is 3.1. Statistically this score is not different from 3, i. e. those enterprises, on the average, have not experienced any changes in their economic position. The average score for the enterprises seeking to maintain their business at the current level is close to 2 (Figure 2.19). Accordingly, this strategy is typical for enterprises which have experienced an insignificant deterioration of their economic position. Finally, respondents seeking to scale down their business operations have an average score describing their assessment of changes in their economic position at about 1.5. This means, that this group is dominated by enterprises whose economic position has strongly deteriorated.

## 2.5. Conclusion

Development of the SME sector has often been regarded as one of the tools that can be used to resolve problems engendered by structural

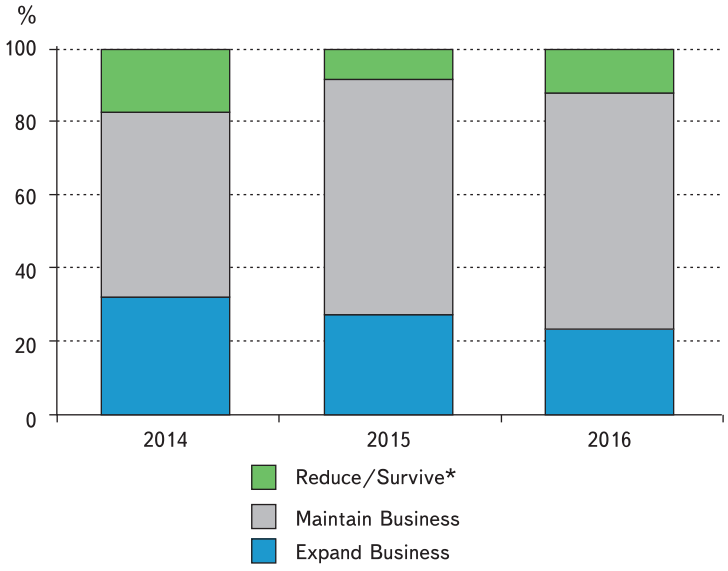
**Figure 2.17. Average Assessment of Changes in the Economic Position of the Enterprise Depending on Assessment of Surmountability of External Barriers**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is "significantly deteriorated" and 5 is "significantly improved." The segments represent the 95% confidence interval.

*Source:* author's calculations based on IPM Research Center data.

**Figure 2.18. Distribution of SMEs Depending on Self-Assigned Internal Tasks**




*Note*. *Possible answers in the 2014 poll were different from the subsequent polls. Instead of "scaling down" their business operations, in the 2014 poll respondents were offered an option to "survive" which, essentially, is one of the types of the "maintain" business strategy. Accordingly, only business expansion scenarios are comparable for all three polls.

*Source:* IPM Research Center.

changes in the Belarus economy. It is expected that small business will be able to partially substitute large state-owned enterprises as the provider of new jobs, and leverage its superior efficiency to make Belarus products more competitive in foreign markets.

A World Bank report argues that growth of employment at small enterprises in 2005–2013 was inversely proportional to growth of employment in the other sectors of the economy, meaning that the sector does have some potential in terms of becoming an alternative employer in addition to large enterprises[29].

However, the current size of the SME sector and its evolution over the last several years call into doubt the validity of expectations regarding its ability to replace large enterprises during an economic crisis.

The share of small and medium-sized enterprises in total output in industry, where concentration of state-owned enterprises is the highest, currently stands at merely 15.7%. The contribution of SMEs to the other macroeconomic indicators is somewhat more tangible, but in many cases it does not accurately reflect their development status. The recent changes in such parameters as SME contribution to the GDP, employment and retail trade testify to the fact that private entrepreneurs are playing an increasingly secondary role in Belarus economy.

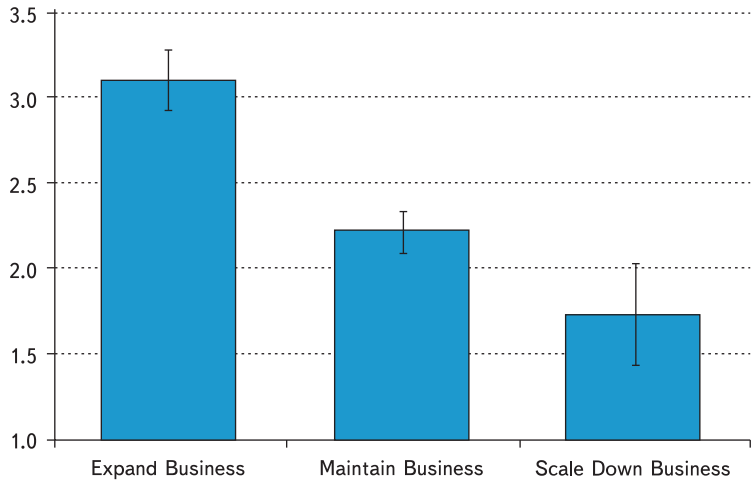
The findings of a poll conducted among SME representatives also support the assumption that the economic position of the sector is deteriorating. Most enterprises have noted a decrease of sales, employment, and investments. The exception is the recently established enterprises whose economic position is relatively stable, and service sector enterprises (excluding *Trade* and *Construction*) which are less sensitive to the economic crisis. The largest reduction has occurred in the *Trade* and *Construction* sectors on the back of a massive decrease of internal demand.

Generally speaking, the economic position of the SME sector is largely determined by the level of individual incomes, which only stresses their focus on household-generated demand. Investment demand and external demand have a much more modest effect on development of small and medium-sized business in Belarus.

The findings of the poll also indicate that deterioration of the economic position of small and medium-sized enterprises is attributable not only

[29] World Bank (2015). Republic of Belarus: Regional Development Policy Notes. The Spatial Dimension of Structural Change, World Bank Report ACS13961.

**Figure 2.19. Average Assessment of Changes in the Economic Position Depending on the Tasks Faced by SMEs in 2016**




*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "significantly deteriorated" and 5 is "significantly improved." The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

to the economic crisis, but also to regulatory changes. Despite all the efforts of the Belarus government to improve the country's position in the World Bank's *Doing Business* ranking, SME representatives note that conditions for doing business have deteriorated. The worse the economic position of individual enterprises, the more negative their perception of changes in the general business environment.

Most SMEs have now focused on preserving their business, primarily by streamlining their costs. This has resulted in SMEs laying off workers and employees at a higher rate than on the average in the country. Accordingly, there is little hope that people losing their jobs in the public sector due to the economic crisis will be employed by small and medium-sized enterprises in their current shape. To improve the situation, it is first necessary to create conditions truly conducive to real development of the private sector of the economy.

# 3. CONDITIONS FOR DOING BUSINESS IN BELARUS

## 3.1. Introduction

Expansion of the sector of small and medium-sized enterprises is an important economic policy objective in Belarus. Small business is necessary to assure sustainable development of the national economy. It is capable of supporting a steadily high level of employment, even during periods of structural reforms accompanied by workforce redistribution. Over the last several years, the Belarus government has been taking steps to promote development of SMEs by improving the business environment, and as a result Belarus has moved up in the World Bank's *Doing Business* ranking.

A review of opinions voiced by small and medium-sized business representatives over the course of several years confirms that certain external environment-related problems remain as pressing and relevant as ever. In 2015, 33.4% of polled businessmen named external barriers as the chief constraining factor, while 36.7% believed that external and internal barriers prevent development of their enterprises in equal measure[30]. However, despite the continuous legislative changes designed to liberalize conditions for doing business and simplify administrative procedures, contribution of small and medium-sized enterprises to the major macroeconomic indicators is not growing.

This raises the following questions: what is the real extent of improvement of conditions for doing business, as perceived by representatives of Belarus business, and how does it affect their operations? It is important to understand where exactly they encounter obstacles hindering their development: are they within their own companies, or in their business environment?

Accordingly, the purpose of this chapter is to review conditions for doing business in Belarus from the perspective of small and medium-sized businesses. To achieve that purpose, we will consider economic policy measures implemented by the government to improve conditions for doing business, and review assessment of quality of the business environment from the point of view of small and medium-sized enterprises. SME perceptions were assessed on the basis of the findings of a poll conducted for the IPM Research Center in April-May 2016 by *NOVAK* Axiometric Research Laboratory (see *Annex*).

## 3.2. Assessment of Changes in Conditions for Doing Business

Conditions for doing business in Belarus evolve with every passing year. In the World Bank's *Doing Business 2017* ranking, Belarus occupies the 37th position in *Ease of Doing Business* compared to number 50 in 2016. The year before that, Belarus had also moved up by 13 positions. For example, during the previous years, Belarus enhanced its web-based new company registration portals, and increased the number of regions offering online registration services. It also reduced the time required for state registration of property transfers, and introduced certain important amendments to labor legislation[31].

The new ranking also notes improvements in such areas as getting electricity, protection of minority shareholders, getting credit, registering property, and resolving insolvency. In particular:

- Connection to electric networks was simplified by creating a "one-stop window" system for consumers of utility services, which facilitates performance of all required formalities, including design and construction of distribution lines (Decree of the Council of Ministers of the Republic of Belarus dated October 17, 2011, No. 1394, as amended and supplemented by Decree of the Council of Ministers of the Republic of Belarus dated April 29, 2016, No. 350);
- Protection of minority shareholders was strengthened by introducing certain remedies in situations were transactions with related parties are detrimental to the company and require higher corporate transparency (Law of the Republic of Belarus *On Business Companies* dated December 9, 1992, as amended and supplemented by Law of the Republic of Belarus dated July 15, 2015, No. 308-Z);
- The Credit History Bureau began to assign credit scores, thereby strengthening the credit reporting system (Decree of the Management Board of the National Bank of the Republic of Belarus *On Approval of Rates of Fees Charged for Provision of Credit Reports by*

[30] Uryutina, D. (2015). Internal Barriers to Development of Business in Belarus, IPM Research Center *Working Paper*, 15/02.

[31] World Bank (2016). Doing Business 2016: Measuring Regulatory Quality and Efficiency, Washington, DC: World Bank.

*the National Bank of the Republic of Belarus* dated February 13, 2013, No. 88, as amended and supplemented by Decree dated May 25, 2016, No. 270);

- Property transfer procedures were simplified by increasing transparency and reliability of the land resources management system.

The institutional operating environment of the SME sector is subject to ongoing reform. The main regulatory documents in this area are Decree of the President of the Republic of Belarus No. 255 *On Certain Measures Related to Provision of Government Support to Small Businesses* and Law of the Republic of Belarus *On Support of Small and Medium-Sized Business.* The Council of Ministers, by its Decree dated February 23, 2016, approved government program *Small and Medium-Sized Businesses in the Republic of Belarus in 2016–2020* which was developed to encourage continuous development of small and medium-sized business in Belarus.

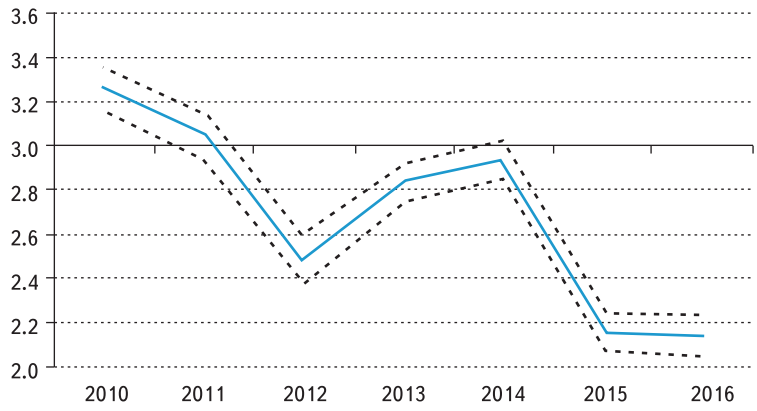
The program's key tasks are to promote development of SMEs, enhance SME support infrastructure, and improve the existing business environment. To assure successful completion of those tasks, it will be necessary to make a series of amendments to certain legislative acts, reduce the number of administrative procedures and streamline related costs and timeframes, implement initial processes designed to assess the regulatory impact of administrative procedures on business entities, create and provide technical support for an electronic register of administrative procedures, etc. The Government of the Republic of Belarus has also passed Decree No. 195 dated March 11, 2016, defining the mechanisms to be used by the Development Bank of the Republic of Belarus to finance SME operations through several resident banks and a subsidiary. This testifies to the fact that the government is aware of the important role that the SME sector plays in economic growth and protection of employment.

**Table 3.1. Distribution of Scores Assigned to Changes in Conditions for Doing Business**

| | Number | % |
|---|---|---|
| Considerably Worse | 106 | 26.5 |
| Somewhat Worse | 168 | 42.0 |
| Unchanged | 93 | 23.1 |
| Somewhat Better | 32 | 8.1 |
| Considerably Better | 1 | 0.3 |
| Total | 400 | 100.0 |

*Source:* IPM Research Center.

**Figure 3.1. Average Assessment of Changes in Conditions for Doing Business, 2010–2016**




*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "considerably worse" and 5 is "considerably better." Dotted lines represent the 95% confidence interval.

*Source:* IPM Research Center.

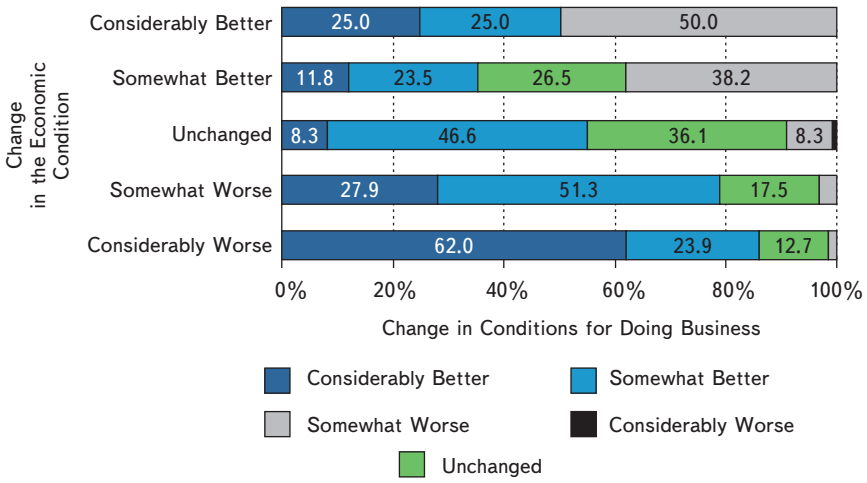
The main legislative innovations that have been implemented over the last several years aim to facilitate new business creation and registration. Their efficiency is corroborated by the existence of a statistically positive relation between the World Bank's *distance to frontier* indicator and the number of small and micro enterprises and their employees[32]. However, based on the findings of the latest poll, only 9.2% of SMEs have experienced positive changes in conditions for doing business. About 70% of respondents note that the business environment is becoming increasingly adverse (Table 3.1).

There are no statistical differences between the polls conducted in 2015 and 2016 (Figure 3.1); in other words, conditions for doing business have been deteriorating for two years, and that deterioration is not slowing down. Before the onset of the crisis in 2015, negative assessments of changes in the business environment were voiced by SME representatives only back in 2012, when small and medium-sized enterprises were struggling with a currency crisis and the ensuing multiplicity of currency exchange rates. In all other years, their assessment of conditions for doing business in Belarus was, on the average, neutral.

Business environment assessments are apparently linked to changes in the economic position of the enterprise. In the overwhelming majority of cases, SMEs which note a deterioration of their economic position also see negative changes in conditions for doing business (Figure 3.2). About half of those whose economic position has not changed, or has improved, also

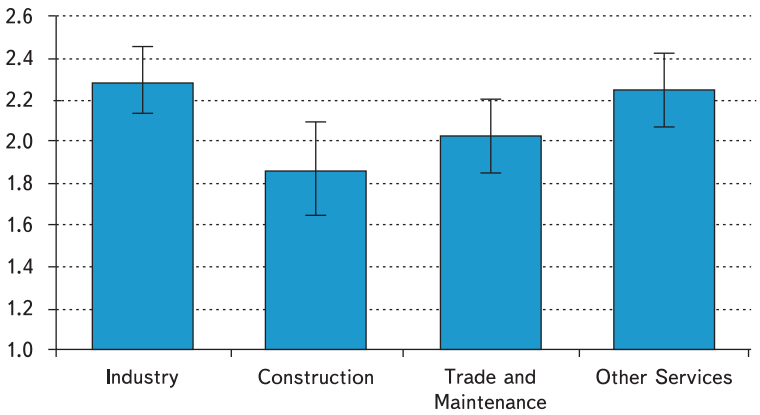
[32] See World Bank, http://russian.doingbusiness.org/data/distance-to-frontier.

**Figure 3.2. Assessment of Changes in Conditions for Doing Business Depending on Changes in the Economic Position of SMEs**




*Source:* IPM Research Center.

**Figure 3.3. Average Assessment of Changes in Conditions for Doing Business with a Breakdown by Economic Sectors**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is "considerably worse" and 5 is "considerably better." Segments represent the 95% confidence interval.

*Source:* IPM Research Center.

believe that it has become more difficult to do business[33].

Construction enterprises (which have seen the worst production cuts over the last several years, see *Chapter* 2) have experienced a particularly negative impact from changes in conditions for doing business (Figure 3.3). Adverse trends in the external environment were also noted by trade enterprises.

Therefore, even though Belarus has moved up in the *Doing Business* ranking, and the government has spared no effort to streamline registration and control procedures and improve business laws, SMEs whose economic position has grown worse attribute that worsening, at least in part, to external environmental factors. This is probably related to the fact that, when answering the question regarding changes in conditions for doing business, respondents are implicitly assessing external conditions which make up the current economic environment.

Experts note that the most progress in improvement of the business environment has been achieved in matters related to bankruptcy and business registration[34]. The scope of reforms and the extent of liberalization and competitiveness of the national economy are, on the contrary, well below their target levels, and it is this state of affairs that SME representatives may have been referring to when completing their questionnaires. Apparently, these problems – which may have direct impact on the conduct of business operations – are perceived by the business community as much more relevant than new business registration procedures. Besides, in recent years government examinations of private companies have assumed an increasingly punitive bias, especially in construction[35] and trade[36], which also must have affected perception of the regulatory environment by small and medium-sized business.

## 3.3. External Barriers to Doing Business

The main external barriers hampering development of small and medium-sized business are those related to the operation of administrative factors and access to capital. According to the 2016 poll, the most damaging business constraints in Belarus, by a wide margin, are the following: instability of the national currency (this barrier was noted by 61.8% of respondents), high tax rates (50%), high rent rates (45.5%), high interest rates (44.8%), and changeable legislation (41.3%). The same *five barriers* topped the list the year before(Table 3.2).

[33] These enterprises apparently have managed to overcome those difficulties.

[34] OECD (2016). SME Economic Policy Index: Eastern Partner Countries. Assessing the Implementation of the Small Business Act. Organization for Economic Cooperation and Development.

[35] See http://belarusinfocus.info/by/socyum-i-palityka/reforma-stroitelnogo-sektora-chast-predvybornogo-proekta-lukashenko?page=1.

[36] For example, Decree No. 567 dated December 5, 2014, authorized the Ministry of Trade to suspend and terminate operations of trading and catering companies. At the beginning of 2016, operations of 616 shops and cafés were suspended on the basis of that decree, see http://naviny.by/rubrics/economic/2016/06/15/ic_news_113_476682.

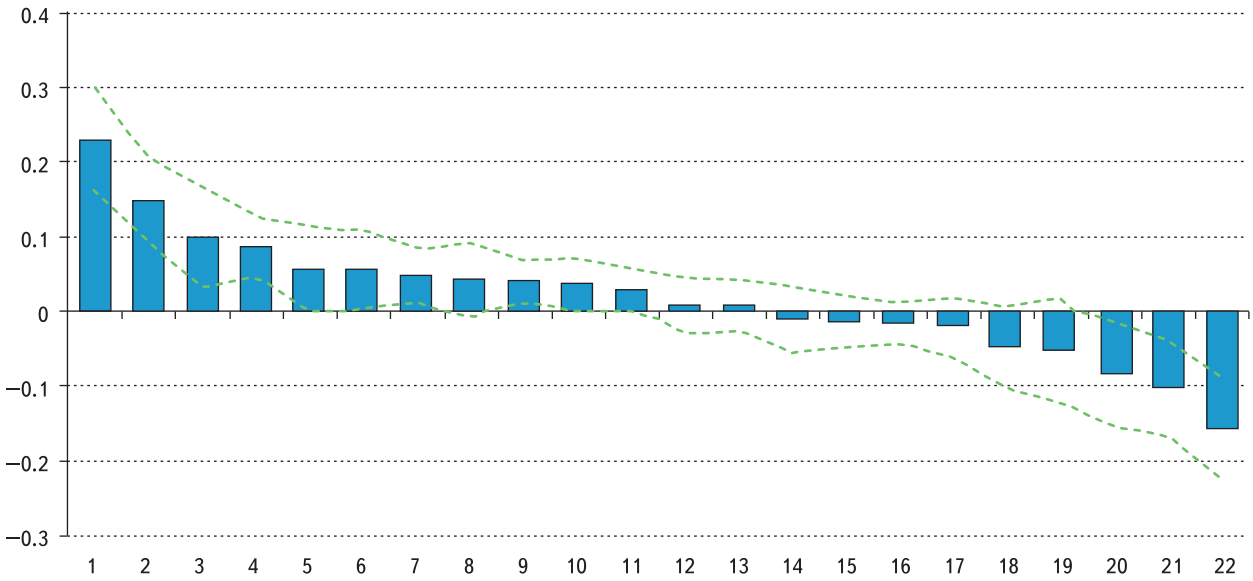
**Table 3.2. External Barriers to Development of Business in Belarus Perceived as Most Critical, % of total answers**

| Group | External Barrier | 2015 | 2016 |
|---|---|---|---|
| State regulation | Price regulation | 13.2 | 17.5 |
| | Currency regulation | 38.2 | 28.0 |
| | Employment regulation (hire and fire procedures) | 2.5 | 5.5 |
| | Wages and salaries regulation | 4.7 | 10.0 |
| Administrative barriers and legislation | Burdensome administrative procedures (licensing, certification, audits, etc.) | 15.2 | 30.3 |
| | High tax rates | 58.4 | 50.0 |
| | Changeable legislation (including tax legislation) | 46.4 | 41.3 |
| | Instability of the national currency (high inflation, unpredictable fluctuations of currency exchange rates) | 38.7 | 61.8 |
| Institutions | Corruption | 13.5 | 19.3 |
| | Arbitrary construction of the existing legislation by government bodies | 5.2 | 14.0 |
| | Inefficient judicial system (courts not independent, contract enforcement problems, etc.) | 2.2 | 6.5 |
| Human resources | Low qualification of specialists trained by universities and other educational establishments | 11.5 | 10.5 |
| | Poor state of health of the general population | 6.0 | 7.0 |
| Production factors | Impossibility of land ownership, complicated land use rules | 10.0 | 8.0 |
| | Immature stock market | 5.0 | 8.8 |
| | High interest rates | 60.3 | 44.8 |
| | High rent rates | 35.4 | 45.5 |
| Competition | Unfair competition on the part of other market players | 21.9 | 17.3 |
| | Less advantageous operating conditions compared to competitors – state-owned enterprises | 17.2 | 23.0 |
| | Less advantageous operating conditions compared to competitors – foreign enterprises | 6.7 | 7.8 |
| | Economic policies pursued by other countries (tariff and non-tariff barriers for foreign manufacturers, etc.) | 6.7 | 5.3 |

*Note.* Respondents could select up to 5 barriers.

*Source:* IPM Research Center.

**Figure 3.4. Means Bias for the Most Critical External Barriers to Business Development in 2016 and 2015**




*Note.* 1 – Instability of the national currency; 2 – Burdensome administrative procedures; 3 – High rent rates; 4 – Arbitrary construction of the existing legislation by government bodies; 5 – Less advantageous operating conditions (state-owned enterprises); 6 – Corruption; 7 – Wages and salaries regulation; 8 – Price regulation; 9 – Inefficient judicial system; 10 – Immature stock market; 11 – Employment regulation; 12 – Less advantageous operating conditions (foreign enterprises); 13 – Poor state of health of the general population; 14 – Low qualification of specialists trained by universities; 15 – Economic policies pursued by other countries; 16 – High crime rate; 17 – Impossibility of land ownership, complicated land use rules; 18 – Unfair competition on the part of other market players; 19 – Changeable legislation; 20 – High tax rates; 21 – Currency regulation; 22 – High interest rates.

Dotted lines represent the 95% confidence interval.

*Source:* in-house calculations.

To determine the range of year-on-year changes, we analyzed mean values by looking at the magnitude of variation in the shares of respondents selecting a given barrier (Figure 3.4).

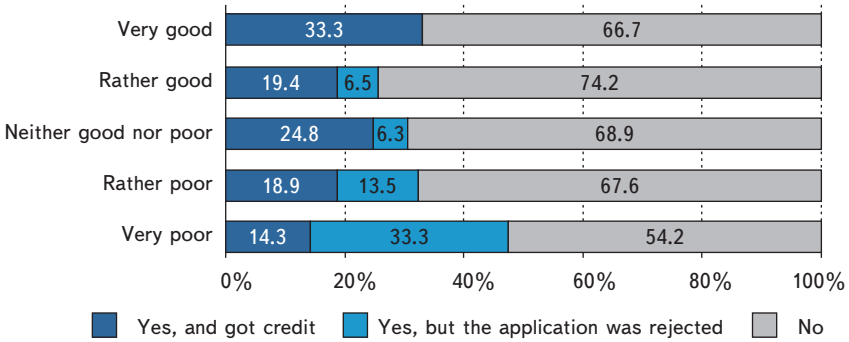
Statistically significant changes in mean values compared to the previous year were registered for numerous external barriers. Today businessmen attach more importance to instability of the national currency and prices, excessive administrative burden, high rent rates, and arbitrary construction of the existing legislation. Most of these problems (with the exception of instability of the national currency)

**Table 3.3. Reasons for Failure to Apply for Credit during**

| | Number | % |
|---|---|---|
| Excessively high interest rates on loans denominated in the national currency | 74 | 27.0 |
| Excessively high interest rates on loans denominated in foreign currencies | 48 | 17.3 |
| Inability to meet collateral requirements | 21 | 7.5 |
| No need for credit | 179 | 64.7 |

*Source:* IPM Research Center.

**Figure 3.5. Number of Credit Applications Depending on the Economic Position of the Enterprise**




*Source:* IPM Research Center.

are related to state regulation of conditions for doing business, meaning that administrative impact on the economy has increased.

Conversely, perceived importance of problems related to the current state of the macroeconomic environment, such as high interest rates, currency regulations, and high tax rates, has decreased. Nevertheless, these problems remain relevant and retain a level of importance which is much higher than that of the barriers related to the quality of institutions and human resources.

The changes in distribution of answers show that deterioration of the economic position of the SME sector can be ascribed both to the adverse macroeconomic environment and to the strengthening of administrative barriers. They are also consistent with the conclusion that competitiveness of the Belarus economy largely depends on evolution of efficiency factors, particularly, operating efficiency of the domestic market and production factor markets, especially financial market[37].

The authors of last year's survey of the current condition of small and medium-sized business emphasized that one of the most significant barriers to business development is the financial barrier. In particular, businessmen mentioned a number of problems resulting in restricted access to credit. This year's survey shows that 30.9% of respondents applied for credit (but 9.1% were turned down), while 69% of businessmen did not seek credit. The main reason for failure to apply for credit was absence of the need to obtain credit resources. The second most frequent answer was excessively high interest rates (Table 3.3). SMEs have been stressing the high negative impact of restricted access to financing every year since 2011 (that was the year when this question was added to the questionnaire).

Distribution of answers to the credit application question with a breakdown by the economic position of the enterprise (Figure 3.5) demonstrates that, despite the high interest rates, SMEs continue to use loans both as a business expansion tool and a problem resolution tool. Analysis of last year's answers to questions regarding the need for, and access to, financing reveals that successful SMEs seek external financing even in a high interest rate environment and, as a rule, clearly understand what type of credit they need. Another group in need of external financing is made up of enterprises which experience financial difficulties, and are looking for any type of financing[38]. According to the 2016 poll, respondents which estimate their economic position as "poor" have the highest credit needs.

Like last year, the economic position of the enterprise also affects the probability of getting credit. One third of respondents noting an improvement of their economic position applied for credit and got it – none of the applicants was rejected. The situation with enterprises which noted a deterioration of their economic position is the exact reverse: 48% of them applied for credit, but only slightly more than 10% of such troubled enterprises received it.

Experts note that over the last several years Belarus has shown little progress in improving SME access to financing[39]. This statement is supported by the generally anemic interest that small and medium-sized enterprises display in getting external financing in principle, regardless of the high interest rates and collateral requirements. Besides, many small business support programs are also believed to have inferior efficiency[40].

These lackluster results can also be explained by insufficient SME awareness of the opportunities presented by small business support programs, and by their excessive procedural complexity. SME support is currently dispensed by central and

[37] Shappo, M. (2014). Competitiveness of Belarus Regions: Efficiency Improvement Factors, Innovations, Business Track Record and Skills: IPM Research Center *Policy Discussion Paper*, 14/03.

[38] Shymanovich, G. (2015). Accessibility of External Financing to Small and Medium-Sized Businesses in Belarus, IPM Research Center Policy Discussion Paper, 15/03.

[39] OECD, 2016.

[40] Shymanovich, G. (2015).

**Table 3.4. Assessment of Government Initiatives**

| | Year | Negative, % | Change, p.p. | Neutral, % | Change, p.p. | Positive, % | Change, p.p. |
|---|---|---|---|---|---|---|---|
| Creation of equal conditions for doing business and promotion of fair competition among all business entities regardless of their form of ownership | 2015 | 30.5 | –1.8 | 43.8 | 1.8 | 25.7 | 0.1 |
| | 2016 | 32.3 | | 42.0 | | 25.6 | |
| Development of private ownership and enhanced protection of the right to own and use property | 2015 | 26.7 | 1.5 | 45.4 | –2.6 | 27.8 | 1.0 |
| | 2016 | 25.2 | | 48.0 | | 26.8 | |
| Elimination of excessive administrative barriers | 2015 | 23.1 | –1.1 | 43.3 | 3.2 | 33.7 | –2.2 |
| | 2016 | 24.1 | | 40.0 | | 35.8 | |
| Extensive use of tax legislation to encourage good-faith discharge of tax liabilities and business initiative | 2015 | 26.0 | –1.3 | 44.7 | –1.2 | 29.3 | 2.5 |
| | 2016 | 27.3 | | 45.9 | | 26.8 | |
| Increasingly preemptive nature of control (supervisory) activities, transition to predominant use of preventive measures | 2015 | 26.4 | –3.3 | 44.5 | 8.2 | 29.1 | –5.0 |
| | 2016 | 29.7 | | 36.2 | | 34.1 | |
| Elimination of legislative ambiguity, improvement of the quality of newly-adopted normative acts governing entrepreneurial activities | 2015 | 23.1 | –5.1 | 48.8 | 5.0 | 28.1 | 0.1 |
| | 2016 | 28.1 | | 43.8 | | 28.1 | |

*Source:* in-house calculations.

local government bodies, including Belarus Fund for Entrepreneurship Financial Support which is responsible for implementation of the SME Financial Support Program, and provides advice and training on matters related to starting a business. However, its operating efficiency in terms of provision of financial resources to SMEs was cast in doubt based on an analysis of actual financing volumes and tangible deliverables[41], especially in comparison with SME financing programs initiated by the Development Bank of the Republic of Belarus and the EBRD. In connection with that, experts suggested that the Fund's resources could instead be used to promote provision of non-financial support to SMEs at the national and regional levels[42].

In addition to credit programs, the state employs other tools to facilitate further development of small and medium-sized businesses. In particular, small enterprises may use a simplified tax regime. Over the last several years, there have been designed and approved several directives and programs which purport to stimulate development of private business. Nevertheless, the general impact of state regulation on the SME sector is assessed as rather negative, and the administrative barrier is viewed as an important growth constraint. To a large degree, this is attributable to the poor efficiency of the government's efforts to simplify conditions for doing business.

A review of the scores assigned to attempts by the government to improve the various components of the business environment over the last *two* years shows an almost complete lack of change (Table 3.4). Statistically significant changes have occurred only with respect to *Elimination of legislative ambiguity, improvement of the quality of newly-adopted normative acts governing entrepreneurial activities* (in this area the number of negative scores has decreased by 5 percentage points with a comparable increase of the number of neutral scores) and *Increasingly preemptive nature of control (supervisory) activities, transition to predominant use of preventive measures* (in this area there was a decrease in the number of both negative and positive scores). This testifies to a virtually complete absence of state-initiated changes to conditions for doing business.

It is worthwhile to pay attention to the balance between positive and negative scores in each area with a breakdown by years (Figure 3.6). Business representatives apparently think that the government is least successful in *Elimination of administrative barriers*. In such areas as *Extensive use of tax legislation to encourage good-faith discharge of tax liabilities and business initiative* and *Elimination of legislative ambiguity, improvement of the quality of newly-adopted normative acts governing entrepreneurial activities*, the balance of scores somewhat improved in 2016, but remained in the negative domain. The number of positive scores is considerably higher only in *Creation of equal conditions for doing business and promotion of fair competition among all business entities regardless of their form of ownership*.

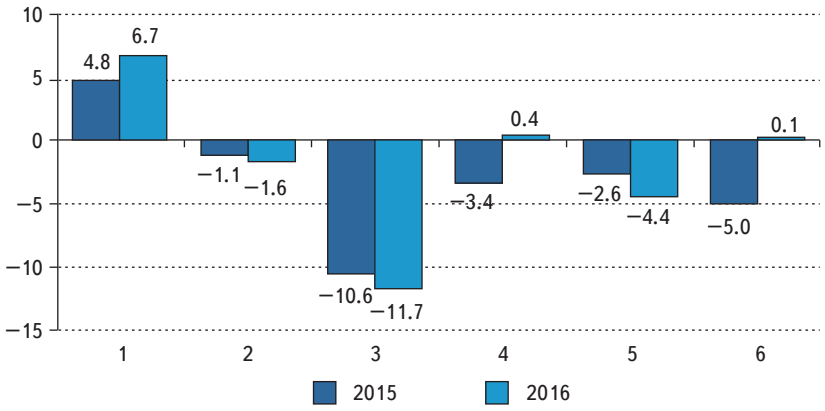
Small businesses have for many years complained about inequality of conditions for doing business vis-à-vis state-owned enterprises[43]. This year, this issue was raised by 89.5% of respondents. The inequality problem emerges mostly in the course of interactions with control agencies and organizations responsible for issuing various licenses and permits. Incidentally, in 2016 the extent of inequality in relations with control agencies was statistically significantly higher than in 2015.

[41] Tochitskaya, I., Knut, A., Kirchner, R. (2014). Belarus Fund for Entrepreneurship Financial Support: Reboot Concept, IPM Research Center *Policy Paper*, 01/2014.

[42] Knut, A., Tochitskaya, I. (2016). Improved Alignment of Financial and Non-Financial SME Support Measures in Belarus, IPM Research Center *Policy Paper*, 02/2016.

[43] See Uryutina (2015).

**Figure 3.6. Difference between Positive and Negative Scores Assigned to Government Initiatives, percentage points**




*Note.* 1 – Creation of equal conditions for doing business and promotion of fair competition among all business entities regardless of their form of ownership; 2 – Development of private ownership and enhanced protection of the right to own and use property; 3 – Elimination of excessive administrative barriers; 4 – Extensive use of tax legislation to encourage good-faith discharge of tax liabilities and business initiative; 5 – Increasingly preemptive nature of control (supervisory) activities, transition to predominant use of preventive measures; 6 – Elimination of legislative ambiguity, improvement of the quality of newly-adopted normative acts governing entrepreneurial activities.

*Source:* in-house calculations.

**Table 3.5. Areas of Operation where Businessmen Have Noted Inequality of Conditions for Doing Business Compared to the Public Sector, % of respondents**

| | 2015 | 2016 |
|---|---|---|
| Treatment by control agencies* | 44.5 | 51.9 |
| Rent rates | 43.5 | 47.4 |
| Raw material prices* | 39.9 | 28.7 |
| Issuance of permits or licenses | 41.6 | 36.2 |
| Access to credit | 27.6 | 28.9 |
| Treatment by judicial bodies | 12.7 | 14.5 |
| Government procurement programs | 22.8 | 21.9 |

*Note.* *Statistically significant change relative to the 2015 level.

*Source:* IPM Research Center.

**Table 3.6. Surmountability of External Barriers as Perceived by SMEs**

| | Number | % |
|---|---|---|
| Existing external barriers are rather insurmountable, they will eventually lead to termination of my business | 157 | 39.2 |
| Existing external barriers are rather surmountable, they encourage business to look for more efficient business models and high-potential markets | 243 | 60.8 |
| Total | 400 | 100.0 |

*Source:* IPM Research Center.

Another pressing issue stems from the fact that private enterprises are charged higher rent rates than state-owned enterprises (Table 3.5). In fact, the only area where inequality between private and state-owned enterprises has become less pronounced is access to raw materials. Accordingly, positive assessment of the government's efforts in the area of creation of equal conditions for doing business for organizations of all forms of ownership is the result of an active ongoing discussion regarding the need to impose more stringent budgetary restrictions on state-owned enterprises, rather than the fruit of any practical steps designed to improve conditions for doing business for private enterprises.

Due to the lack of meaningful positive changes in economic conditions for doing business and a certain strengthening of administrative barriers, economic expectations of Belarus businessmen are waning. This process is accompanied by a matching decrease of scores assigned to surmountability of external barriers (Table 3.6).

In 2015, 80.5% of respondents believed that external barriers could be overcome, and that those barriers encouraged business to look for more efficient business models and high-potential markets. In 2016, that answer was selected only by 60.8% of respondents, while 39.3% said that the existing external barriers were rather insurmountable, and that they would eventually lead to termination of their business. Such expectations are inconsistent with hopes for a rapid recovery of the private sector of the economy and, as a consequence, for renewal of economic growth.

## 3.4. Conclusion

Despite the ongoing efforts aimed at liberalization of conditions for doing business and improvement of indicators monitored by the World Bank (*Doing Business* ranking, distance to frontier), quantitative statistical indicators describing the role played by small and medium-sized business in Belarus economy demonstrate an almost complete lack of change. Moreover, scores assigned by Belarus businessmen to external conditions and SME development barriers remain mostly negative, and in some cases even decline.

Issues related to private sector growth are periodically raised at the legislative level, but efficiency of resultant decisions is estimated by the business community as rather low. For example, last year there was prepared a new draft directive on development of small and medium-sized enterprises, but it had few, if any, differences from its previous version. Besides, it preserved the government's prerogative to regulate lease matters, retaining lease terms which make acquisition of leased properties all but impossible. In

this context, respondents note that the government's work to eliminate administrative barriers represents its most conspicuous failure.

The only area where respondents see some improvement is amendments to tax and general legislation. This testifies to the need not only to declare, but also truly implement steps designed to liberalize the business environment and eliminate unwarranted government interference and regulation, e. g., in the area of long-term lease and acquisition of leased properties.

Only 10.5% of respondents feel that there is no inequality in conditions for doing business between them and state-owned enterprises. The most painful issues in this respect are treatment by control agencies, lease procedures, and issuance of permits and licenses. In a number of areas, such as government control, scores of inequality of conditions for doing business have become even worse compared to the previous year. External barriers related to high rent rates and changeable legislation remain eminently relevant. No significant improvements have occurred in the macroeconomic environment; in particular, small and medium-sized business development is still constrained by instability of the national currency and high cost of borrowing.

As a result, SME representatives are beginning to lose their optimism and their faith in surmountability of external barriers, which erodes the available economic development potential. This leads to the conclusion that the government should not merely declare the need to support business, but also take real steps in that direction – and that this should be done in the immediate future. It should also be remembered that gradual loss of confidence in the actions and initiatives of the government during a crisis can only impede its operation, thereby further aggravating the position of small and medium-sized enterprises – which represent an important component of potential economic recovery.

# 4. LABOR MARKET OF THE SME SECTOR DURING AN ECONOMIC CRISIS

## 4.1. Introduction

Belarus has been experiencing a crisis for several years. Macroeconomic instability is directly affecting the well-being of the general population through the labor market. Over the last year, the situation in that market has become considerably more complicated. There are several reasons for that, ranging from the lamentable state of major manufacturers of industrial goods to the newly introduced tax on "social parasites." Changes are underway in the area of labor motivation, with non-financial incentives gradually gaining precedence over financial incentives.

Over the last year, average time required to fill a vacancy has increased, particularly with respect to vacancies for positions of top managers and highly specialized professionals. Palpable aftermath of the economic crisis forces businessmen to streamline both production and labor costs. This translates not only into bonus and benefit cuts, but also into shorter workdays, lower salaries and, in extreme cases, dismissals. This is largely confirmed by the considerable increase of the official unemployment rate.

The purpose of this chapter is to review the state of the labor market from the perspective of small and medium-sized businesses. The key objectives are to review severity of the effect that economic crisis has on the labor market; consider ways to reduce the amount and incidence of labor costs; assess the structure of employment and dismissal of new workers; assess requirements imposed by company managers on potential employees; measure the incidence of shadow economy phenomena and identify the reasons for their occurrence; and assess perception of business education and related training requirements.

We seek to create a holistic view of the situation emerging in the labor market against the backdrop of the ongoing economic crisis. Analysis is based a poll conducted for the IPM Research Center in April-May 2016 (see *Annex*).

The *second* section describes and analyzes the consequences and manifestations of economic crisis in the labor market from the SME perspective. The *third* section discusses crisis labor policies pursued by individual businesses, and ways to reduce labor costs. The *fourth* section analyzes employee training in Belarus. The last section provides information on business education in Belarus.

## 4.2. Consequences and Manifestations of Economic Crisis as Perceived by SME Representatives

The ongoing crisis forces more and more businesses to streamline their costs, including labor costs. Previous research shows[44] that in such context many business owners and managers find that efficient labor management requires nontrivial solutions. Inefficient labor policy may be one of the most significant obstacles in the way of business expansion.

The situation is growing worse. Analysis of the key Belarus labor market statistical indicators reveals trends which are anything but encouraging. Small and medium-sized businesses can be critical drivers of economic growth, but their contribution to the national GDP, expressed as a percentage of the grand total, shows almost no change (see *Chapter* 2). Similar trends appear to be shaping small and medium-sized private business employment rates. Workforce changes in such companies are so insignificant that they fall within the margin of error, albeit with a certain negative bias (Figure 4.1).

According to the findings of this year's poll, 56.9% of all respondents have noted that over the past year their economic position has sustained a moderate to significant decline. Accordingly, we focused on perceived severity of economic crisis manifestations. There is a linear relation between perception of the current economic situation, its change over the past year, and severity of crisis manifestations. The more negative the assessment of the current economic situation, the more severe the perceived aftermath of the crisis[45].

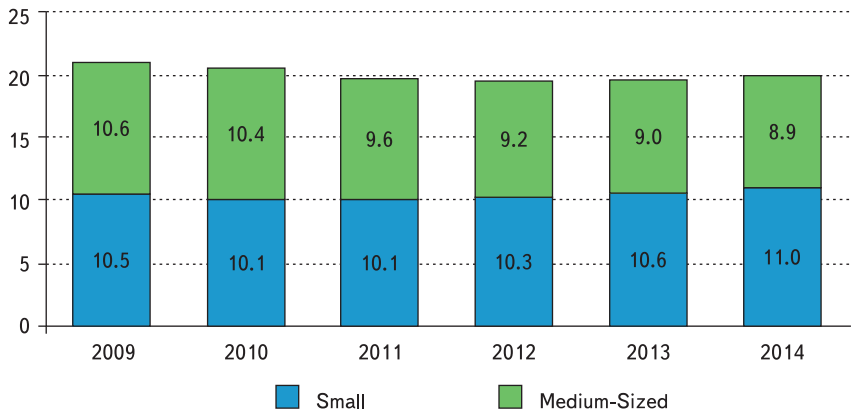
Respondents assigned the highest severity ratings to problems related to reduction of demand for their goods and services and payment defaults (Figure 4.2).

In addition to that, the crisis curtailed their ability to get access to external financing; however, SME representatives perceived that problem only as moderately

[44] See Uryutina, D., Mikhailova, I. (2015). Internal Barriers to Development of Private Business in Belarus, IPM Research Center *Policy Discussion Paper* 15/01.

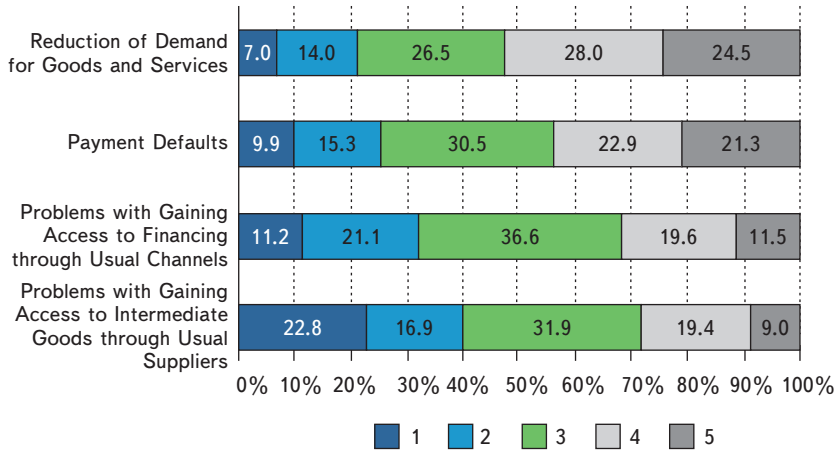
[45] Indices of correlation between perception of the current economic situation and severity of various crisis manifestations are statistically significant at 0.01, and vary within the range from –0.277 to –0.422.

**Figure 4.1. Number of Workers Employed by Small and Medium-Sized Businesses as a Percentage of the National Grand Total**




*Source:* National Statistical Committee of the Republic of Belarus.

**Figure 4.2. Perceived Severity of Economic Crisis Aftermath**




*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "no impact" and 5 is "very severe impact."

*Source*: in-house calculations.

severe, as their access to financing had been restricted even before the current round of macroeconomic slump in Belarus[46]. Importantly, this distribution is typical for all businesses regardless of their core activities or size. On the other hand, there exist more or less pronounced regional differences affecting all economic crisis manifestations (Figures 4.3–4.6).

The situation in Vitebsk and Gomel Regions is the most desperate. This is particularly relevant for the shrinking demand for goods and services and payment defaults. In these two regions, those parameters were rated at 4 and 5 by more than half of all respondents. Perception of the current situation is the most optimistic among respondents from Brest Region.

The payment default problem is the most acute in Gomel Region. Here the negative 4 and 5 ratings were assigned by 63.2% of all respondents, whereas cumulative ratings in the other regions did not exceed 37.5%.

Regardless of their core activities, sizes, or regional affiliations, SMEs react to crisis manifestations as follows: 82.4% seek to minimize their costs, including labor costs, 33.3% reduce their prices, 22.3% fix their prices, 19.6% scale down their production activities, and 6.1% resort to other measures to overcome crisis-related problems. Out of the SMEs which prefer to cut their costs, 6.9% reduce only non-labor costs, 51.2% seek to streamline only labor costs, and 77.9% resort to both cost optimization methods.

In this research, we focused on reduction of labor costs. First, business owners and managers cut down on variable remuneration components (this is done by slightly more than half of all respondents) and adjust workhours (introduce shorter workdays, force employees into unpaid leaves). Notably, each cost-cutting option is used by a considerable number of respondents – from one in five to one in four businessmen have to dismiss temporary and permanent employees and reduce their baseline salary (Figure 4.7).

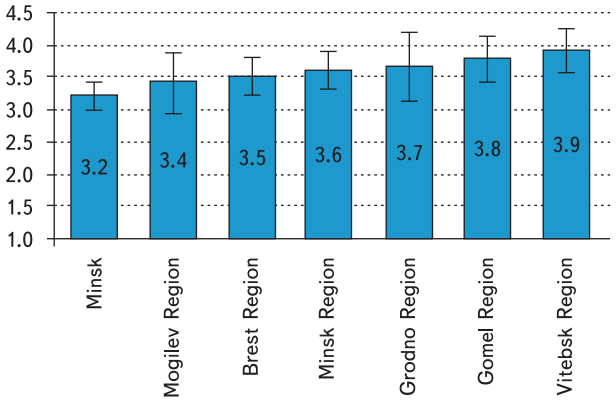
High incidence of positive answers for each option testifies to the extreme severity of the crisis. At least 20.4% of businessmen have had to resort to the most radical cost-cutting options – reduce the number of permanent employees.

## 4.3. Labor Policy in the SME Sector

During the economic crisis, many business owners and managers have to reduce the number of both temporary and permanent employees. This affects, among other things, the rate of unemployment in the country. The official unemployment rate in Belarus traditionally remains rather low, which is largely attributable to selection of the measurement technique used by the authorities, but in 2015 even that rate posted a substantial increase mirroring the deplorable current state of affairs (Figure 4.8).

[46] See Shymanovich, G. (2015). Accessibility of External Financing to Small and Medium-Sized Businesses in Belarus, IPM Research Center Policy Discussion Paper, 15/03.

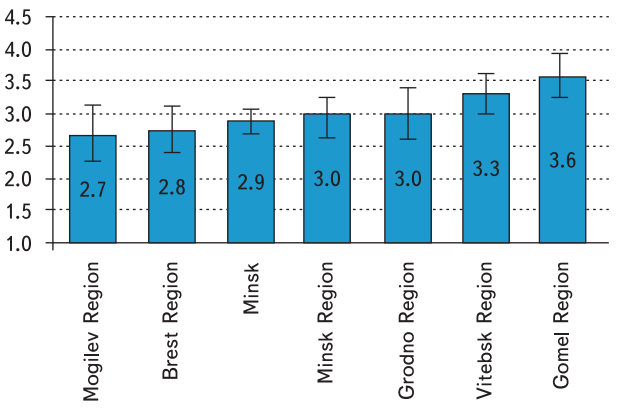
**Figure 4.3. Reduction of Demand for Goods and Services: Averages and Confidence Interval**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is «no impact» and 5 is «very severe impact.» The segments represent the 95% confidence interval.

*Source:* in-house calculations.

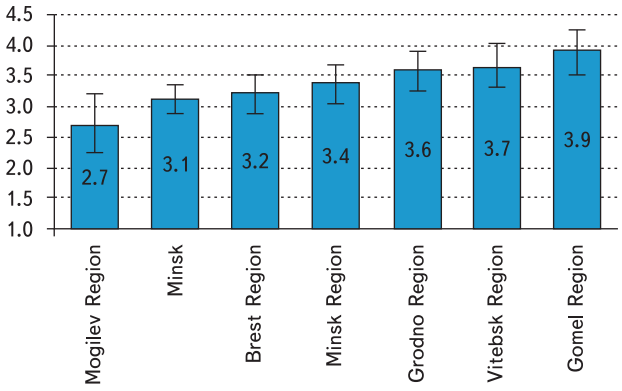
**Figure 4.4. Payment Defaults: Averages and Confidence Interval**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is «no impact» and 5 is «very severe impact.» The segments represent the 95% confidence interval.

*Source:* in-house calculations.

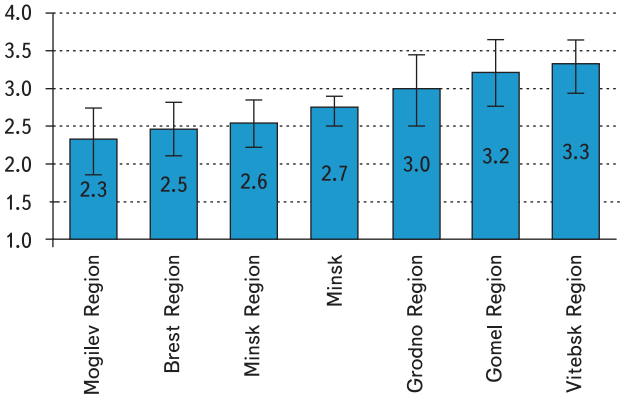
**Figure 4.5. Problems with Gaining Access to Financing through Usual Channels: Averages and Confidence Interval**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is «no impact» and 5 is «very severe impact.» The segments represent the 95% confidence interval.

*Source:* in-house calculations.

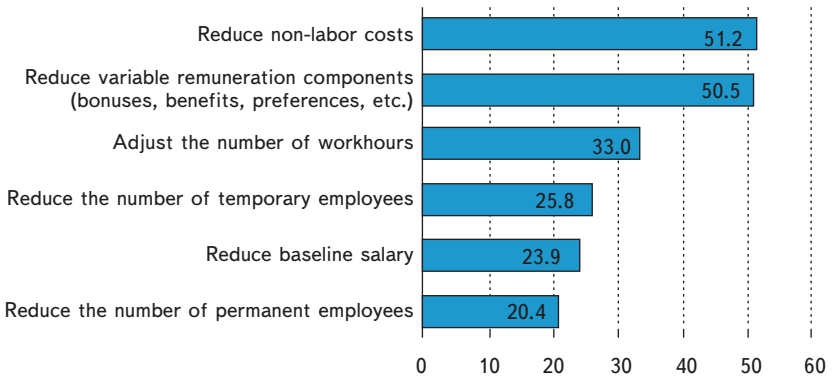
**Figure 4.6. Problems with Gaining Access to Intermediate Goods through Usual Suppliers: Averages and Confidence Interval**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is «no impact» and 5 is «very severe impact.» The segments represent the 95% confidence interval.

*Source:* in-house calculations.

**Figure 4.7. Cost-Cutting Options, %**

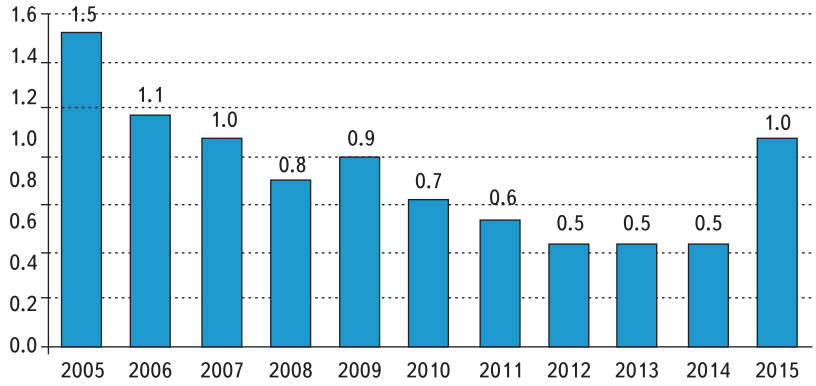



*Source:* IPM Research Center.

Respondents noted that they had been forced to dismiss permanent and temporary employees. The first employees to be laid off were blue-collar workers (individuals directly involved in creation of material values, maintenance, transportation of cargoes and passengers, provision of material services, etc.) who accounted for 52.3% of all dismissals. They were followed by white-collar workers (individuals responsible for preparation and execution of documents, maintenance of books and records, provision of administrative services) with 25.2%, and then by top-, middle- and low-level managers (least skilled or redundant executives) with 13.6%.

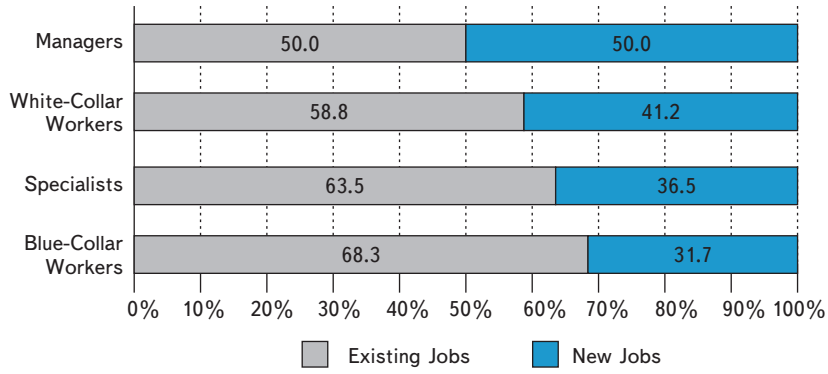
Specialists (individuals performing engineering, technical, economic and other similar functions) proved to be the most valuable employees, and accounted for only 8.9% of total dismissals. Incidentally, there

**Figure 4.8. Official Unemployment Rate, 2005–2015, %**



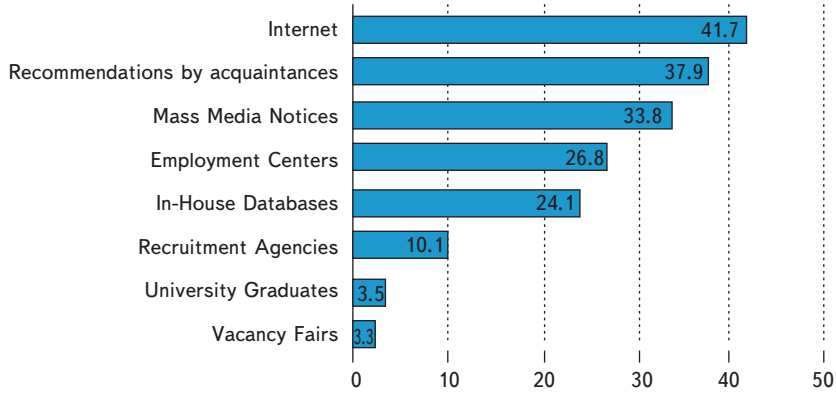

*Source:* National Statistical Committee of the Republic of Belarus.

**Figure 4.9. Structure of Employment (New and Existing Jobs)**




*Source:* in-house calculations.

**Figure 4.10. Recruitment Channels, %**




*Source:* IPM Research Center.

were no statistically significant differences between dismissal rates applicable to permanent and temporary employees – in both cases layoffs were structured exactly as described above.

On the other hand, last year 44.6% Belarus businesses hired new employees. It should be noted though that only 27.7% of those businesses created new jobs. Blue-collar workers enjoyed the highest demand in the labor market – in 2015 they were hired by 67.3% respondents, followed by specialists (29.2%), white-collar workers (18.8%), and managers (13.8%).

New jobs were created for half of the newly-hired managers (Figure 4.9). This may be an important step for Belarus businessmen. Past research[47] shows, among other things, that business owners have been largely unwilling to delegate powers to hired managers, and emergence of new managerial positions may represent both recognition of the problem and an attempt to resolve it.

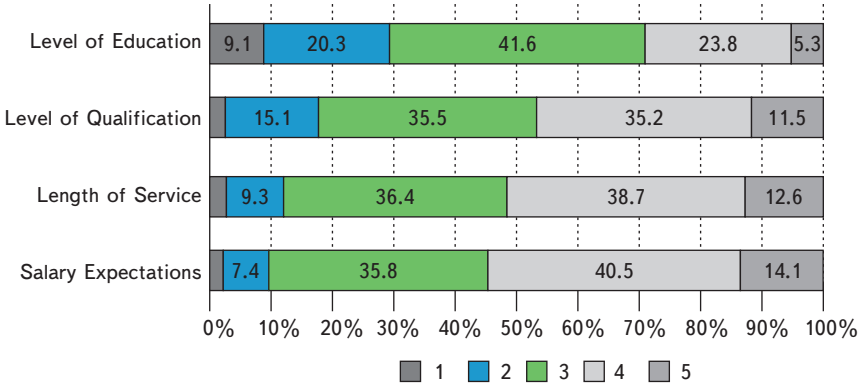
Following crisis developments in neighboring countries and, in particular, deterioration of the economic and political situation in Ukraine, Belarus has experienced a massive influx of immigrants, most of whom eventually turned up in the labor market. Thus, 32.3% of respondents hired new workers from abroad. Out of them, 39.5% hired citizens of Ukraine, 31.3% – citizens of other CIS countries, and 29.1% – citizens of other countries. Immigrants were hired both to existing and new jobs in approximately equal proportions regardless of their country of origin.

The main channels used for recruitment (Figure 4.10) both to existing and new jobs were the internet, recommendations, and vacancy notices in the mass media. Notably, employment centers were used as sources of new labor more often than recruiting firms, universities or job fairs.

As a rule, economic crises spur the growth of supply in the labor market. This trend is supported not only by the higher official unemployment rate, but also by simplification of recruitment formalities that have to be completed by employers. This simplification has been cited by 51.1% of respondents (with 19.3% claiming it has become somewhat easier to hire new employees, and 31.9% saying recruitment procedure is now much easier). Conversely, 17.2% of respondents believe the procedure has grown more complex (for 5.1% – considerably

[47] See Uryutina, Mikhailova (2015).

**Figure 4.11. Labor Supply Quality vs. Employer Expectations**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is "completely inconsistent" and 5 is "fully consistent."

*Source:* IPM Research Center.

**Table 4.1. Employer Preferences Regarding Previous Track Record of Employees**

| | Number | % |
|---|---|---|
| State-owned companies | 32 | 7.9 |
| Private companies | 96 | 24.1 |
| No preference | 272 | 68.0 |
| Total | 400 | 100.0 |

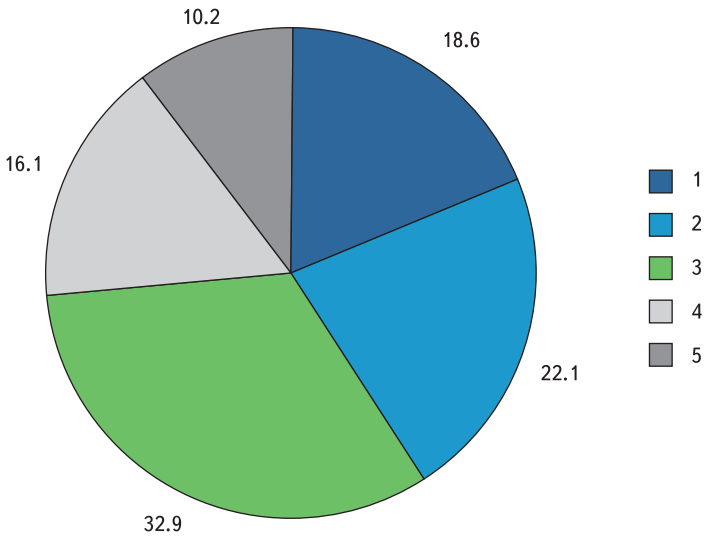
*Source:* IPM Research Center.

**Table 4.2. Anticipated Effect of Retirement Age Increase**

| | Number | % |
|---|---|---|
| Negative | 25 | 6.4 |
| Rather Negative | 74 | 18.5 |
| Neutral | 268 | 67.0 |
| Rather Positive | 25 | 6.3 |
| Positive | 7 | 1.8 |
| Total | 400 | 100.0 |

*Source:* IPM Research Center.

**Figure 4.12. Incidence of Envelope Salaries, %**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is "phenomenon does not exist" and 5 is "phenomenon is universal."

*Source:* IPM Research Center.

more complex). About one third of respondents have noticed no change.

Contrary to the hypothesis that employers are not particularly satisfied with the quality of available labor (which was advanced on the basis of focus groups conducted last year[48]), this year respondents have noted that qualification, level of education, and length of service of applicants met most of their requirements (Figure 4.11), except that some employers complained about unrealistic salary expectations. Last year[49] businessmen said that applicants' salary expectations far exceeded their actual productivity and qualifications. This was true for all categories of employees.

For most employers, it did not make any difference whether their new employees had worked for state-owned or private companies; however, all other things being equal, 24.1% of respondents did prefer employees with private sector track record (Table 4.1).

As of January 1, 2017, retirement age in Belarus will be increased by three years. This may affect not only the ratio of the number of economically active individuals to the number of retired individuals, but also various business efficiency indicators. SME representatives offered differing opinions with respect to this change: most believe that it will have no effect on their activities, while others expect it will have adverse consequences (Table 4.2).

Perception of shadow economy is a critical component of any labor policy review. The tools employed in the course of our research are capable of yielding only an approximate estimate of this phenomenon, focusing primarily on under-the-counter salaries (the so-called «envelope salaries») (Figure 4.12). Our poll showed that 40.7% of respondents believe that

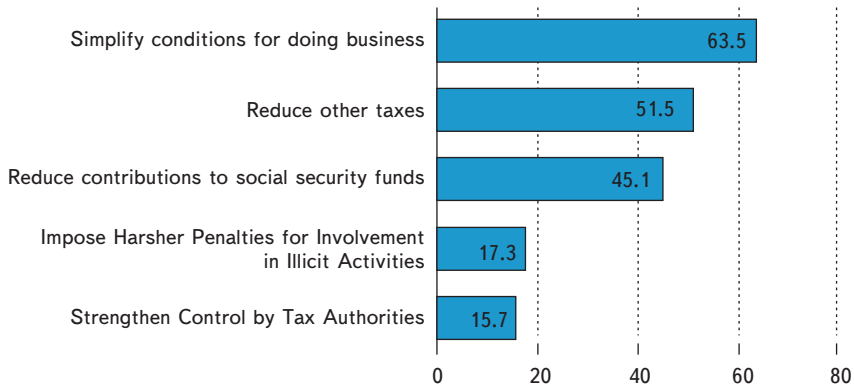
[48] See Uryutina, Mikhailova (2015).
[49] Ibid.

the incidence of under-the-counter salaries is low, while 26.3% maintain it is a widespread phenomenon. The rating of 3 is considered to refer to moderate incidence.

To identify the possible root causes for the use of under-the-counter salaries, respondents were asked to list measures that could help eliminate the shadow economy (Figure 4.13). Most respondents cited conditions for doing business as the main reason for the existence of the shadow economy[50]. A significant part of respondents proposed to reduce taxes and contributions to social security funds. Repressive measures had limited popularity, meaning that respondents believe existing controls and penalties for involvement in the shadow economy to be fair and sufficient.

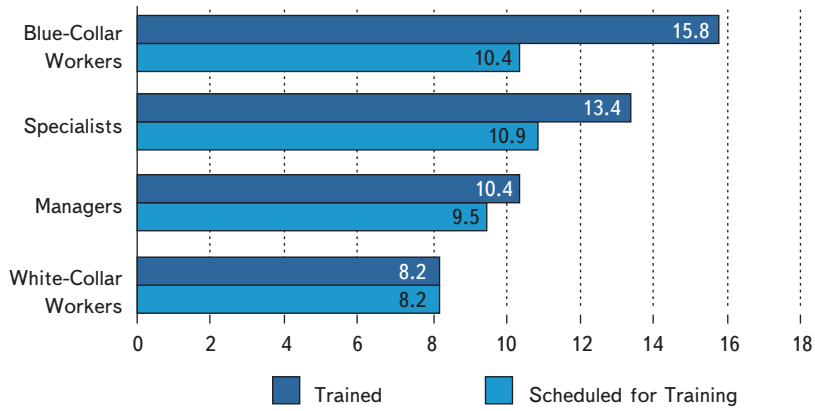
The crisis inevitably affects the labor market. The share of businesses forced to minimize their costs by streamlining the use of both labor and production resources is 77.9%, providing a relatively accurate measure of severity of the crisis. Despite that, certain SMEs still manage to create new jobs, and express positive views regarding the quality of workforce available in the labor market.

**Figure 4.13. Shadow Economy Countermeasures, %**




*Source*: IPM Research Center.

**Figure 4.14. Categories of Employees Trained over the Last 12 Months and Scheduled for Training over the Next 12 Months, %**




*Source:* IPM Research Center.

**Table 4.3. Preferred Training Areas**

| | Number | % |
|---|---|---|
| Sales | 91 | 47.4 |
| Marketing, PR, Advertising | 76 | 39.4 |
| Management, Corporate Governance | 64 | 33.6 |
| Personal Growth | 51 | 26.7 |
| Finance and Investment | 45 | 23.5 |
| Personnel Management | 43 | 22.3 |
| Other | 16 | 8.1 |
| Coaching | 7 | 3.7 |

*Source:* IPM Research Center.

## 4.4. Employee Training by the SME Sector

One of the tools that can be used to clear hurdles preventing normal growth and development of a company is employee training. There have emerged numerous opportunities in this area, and demand for training services is growing, albeit at a leisurely pace. Employee training programs are most frequently implemented by medium-sized and large companies. Most respondents represent small businesses, and the share of such businesses training their employees is still rather unimpressive. Importantly, in most cases business owners and managers arrange for the training of blue-collar workers and specialists, presumably with a view to improve their specific professional skills and develop niche expertise.

Managers are the third in line to get training, even though their training can potentially generate the highest returns for the company as a whole. Moreover, the majority of companies participating in the poll do not train their employees, nor do they intend to do that (Figure 4.14). To a large extent, this attitude is attributable to crisis-engendered woes which affect many companies, including shrinking demand and plummeting profits.

Sales, marketing and management remain the most relevant training areas (Table 4.3). It is important to note that improvement of management practices comes only third, even though investments in that area

[50] For additional information on conditions for doing business, see *Chapter* 3.

**Table 4.4. Business Training Requirements**

| | Number | % |
|---|---|---|
| Practice-Oriented | 127 | 66.0 |
| Conformity to International Standards | 61 | 31.5 |
| Trainers with Practical Business Experience | 58 | 30.2 |
| Positive References from Trusted Sources | 41 | 21.2 |
| Use of Relevant Belarus Cases | 25 | 13.1 |
| Diploma (Completion Certificate) Recognized Abroad | 24 | 12.7 |
| Other | 4 | 2.1 |

*Source:* IPM Research Center.

**Table 4.5. Course Selection Criteria, 2015–2016, %**

| | 2015 | 2016 |
|---|---|---|
| Training Contents | 59.4 | 56.4 |
| Training Price | 22.2 | 46.5 |
| Training Duration | 11.7 | 28.7 |
| Recommended by Colleagues or Acquaintances | 8.7 | 25.8 |
| Trainers | 14.7 | 25.0 |
| Training Establishment Image | 8.0 | 18.0 |
| Possibility to Receive an Official Domestic Diploma | 6.7 | 11.8 |
| Possibility to Receive an Official International Diploma | 7.2 | 10.9 |

*Source:* IPM Research Center.

**Table 4.6. Main Forms of Mid- and Top-Level Manager Training, %**

| | 2015 | 2016 |
|---|---|---|
| In-House Training by Internal Trainers | 26.3 | 47.5 |
| Short-Term Courses, Workshops, Training Sessions (up to 3 months) | 79.9 | 44.1 |
| Probations and Secondments | 11.2 | 31.7 |
| Self-Education | 14.3 | 28.8 |
| In-House Training by External Trainers | 9.4 | 21.4 |
| Attending Conferences | 15.6 | 12.4 |
| Long-Term Courses, Workshops, Training Sessions (> 3 months) | 4.5 | 9.0 |

*Source:* IPM Research Center.

**Table 4.7. Business Training Establishments Known to Respondents**

| | Number | % |
|---|---|---|
| Institute of Business and Management (Belarus State University) | 162 | 40.4 |
| XXI Century Consult | 82 | 20.6 |
| IPM Business School | 66 | 16.5 |
| Key Solutions | 29 | 7.2 |
| Here and Now | 47 | 11.6 |
| EMAS | 18 | 4.6 |
| SATIO | 17 | 4.2 |
| None of the Above | 161 | 40.3 |
| Other | 5 | 1.3 |

*Source:* IPM Research Center.

can boost sales, enhance marketing, and have an overall positive effect on all other activities of the company.

The key requirement applicable to business training programs, regardless of their specific focus, is that they should be practice-oriented (Table 4.4). Trainers who «practice what they preach» by combining training and business have much more credibility than pure theoreticians. The same is true for training courses, where practice is valued higher than theory.

Data on criteria which determine selection of specific training courses are compared to those from last-year poll (Table 4.5–4.6). In 2016 businessmen appear to prefer in-house training by internal trainers to short-term courses offered by external training facilities. The price criterion is now selected by 46.5% of respondents (2015: 22.2%).

Duration of training is an important consideration. As a rule, long-term international courses require significant financial outlays, while there exist no criteria that could be used to assess their efficiency for individual businesses over the short run. Accordingly, many businesses prefer specialized short-term courses.

Long-term training courses enjoy the least popularity. Short-term courses are perceived as producing immediate results, while their longer-term counterparts require a considerably more granular in-depth process. Long-term courses usually include MBA, CIM (professional marketing training), and other similar programs. Short-term courses either provide a cursory view of the subject matter or, on the contrary, offer a very detailed and concentrated exposure to a very narrow area of expertise. Both can be fairly consistent with the needs of the business – provided that those needs are consciously recognized.

With each passing year, business training in Belarus is expanding and becoming increasingly competitive. It should be noted though that the level of recognition of the leading and largest business schools by their target audience is still rather modest. A considerable percentage of respondents have never heard of the business schools listed below (Table 4.7). This may be attributable both to ineptitude of marketing strategies employed by business schools and apparent lack of interest in their services and, accordingly, inferior demand for their training services among small and medium-sized businesses.

Business training – like any other education – creates a development potential capable of producing meaningful changes both in individual entities and in the economy as a whole. As a general rule, the higher the level of qualification and professional skills of employees of the company, the more impressive its quantitative

metrics. Accordingly, this resource should not be disregarded as a tool of further improvement.

### 4.5. Conclusions and Recommendations

Social and economic policies in Belarus have been traditionally designed so as to keep public employment at the highest possible level. However, ability of the state to support employment at a sustainable level has been drastically impaired by the current economic stagnation. This has given rise to growing unemployment.

The SME sector has also been coerced to engage in massive crisis-driven labor cuts. The existing trends have forced at least half SMEs to streamline their production and labor costs. On the other hand, there exist numerous businesses which continue to grow and create new jobs even in the current inclement economic climate.

*First*, it should be noted that respondents assign relatively high scores to crisis severity ratings, in particular, regarding contraction of demand for their goods and services. This is especially relevant for Vitebsk and Gomel Regions. The situation calls for the use by SMEs of various cost-cutting techniques. On a positive note, bonus reductions come before dismissals, but even then the number of redundant employees still remains quite significant.

Incidentally, employers note that recruitment procedures have been simplified, and that the quality of workforce available in the labor market is largely consistent with their requirements. The only substantial disparity is related to the applicants' salary expectations. Business representatives have been bringing that issue up for several years in a row[51].

The incidence of under-the-counter salaries has been rated as moderate. Business representatives cite high taxes and onerous contributions to social security funds as the main reason for the existence of that phenomenon – and of the shadow economy in general. Introduction of more stringent controls and imposition of new penalties for engagement in illicit activities is not likely to be instrumental to elimination of the shadow economy.

Business training services currently do not enjoy any great popularity among business owners and managers. They mostly prefer to train their blue-collar workers and white-collar workers, rather than managerial personnel. Lack of interest in business training services is confirmed by the fact that few, if any, respondents are aware of the existence of business schools and other establishments offering such services.

By way of *recommendations*, we can suggest the following:

Simplification of conditions for doing business and reduction of tax burden (according to respondents) may result in gradual displacement of the shadow economy, a particularly welcome development during an economic crisis. Perceived relevance of such changes has remained consistently high for many years, which testifies to the need to implement effective measures designed to liberalize business environment. By the same token, creating conditions conducive to self-employment may be conducive to reducing unemployment rates and creating new jobs.

Offering business training to employees of all categories may become a powerful impetus for further development of Belarus companies. Business owners and managers are advised to pay more attention to training managerial personnel to maximize the impact that training programs may have on the entity as a whole, as well as on its strategy, preferred sales techniques, personnel efficiency, etc. Besides, crises usually provoke reallocation of labor resources and, consequently, there arises the need to retrain and reskill both managers and rank-and-file employees.

[51] See Uryutina, Mikhailova (2015).

# 5. PERCEPTION OF CORRUPTION BY BELARUS SMES

## 5.1. Introduction

In a poll conducted in April-May 2016, representatives of small and medium-sized enterprises (SMEs) ranked corruption No. 9 among the 22 key barriers hindering business development in Belarus[52]. There are reasons to believe that over the last several years the urgency of this problem has somewhat abated. Thus, in 2014 and 2015 corruption was ranked Nos. 3–5 and No. 5, respectively, among the 20 key problems faced by Belarus businessmen[53]. To a certain extent, this is consistent with the *Corruption Perception Index* which is measured and published by *Transparency International* on an annual basis. According to that organization, in 2015 the Corruption Perception Index for Belarus was 32 points, placing it in the 107th position among the 168 covered countries. The year before that, in 2014, the index had been 31 points, which corresponded to the 119th position among the 174 covered countries (in this case, the higher the number of points, the lower the level of corruption).

In Belarus, corruption-related issues are at the center of attention of both government and law enforcement bodies and members of the research community. Corruption engenders multiple adverse consequences in the political, social, and economic domains. In this paper, we will focus on the economic aspects of corruption. Research shows that high corruption may decelerate economic growth and reduce the inflow of foreign direct investments. It also contributes to expansion of the shadow economy and decreases tax revenues[54].

The IPM Research Center invariably pays a lot of attention to examination of corruption-related issues, putting special emphasis on the impact of that phenomenon on small and medium-sized enterprises, rather than on its general nature. A detailed description of our conclusions is presented in annual Belarus business development reviews[55] and analyses of SME poll findings[56].

This paper deals with the perception of corruption by SMEs based on the results of the 2016 poll vs. the 2014 poll. The choice of the comparison base was determined by the following factors: first, the 2014 poll was specifically designed to enable an in-depth scrutiny of the effect that corruption has on small and medium-sized enterprises; second, we believe that the two-year comparison period is more relevant than the one-year period due to the inertial nature of corruption-related processes; and third, corruption ratings generated by the 2015 poll[57] and the 2014 poll are generally quite similar.

The 2014 SME poll produced the following results regarding perception and the main causes of corruption, the key areas affected by corruption, and the methods of countering corruption:

– Representatives of Belarus small and medium-sized enterprises generally rated the level of corruption as average (moderate); also, corruption ratings related to various types of economic activities were almost identical;

– There were certain regional differences in the perception of corruption. The respondents fell into two groups rating the level of corruption as either low or moderate. The first group includes the City of Minsk, and Minsk and Gomel Regions; the second group includes Grodno, Vitebsk, and Mogilev Regions;

– Respondents from enterprises with good and improving economic position rated corruption lower than respondents from enterprises with poor and worsening economic position. Lower corruption ratings were also assigned by SMEs which sought to expand their business, and had a more optimistic view of changes in conditions for doing business;

– The moderate (average) perceived corruption level generally matched the moderate (average) level of its perceived adverse impact on economic development and efficiency;

[52] See http://www.research.by/webroot/delivery/files/2016r1.xlsx.

[53] This conclusion needs to be qualified by the fact that while in the first case the ratings were based on the total number of responses, in the second case the key metric was the average rating assigned to the problem on a scale from 1 to 5. In addition to that, inasmuch as in 2016 the sample was modified to include only small and medium-sized enterprises, micro enterprises (defined as enterprises employing 1 to 10 people) had to be culled out of the samples used in 2014 and 2015. The issue is discussed in more detail in the following sections of this paper.

[54] For more detailed information, see: Pelipas, I., Tochitskaya, I. (2014). Perception of Corruption by Small and Medium-Sized Enterprises: IPM Research Center *Working Paper* WP/14/03.

[55] See http://www.research.by/analytics/businessbook/.

[56] See http://www.research.by/publications/surveys-of-business/.

[57] See the appropriate section in the annual publication *Belarus Business 2015: Current State, Trends, Prospects*, http://www.research.by/webroot/delivery/files/Business2015r.pdf.

– Respondents noted the existence of both "demand-side" corruption and "supply-side" corruption, but most SME representatives agreed that government bodies were the key source of corruption;

– The most frequently named cause of corruption was public tolerance of that phenomenon. It was followed by the greed of public officials. The third, fourth, and fifth positions in the list were taken by the following causes: low efficiency of anti-corruption bodies, inadequate administrative supervision of work-related activities of public officials, and low salaries of public officials;

– Respondents believed that repressive and administrative tools would yield the best results in combating corruption. In particular, they deemed it necessary to introduce more severe penalties for corruption-related crimes, boost operating efficiency of anti-corruption bodies, create a public climate of intolerance of corruption, strengthen administrative supervision of work-related activities of public officials, and enhance tax control of income received, and assets owned, by public officials and their family members. On the other hand, SME representatives put less faith in indirect measures conducive to creation of a generally corruption-intolerant environment;

– The following five government regulation areas were among those most exposed to abuse: sanitary supervision, fire safety supervision, government contract awards and participation in tenders, hygienic registration and certification, and receipt of various permits issued by local government bodies;

– About 36% of the respondents stated that corruption was a rather serious problem for doing business in Belarus. The respondents also failed to notice any significant change in the level of corruption over the last two years.

The aim of this paper is to analyze the current status of corruption and its effect on SMEs on the basis of the findings of a poll with a representative sample of 400 enterprises (the poll was conducted for the IPM Research Center in April-May 2016 by *NOVAK* Axiometric Research Laboratory), and to compare the results with the findings of the special 2014 poll that focused on corruption-related problems.

The subsequent analysis was designed to:

– Assess the general level of corruption as perceived by Belarus SMEs using the average score indicator, and review its evolution since 2014;

– Assess the level of perceived corruption with a breakdown by various grouping attributes (type of economic activities, number of employees, year of establishment, place of registration (region), economic position and change in economic position, selected strategy, perceived change in conditions for doing business, and attitude towards external barriers), and review its evolution since 2014;

– Assess the impact of corruption on various aspects of economic development, and review its evolution since 2014;

– Assess the main causes of corruption, and review their evolution since 2014;

– Assess the main areas of manifestation of corruption, and review their evolution since 2014;

– Assess the main anti-corruption measures, and review their evolution since 2014.

When comparing the results produced by the 2016 and 2014 polls, it is necessary to take into consideration certain major changes in the sampling procedure. In 2016 (total number of the respondents: 400), we polled only small and medium-sized enterprises (number of employees: 16–250), while the 2014 sample included micro enterprises (number of employees: 1–15) which accounted for more than half of all respondents. To obtain comparable results, all 2014 figures were adjusted for the reduced sample (which comprised 243 small and medium-sized enterprises[58]); accordingly, the findings presented below may be different from those previously published by the IPM Research Center in its corruption-related papers[59].

The chapter is structured as follows: the *second* section deals with the methodology of statistical analysis; the *third* section is dedicated to the incidence of corruption in, and its impact on economic development of, the SME segment; the *fourth* section contains an analysis of the main causes and areas of manifestation of corruption, and the methods of countering corruption. The last section features the main conclusions drawn on the basis of our research.

### 5.2. Methodology

Since 2014, the main question of the poll form designed to measure the level of corruption as perceived by small and medium-sized enterprises is the following: "*What is the incidence of various forms of corruption in Belarus in the operating areas of your enterprise?*" The respondents were asked to estimate the level of corruption in their actual operating areas. This was done to avoid abstract evaluations and link the final scores, as closely as possible, to the activities of the respondents. The incidence of corruption was measured on a scale from 1 to 5, where individual scores are defined as follows: 1 – there

[58] The poll of 2014 contains only interval assessment of employment at the enterprise. According to proposed intervals, micro enterprises fell within two groups: number of employees from 1 to 10 (158 observations) and from 11 to 50 (156 observations). For the purpose of our research, we excluded only the first group (number of employees: 1–10) in order to keep reasonable sample size.

[59] It should be noted that the findings themselves have not sustained any cardinal changes.

is no corruption; 2 – insignificant corruption; 3 – the level of corruption is rated as moderate (average); 4 – significant corruption; and 5 – pervasive corruption. Application of the 5-point scale makes it possible to obtain averaged scores, which then can be used for comparison and statistical analysis purposes[60].

The use of point scales gives rise to the problem of interpretation of averaged scores. Classification of perceived corruption levels based on average scores on a 5-point scale is presented in the first part of Table 5.1. Such classification enables a generalized assessment of perceived corruption levels. For example, if the resultant average score of perceived corruption level falls within the range from 1 to 1.5, the conclusion is that there is no corruption; conversely, if the average score is between 4.5 and 5, corruption is deemed to be pervasive. The 5-point scale offers respondents a sufficiently wide choice of options to assess the existing state of affairs.

However, due to the use of rather categorical assumptions, there may arise certain interpretation problems. Indeed, it is difficult to imagine a real-life situation where corruption is non-existent. By the same token, a situation where corruption is pervasive is also completely unrealistic, at least in Belarus. Accordingly, in some cases it might be useful to combine the first two groups and the last two groups to arrive at a 3-point scale with a simpler and easier-to-understand interpretation of perceived corruption levels: low, moderate, and high (see the second part of Table 5.1).

It should be remembered that such transition to the 3-point scale after having originally used the 5-point scale is not equivalent to a simple conversion of one scale into another scale – which is sometimes done to ensure comparability and at the end of the day does not affect the findings of the analysis. Creation of the 3-point scale by aggregating existing groups may have considerable impact on the final results depending on distribution of responses. We believe that the choice between the 5-point scale and the 3-point scale is an empirical matter. The key consideration is whether the final results remain clearly interpretable. The above goes also for all other questions in our research where 5-point scales were used.

**Table 5.1. Classification of Perceived Corruption Levels**

| Average Score $(\overline{x})$ | Perceived Corruption Level |
|---|---|
| | *5-Point Scale* |
| $1 \le \overline{x} < 1.5$ | No corruption |
| $1.5 \le \overline{x} < 2.5$ | Low corruption |
| $2.5 \le \overline{x} < 3.5$ | Average (moderate) corruption |
| $3.5 \le \overline{x} < 4.5$ | High corruption |
| $4.5 \le \overline{x} \le 5.0$ | Pervasive corruption |
| | *3-Point Scale* |
| $1 \le \overline{x} < 1.5$ | Low corruption |
| $1.5 \le \overline{x} < 2.5$ | Average (moderate) corruption |
| $2.5 \le \overline{x} \le 3.0$ | High corruption |

*Source:* Developed by the authors.

To assess perceived corruption levels based on the classification presented in Table 5.1, it is convenient to apply the interval testing method (in particular, we have used 95% confidence intervals for the average scores). The following empirical rule is in effect here: *if the lower boundary of the 95% interval applied to the average score of perceived corruption level does (not) exceed the upper boundary of the reference interval, the actual perceived level of corruption does (not) exceed the reference level.* A similar approach can be used to analyze scales relevant for the other questions in our research.

In some cases, the use of confidence intervals yields rather compelling statistical comparisons. It should be noted, however, that it is not always practicable when one needs to compare two or more averages. In particular, if there is an overlap of confidence intervals of two compared averages, the difference between them may be either statistically significant or statistically insignificant[61]. Accordingly, the null hypothesis of equality of the averages will be either rejected or not rejected. For that reason, we need to use direct tests to compare two average scores.

In our research, instead of the standard Student test we resorted to the Welch test which works better when the sizes of samples (groups being compared) and their variances are not equal, and which yields the same results as the *t*-test when the sizes of samples and their variances are equal[62]. It is important to note that the Welch test and the Student test are resistant to violation of the data distribution normality assumption.

Naturally, it is also possible to provide a graphic representation of the resultant data using confidence intervals. If the confidence interval

[60] The use of point scales to obtain average scores and then use them for statistical purposes is debated in a number of scholarly publications (as Likert scales are essentially ordinal scales). We are of the opinion that the use of such scores for various statistical analyses is justified. See, for example, Vieira, P. C. (2016). *T*-test with Likert scale variables. Available at SSRN: https://ssrn.com/abstract=2770035.

[61] Knezevic, A. (2008). Overlapping confidence intervals and statistical significance. StatNews: Cornell University Statistical Consulting Unit, 73.

[62] See http://daniellakens.blogspot.com.by/2015/01/always-use-welchs-t-test-instead-of.html.

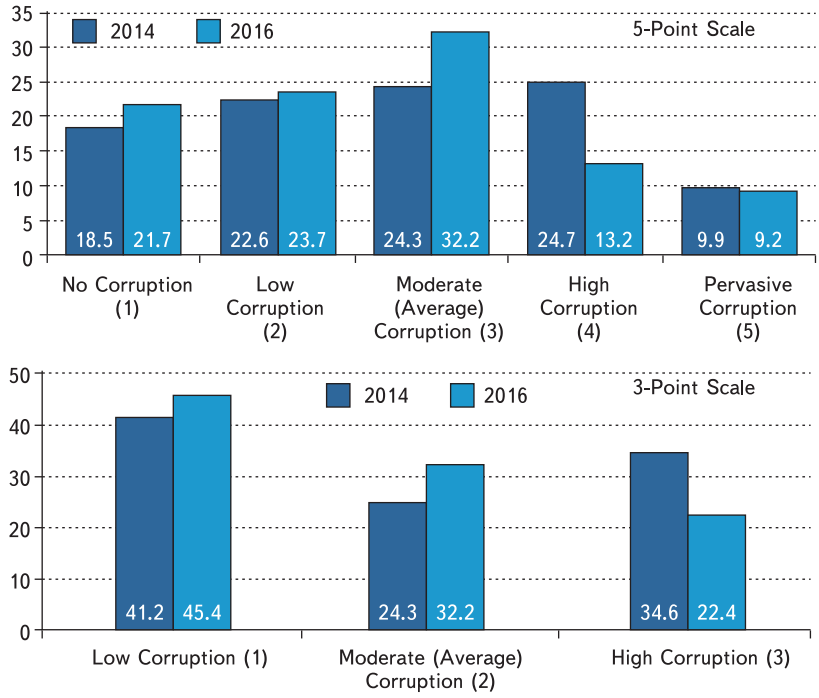
for the difference between the two compared averages does not include the zero value, then such averages are statistically different at the given level of significance.

When more than *two* averages are compared, the task becomes more complex. Each time when we perform a *t*-test (or its modification), we risk making a type 1 error (by rejecting a correct null hypothesis). If the number of such tests increases, the probability of making a type 1 error also increases (approximately) in multiples of the number of comparisons. Accordingly, when comparing multiple averages, we use one-way analysis of variances (ANOVA) to control type 1 errors and prevent them from exceeding a certain predetermined level, say, 5%.

One-way ANOVA is preceded by a test for equality of variances in the groups under review (the Levene test). If the null hypothesis of equality of variances is not rejected, a standard *F*-test is used next. If the null hypothesis of equality of variances is rejected, a robust Welch *F*-test is used instead. One-way ANOVA is generally resistant to violation of the data distribution normality assumption, but its use may prove to be problematic if the number of observations in individual groups is not large enough. Then it is advisable to (additionally) use the nonparametric Kruskal – Wallis *H*-test which does not require that the data distribution normality assumption be observed.

Variance analysis reveals only the existence of differences between the groups that are being examined, but it does not identify the groups which iffer from each other. To do that, it is necessary to perform the so-called post-hoc tests. To recapitulate: at the first stage we use one-way variance analysis to test the hypothesis of equality of inter-group averages. If the null hypothesis is rejected, we perform post-hoc tests to make multiple average comparisons. In this paper,

**Figure 5.1. Change in Perceived Corruption Levels, %**




*Note.* X-axis: assessment of the level of corruption (points) and their interpretation; Y-axis: distribution of responses (%).

*Source:* In-house calculations.

we resort to the Duncan test (if group variances are homogeneous) and the Games – Howell test (if group variances are heterogeneous).

We applied the 5-point scale to the questions designed to assess the impact of corruption on economic development and examine the main causes and areas of manifestation of corruption and anti-corruption measures. Application of the 5-point scale makes it possible to obtain averaged scores and use them for comparison and statistical analysis purposes. Besides, in this case a classification similar to that presented in the first part of Table 5.1 can be applied to the relevant question. The resultant average scores can be used to rank the results and draw comparisons to earlier data. Finally, classification of scores makes it possible to measure the extent of urgency of the problem (using 95% confidence intervals and an appropriate classification of estimates).

Researchers using scales often observe that respondents prefer to select answers (scores) lying in the middle of the scale. If that happens, the resultant findings become uninformative. To avoid that, it may be necessary to discard central values (for example, "3" on the 5-point scale), and work only with "positive" and "negative" responses. In this paper, we have used a ratio of "positive" and "negative" responses. Like in the previous case, the ratio enables a ranking of resultant scores by the degree of their relevance.

## 5.3. Incidence of Corruption in, and its Impact on Economic Development of, the SME Segment

### *5.3.1. Generalized Corruption Score*

Figure 5.1 presents distribution of responses to the main question: "*What is the incidence of various forms of corruption in Belarus in the operating areas of your enterprise?*" The first part of the figure shows the distribution based

on the original 5-point scale, while the second part features aggregated distribution where the 5-point scale is transformed into the 3-point scale. The 2016 poll results are compared to the 2014 poll results.

If we use the 5-point scale distribution, the difference between the number of the respondents who stated in 2016 and 2014 that there was no corruption, or that corruption was insignificant, is minimal. At the same time, there has occurred a major shift in the perception of those who believe that there is widespread corruption in the SME sector. The number of such respondents has gone down from about 25% in 2014 to slightly more than 13% in 2016. This has been accompanied by an increase of the share of the respondents perceiving the level of corruption as moderate from 24.3% in 2014 to 32.2% in 2016. The share of those who selected the "pervasive corruption" option has sustained little, if any, change and remained within the range from 9% to 10%.

Therefore, there has been no significant shift in extreme perceptions over the period under review. Instead, the shift was driven mostly by assumption of a more moderate stance by those who previously believed that corruption was a widespread phenomenon.

The above is more clearly manifested in the second part of Figure 5.1, where the 5-point scale is aggregated into the 3-point scale. Such aggregation yields a more comprehensible classification of perceived corruption levels: low, moderate, and high. We see that in 2014 more than 41% of SMEs involved in the poll believed that the level of corruption in their operating areas was low. In 2016 their number somewhat increased to more than 45%. At the same time, the number of those who believed that the level of corruption was high has also sustained a noticeable change. While in 2014 they accounted for 35% of the sample, in 2016 only 22% of the respondents were of the opinion that the level of corruption in their respective operating areas was high (the difference amounts to approximately 13 percentage points). Clearly, this change can be attributed to the increase of the share of the respondents assessing the level of corruption as moderate (average).

Changes in the distribution of responses have had an appropriate effect on the movement of the average score of perceived corruption level. This movement is illustrated by Figure 5.2 which features average scores of perceived corruption level according to SME polls conducted in 2014 and 2016, calculated using the 5-point scale and the 3-point scale. In addition to that, the charts show the 95% confidence intervals for the appropriate average scores of perceived corruption level, and their differences, thereby providing a visual representation of the averages equality hypothesis. Finally, the charts reflect the range consistent with the moderate (average) level of corruption.

Based on the 5-point scale, the average score of perceived corruption level in 2016 was 2.64, while in 2014 it was somewhat higher at 2.85. From the left part of Figure 5.2, it follows that over the period under review there has occurred a statistically significant decrease in the average score of perceived corruption level, as the 95% confidence interval for the difference between the average scores does not pass the zero value (the difference is 0.204 with the confidence interval of [0.005 0.403]). This conclusion is formally corroborated by the Welch test: $t = 2.0143$ ($p = 0.045$), i.e. the null hypothesis of equality of averages for 2014 and 2016 is rejected at the 5% significance level. The 95% confidence intervals for the averages show that, in line with the classification presented in Table 5.1, perceived corruption level can be characterized as moderate (average) both in 2014 and in 2016.

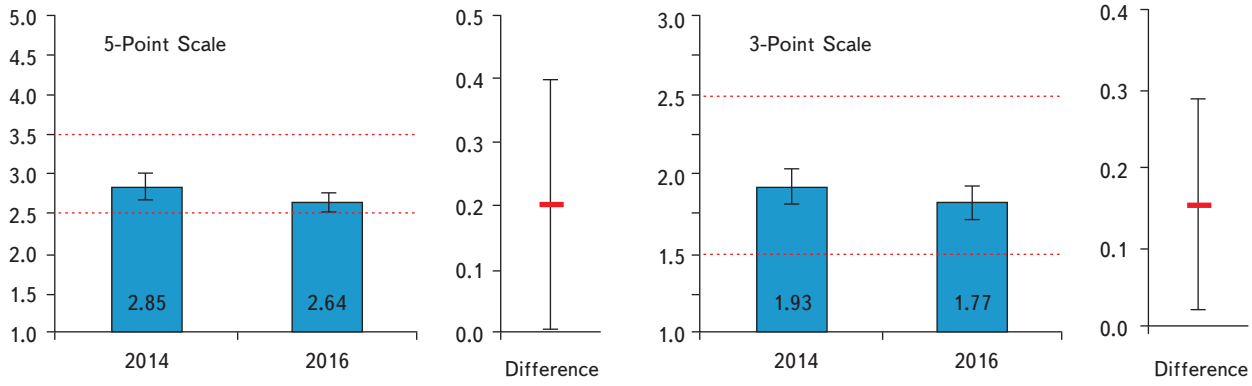
This becomes even more apparent following the conversion to the 3-point scale. Incidentally, according to the Welch test, the difference between the averages is more statistically significant: $t = 2.4052$ ($p = 0.017$). This is evident from the confidence interval for the difference between average corruption levels in 2014 and 2016: it is equal to 0.164 with the confidence interval of [0.030 0.299]. This brings us to the conclusion that the use of the 3-point scale to assess perceived corruption levels makes the analysis more precise in terms of statistically significant differences, classification (as clearly seen in the appropriate chart in Figure 5.2), and interpretability of the resultant values.

Belarus mass media and expert community usually pay considerable attention to the *Corruption Perception Index*[63] measured and published by an authoritative organization called Transparency International. It is interesting to note that during the 2014 poll the respondents were asked the following question: «*According to the Transparency International Corruption Perception Index, in 2013 Belarus was in the 123rd position among the 174 countries. Do you agree that the level of corruption in Belarus is really so high?*" To assess the responses, we used a 5-point scale where "1" meant "completely agree" and "5" meant "completely disagree." The average score was 2.89. The shares of those who selected the options "partially agree" and "partially disagree" stood at about 32% and 26%, respectively. As we can see, the poll demonstrated that SME representatives were rather ambivalent in their view on the assessment of the level of corruption in Belarus according to *Transparency International*.

Below we attempt to compare perceived corruption level scores produced by our SME polls with the *Corruption Perception Indices*

[63] Data and methodology are presented at the web site of Transparency International at http://files.transparency.org/content/download/1950/12812/file/2015_CPI_DataMethodologyZIP.zip.

**Figure 5.2. Movement of the Average Score of Perceived Corruption Level**




*Note.* In the charts above, the error bars reflect the 95% confidence intervals applicable to the average score of perceived corruption level, and the difference between the average scores registered in 2014 and 2016. The red dashed lines indicate the range corresponding to the moderate (average) level of corruption.

*Source:* In-house calculations.

presented by *Transparency International*. First, a caveat: we are not trying to raise any doubts about the reliability of the Corruption Perception Index, or criticize the methodology used by Transparency International. We are also well aware of the high subjectivity inherent in any assessment of corruption, and know full well how difficult it is to obtain such assessments. Nevertheless, we maintain that the suggested comparison is quite relevant and interesting, particularly in the light of the fact that the Corruption Perception Index represents an average value based on data received from multiple sources. Therefore, our scores can be considered yet another supplementary source of information that can be used to assess the level of corruption, one reflective of the views prevailing among Belarus small and medium-sized enterprises.

To convert our corruption scores into Transparency International Corruption Perception Index points, we first need to recalibrate our 5-point scale or 3-point scale so that the value of "5" (or "3") corresponds to the minimal (as opposed to maximal) level of corruption, and the value of "1" corresponds to the maximal (as opposed to minimal) level of corruption, as the higher the number of points in the Corruption Perception Index, the lower the level of corruption. Our scale assumes the opposite.

Then we need to convert our scale (either the 5-point scale or the 3-point scale) into the Transparency International Corruption Perception Index scale. This should be done in accordance with the following formula[64]:

$$X_2 = \frac{(X_1 - \min_1)(\max_2 - \min_2)}{\max_1 - \min_1} + \min_2, \quad (1)$$

where $X_2$ is the sought score according to the second scale; $X_1$ is the score according to the first scale that should be converted into the second scale; $\min_1$ and $\max_1$ are the minimal and maximal values of the first scale; and $\min_2$ and $\max_2$ are the minimal and maximal values of the second scale. Using Formula (1) and taking into consideration the fact that the maximal and minimal values of the Transparency International Corruption Perception Index are equal to 100 and 0, respectively, the formulas for the conversion of the 5-point scale and the 3-point scale from our polls into the 100-point scale of the Corruption Perception Index can be presented as follows:

$$Score_{(0-100)} = 25x_{(1-5)} - 25, \quad (2a)$$

$$Score_{(0-100)} = 50x_{(1-3)} - 50. \quad (2b)$$

To obtain the sought new-scale scores, it is necessary to insert the average scores of perceived corruption level based on our SME polls into Formula (2*a*) and Formula (2*b*), respectively. As was noted above, the scales first need to be recalibrated to ensure that they are aligned with the Transparency International Corruption Perception Index scale, so that later we can calculate new averages. It is, however, possible to use a simpler method to convert the average scores of perceived corruption level based on available information. From Figure 5.2, it follows that in 2014 the average scores based on the 5-point scale and the 3-point scales stood at 2.85 and 1.93, respectively, while in 2016 those indicators were 2.64 and 1.77, respectively. Then new average scores for 2014 are 5 − 2.85 + 1 = 3.15 and 3 − 1.93 + 1 = 2.07, respectively, and the new average scores for 2016 are 5 − 2.64 + 1 = 3.36 and 3 − 1.77 + 1 = 2.23, respectively.

According to *Transparency International*, the *Corruption Perception Index* for Belarus in 2014 was 31 points, which corresponded to the 119th position in the general country

[64] See Card, N. (2011). Applied meta-analysis for social science research. The Guilford Press. 377 pp.

**Table 5.2. Relation between Perceived Corruption Level Scores and Various Grouping Attributes: ANOVA Results**

| Grouping Attributes | Levene Equality of Variances Test | *F*-Test | Robust Welch *F*-Test |
|---|---|---|---|
| Type of economic activities | 1.152 [0.328] | 0.699 [0.693] | – |
| Number of employees | 5.586 [0.004] | – | 6.252 [0.002] |
| Year of establishment | 1.199 [0.310] | 2.161 [0.092] | – |
| Place of registration (region) | 1.194 [0.309] | 4.079 [0.001] | – |
| Economic position | 0.190 [0.827] | 2.365 [0.095] | – |
| Change in economic position | 0.057 [0.945] | 1.453 [0.235] | – |
| Selected strategy | 1.573 [0.209] | 6.423 [0.002] | – |
| Perceived change in conditions for doing business | 3.381 [0.035] | – | 5.240 [0.006] |
| Attitude towards external barriers | 0.048 [0.827] | 7.671 [0.006] | – |

*Note.* If the hypothesis of equality of variances is rejected, a robust Welch test is used; in other cases, a standard *F*-test is used to determine equality of intra-group and inter-group variances. Grouping attributes for which average scores of perceived corruption level are unequal have been marked with gray shading.

*Source:* In-house calculations.

**Table 5.3. Relation between Perceived Corruption Level Scores and Various Grouping Attributes: Nonparametric Kruskal – Wallis Test**

| Grouping Attributes | Kruskal – Wallis *H*-Test | |
|---|---|---|
| | | *p*-value |
| Type of economic activities | 5.097 | 0.648 |
| Number of employees | 10.380 | 0.006 |
| Year of establishment | 4.020 | 0.134 |
| Place of registration (region) | 20.108 | 0.003 |
| Economic position | 5.083 | 0.079 |
| Change in economic position | 2.834 | 0.242 |
| Selected strategy | 13.273 | 0.001 |
| Perceived change in conditions for doing business | 8.678 | 0.013 |
| Attitude towards external barriers | 7.467 | 0.006 |

*Note.* Grouping attributes for which average scores of perceived corruption level are unequal are marked with gray shading.

*Source:* In-house calculations.

ranking (it should be noted that the maximum score upon calculation of the average index was equal to 42). If we convert perceived corruption level scores based on SME polls into the Corruption Perception Index scale using Formula (2*a*) and Formula (2*b*), we will get a (rounded) perceived corruption level score of 54 points both for the 5-point scale and the 3-point scale. This corresponds to the 47th place in the general country ranking, comparable to such countries as Costa Rica, Hungary, and Mauritius.

In 2015[65], the *Transparency International Corruption Perception Index* for Belarus was 32 points, which corresponded to the 107th position in the general country ranking (again, the maximum score upon calculation of the average index was equal to 52). Upon conversion of the 2016 values using Formula (2*a*) and Formula (2*b*), we would get perceived corruption level scores of 59 points and 62 points for the 5-point scale and the 3-point scale, respectively. This would correspond to the 30th to 35th position in the ranking, alongside with such countries and Poland, Taiwan, Cyprus, Israel, Lithuania, and Slovenia.

At first glance, our scores may appear to be unrealistic. As was noted above, we did not seek to cast doubt on the accuracy of the rankings assigned to Belarus by Transparency International. It should also be remembered that we are dealing with the opinions expressed with respect to perceived corruption levels by SMEs only, rather than by the whole Belarus society. In addition to that, if we take another look at the maximum scores used to calculate the averaged Corruption Perception Indices (42 points and 52 points), our scores will not be that far from those produced by Transparency International.

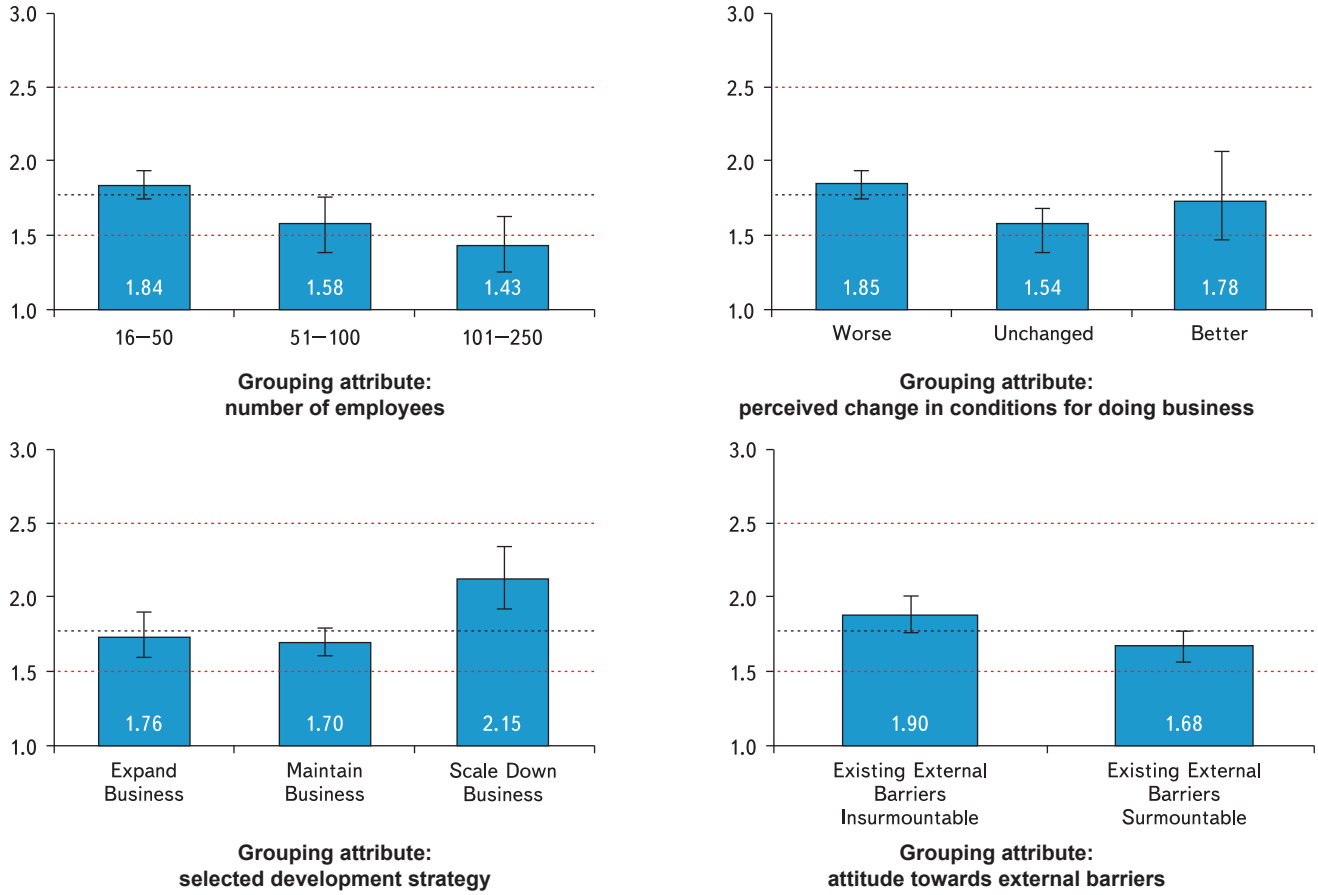
### *5.3.2. Corruption Level Scores with a Breakdown by Various Grouping Attributes*

We will now consider the links between various grouping attributes and differences in average scores of perceived corruption level among the relevant groups. We have selected the following grouping attributes: type of economic activities of the SME, number of employees, year of establishment of the enterprise, place of its registration (region), economic position of the SME and change in economic position of the SME, selected economic development strategy, perceived recent changes in conditions for doing business, and perception of surmountability of external barriers. At the *first stage*, one-way analysis of variances was performed for each of the grouping attributes listed above. The results of that analysis are presented in Table 5.2[66].

[65] Information on the Transparency International Corruption Perception Index for 2016 is currently unavailable.

[66] To arrive at the average scores of perceived corruption level during one-way analysis of

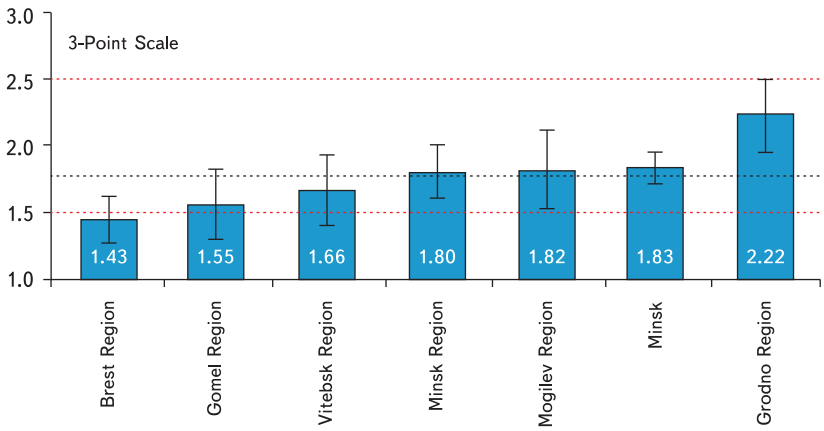
**Figure 5.3*a*. Average Scores of Perceived Corruption Level with a Breakdown by Various Grouping Attributes**




*Note.* In the charts above, the error bar reflects the 95% confidence interval applicable to the average score of perceived corruption level. The red dashed lines indicate the range corresponding to the moderate (average) level of corruption. The black dashed line represents the average score of perceived corruption level within the sample. The 3-point scale has been used.

*Source:* In-house calculations.

**Figure 5.3*b*. Average Scores of Perceived Corruption Level with a Breakdown by Regions**




*Note.* In the charts above, the error bar reflects the 95% confidence interval applicable to the average score of perceived corruption level. The red dashed lines indicate the range corresponding to the moderate (average) level of corruption. The black dashed line represents the average score of perceived corruption level in the sample.

*Source:* In-house calculations.

From Table 5.2, it follows that group averages are different for five grouping attributes; in particular, perceived corruption levels are different depending on the size of the enterprise (number of employees), region, preferred development strategy, perceived change in conditions for doing business, and attitude towards external barriers. Inasmuch as in this case the data distribution normality assumption proves to be inaccurate, and certain groups are too small for variance analysis, the final results may be not sufficiently reliable. For additional verification purposes, we used the nonparametric Kruskal – Wallis test which is resistant to violation of the data distribution normality assumption. The results of the Kruskal – Wallis test (Table 5.3) are fully consistent with those obtained by standard one-way analysis of variances.

Figure 5.3*a* and Figure 5.3*b* present average scores of perceived

variances and nonparametric Kruskal – Wallis test, we used the 3-point scale which offers a clearer classification of corruption estimates.

corruption level with a breakdown by those grouping attributes where analysis of variances indicated the existence of differences between group averages. In addition to the average scores, the charts show the 95% confidence intervals and the range corresponding to the moderate (average) level of corruption. They also feature the average score for the sample.

The charts help form a general idea of the differences between group averages. Notably, almost all group averages for the various grouping attributes fall within the range corresponding to the average (moderate) level of corruption, while the upper boundary of the 95% confidence interval almost never gets into the high corruption area.

Formal testing of group average differences was based on post-hoc tests. When analyzing group differences between perceived corruption levels based on the size of the enterprise, we used the post-hoc Games – Howell test which does not assume equality of group variances, as the hypothesis of homogeneity of group variances was rejected at the ANOVA stage. According to the test, perceived corruption level as noted by enterprises with the number of employees ranging from 16 to 50 is higher by a statistically significant value (5%) than in the SME groups with the number of employees ranging from 51 to 100 and from 101 to 250. It should also be noted that the latter two groups have no statistically significant differences in their perceived corruption levels.

When analyzing group differences between perceived corruption levels based on selected SME strategy, we used the Duncan test which assumes equality of group variances (the null hypothesis of homogeneity of group variances is not rejected). According to that test, perceived corruption levels as noted by groups seeking to expand and maintain their business are lower by a statistically significant value than in the group of enterprises seeking to scale down their business.

When analyzing group differences between perceived corruption levels based on change in conditions for doing business, we used the post-hoc Games-Howell test (like we did in the first case), as the hypothesis of homogeneity of group variances was rejected at the ANOVA stage. The results of the test show that perceived corruption levels are higher by a statistically significant value among enterprises believing that conditions for doing business have deteriorated compared to enterprises maintaining that conditions for doing business have not changed. At the same time, perceived corruption levels noted by respondents claiming an improvement of conditions for doing business are not statistically different from the first two groups due to high variance of intra-group scores, as confirmed by the excessively broad confidence interval at the appropriate chart.

As for group differences in perceived corruption levels depending on opinion regarding surmountability of external barriers, a standard *t*-test is quite sufficient for comparison purposes: $t(398) = 2.737$ ($p = 0.0065$). Accordingly, respondents which believe that external barriers are insurmountable rate the level of corruption much higher than respondents which believe that those barriers can be surmounted.

Regional differences in perceived corruption level scores were analyzed with the help of the post-hoc Duncan test. Inasmuch as in this case we have a sufficiently large number of groups, there emerges the issue of classification of regions by perceived corruption level scores. The Duncan test enables such classification (Table 5.4).

As a result, we identified *three* homogeneous groups differing by their perceived corruption level scores. The *first* group includes Brest Region (which features the lowest perceived corruption level), the *second* group comprises Gomel Region, Vitebsk Region, Minsk Region, Mogilev Region, and the City of Minsk, while the *third* group consists only of Grodno Region (and is characterized by the highest perceived corruption level). However, looking at Figure 5.3*b* one can visually single out the following *three* groups: (1) Brest Region, Gomel Region, and Vitebsk Region; (2) Minsk Region, Mogilev Region, and the City of Minsk; and (3) Grodno Region.

Summing up, we come to the conclusion that, based on the results of the 2016 SME poll, the lowest perceived corruption levels were observed among the managers of larger enterprises which seek to expand or at least maintain their business, entertain generally more upbeat views of possible improvements in the existing business environment, and are

**Table 5.4. Multiple Comparison of Average Scores of Perceived Corruption Level between Various Regions: Duncan Test**

| Regions | Number of Enterprises | Average Score Sub-Groups at $\alpha = 0.05$ | | |
|---|---|---|---|---|
| | | 1 | 2 | 3 |
| Brest Region | 45 | 1.43 | | |
| Gomel Region | 36 | 1.55 | 1.55 | |
| Vitebsk Region | 31 | 1.66 | 1.66 | |
| Minsk Region | 69 | | 1.80 | |
| Mogilev Region | 30 | | 1.82 | |
| Minsk | 154 | | 1.83 | |
| Grodno Region | 32 | | | 2.22 |
| Significance Level | | 0.201 | 0.142 | 1.000 |

*Note.* Statistically average scores of perceived corruption level for various regions are highlighted with gray shading. Comparison of average scores was performed using the 5% level of significance ($\alpha = 0.05$). The level of significance for each sub-group (last line in the table) refers to the null hypothesis that average scores in the appropriate sub-group are equal (the sub-groups are homogeneous).

*Source:* In-house calculations.

determined to surmount the existing external barriers. Conversely, their antipodes recorded higher perceived corruption levels.

A similar situation was registered in 2014. In particular, lower perceived corruption levels were typical for respondents which sought to expand their business, and had a more optimistic opinion regarding changes in conditions for doing business. In addition to that, in 2014 perceived corruption levels apparently depended on differences in perceived economic position of SMEs, while in 2016 no such link was observed.

In 2016 there were certain regional differences in perceived corruption level scores. Compared to 2014, the lists of "leaders" and "outsiders" have changed, but we believe that direct comparisons would be inappropriate. The need to reduce the 2014 sample to assure comparability of results diminishes usability of regional analyses due to the insufficient number of observations assignable to specific regions in the 2014 sub-sample.

### *5.3.3. Impact of Corruption on Economic Development*

To assess the impact that corruption has on economic development in Belarus, respondents were asked to respond to the following question: "*Could you rate the extent to which corruption prevents resolution of various economic tasks facing Belarus?*" Scores were assigned in accordance with a 5-point scale with the following values: "1" – corruption is not a problem; "2" – corruption is an insignificant problem; "3" – corruption is a moderate problem; "4" – corruption is a significant problem; and "5" – corruption is a very serious problem. Application of the 5-point scale makes it possible to obtain averaged scores and use them for comparison and statistical analysis purposes. Besides, in this case a classification similar to that presented in the first part of Table 5.1 can be applied to the specified score definitions.

Table 5.5 presents the results ranked for 2016 by the extent of urgency of the problem (the higher the average score, the more important the problem). Information on average scores shown in the table is supplemented with information on the 95% confidence intervals. Also, average scores from the 2014 SME poll are presented for comparison purposes, enabling an assessment of changes in the impact that corruption has on resolution of various economic development tasks.

Based on Table 5.5, corruption is regarded by the respondents as a moderate obstacle to resolution of the tasks listed above (the interval assessment method is used here just as it was with respect to perceived corruption level scores; the lower boundary of the 95% confidence interval has never exceeded 3.5). The degree of urgency of the problems under review has, in fact, not changed compared to 2014.

In the opinion of the respondents, corruption has the most detrimental effect on growth and development of private business, general economic growth, and efficiency of public administration. It should be noted however that in 2016 there was a considerable increase in the extent of relevance of corruption-related problems, as evidenced by a significant growth of average scores for all positions listed in Table 5.5. Accordingly, small and medium-sized business representatives have become more concerned with the negative impact of corruption on economic development of the country.

## 5.4. Main Causes and Areas of Manifestation of Corruption, and Methods of Countering Corruption

### *5.4.1. Main Initiators and Causes of Corruption*

An important component of any study undertaken to determine the causes of corruption is identification of its initiators. Accordingly, it is necessary to examine both the

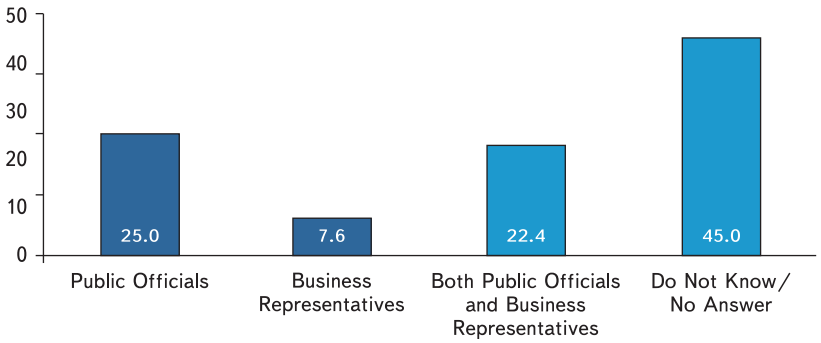
**Table 5.5. Perceived Impact of Corruption on Resolution of Various Economic Tasks**

| Tasks | Average Score | | Number of Observations | RMSD | 95% confidence interval | |
|---|---|---|---|---|---|---|
| | 2014 (for reference) | 2016 | | | Lower Value | Upper Value |
| Growth and development of private business | 3.25 | 3.54 ↑ | 400 | 1.094 | 3.43 | 3.65 |
| Economic growth | 3.15 | 3.47 ↑ | 400 | 1.109 | 3.37 | 3.58 |
| More efficient public administration | 3.12 | 3.38 ↑ | 400 | 1.060 | 3.28 | 3.49 |
| Growth of individual welfare | 3.12 | 3.33 ↑ | 400 | 1.116 | 3.22 | 3.44 |
| Expansion of domestic market for internally manufactured products | 3.03 | 3.25 ↑ | 400 | 1.101 | 3.14 | 3.36 |
| Increase of foreign investments | 2.97 | 3.23 ↑ | 400 | 1.146 | 3.11 | 3.34 |
| Judicial resolution of economic disputes | 3.00 | 3.13 ↑ | 400 | 1.144 | 3.01 | 3.24 |

*Note.* The 2016 tasks are ranked by their average scores in the descending order. The symbols ↑ and ↓ are used to indicate that 2016 average scores have increased or decreased vis-à-vis 2014 average scores, respectively. The number of observations, root mean-square deviations, and confidence intervals are given for the 2016 results.

*Source:* In-house calculations.

**Figure 5.4. Main Initiators of Corruption, %**




*Note*. The bars showing responses describing "demand-side" corruption and "supply-side" corruption are marked with a darker color.

*Source:* In-house calculations.

"demand-side" corruption and the "supply-side" corruption. Figure 5.4 presents distribution of responses to the question regarding the main initiators of corruption in operating areas of the respondents.

What conclusions can be drawn from the presented results? *First*, 45% of the respondents did not have a ready answer; *second*, more than 22% of the respondents believed that both parties (officials and businessmen) were guilty of corruption; *third*, the remaining respondents agreed that corruption in Belarus was initiated mostly by public officials, rather than by representatives of the business community, and the predominant form of corruption was "demand-side" corruption, with the number of those who believed that corruption was caused by public officials being more than 3 times higher than the number of those blaming it on entrepreneurs.

Despite certain issues with comparability of the 2014 data and the 2016 data, in 2014 there was approximately the same "triple bias" in favor of "demand-side" corruption. Based on obtained data, we can draw the conclusion that both "demand-side" corruption and "supply-side" corruption exist in Belarus, but in most cases corruption is initiated by public officials.

To determine the main causes of corruption, the respondents were asked to rate them on a 5-point scale where "1" meant that the suggested cause was not important, and "5" meant that the suggested cause was very important. Application of the 5-point scale makes it possible to obtain averaged scores and rank the causes of corruption by the extent of their importance. In this case a classification similar to that presented in the first part of Table 5.1 can also be applied to the question under review.

Table 5.6 presents the results ranked for 2016 by the extent of importance of corruption causes (the higher the average score, the more serious the cause). Information on average scores is supplemented with information on the 95% confidence intervals. Also, average scores from the 2014 SME poll are presented for comparison purposes, enabling an assessment of changes in perceived importance of corruption causes.

From Table 5.6, it follows that all identified causes of corruption are assessed by the respondents as moderately important (in all cases, average scores exceed 2.5 by a statistically significant value). Particular interest, though,

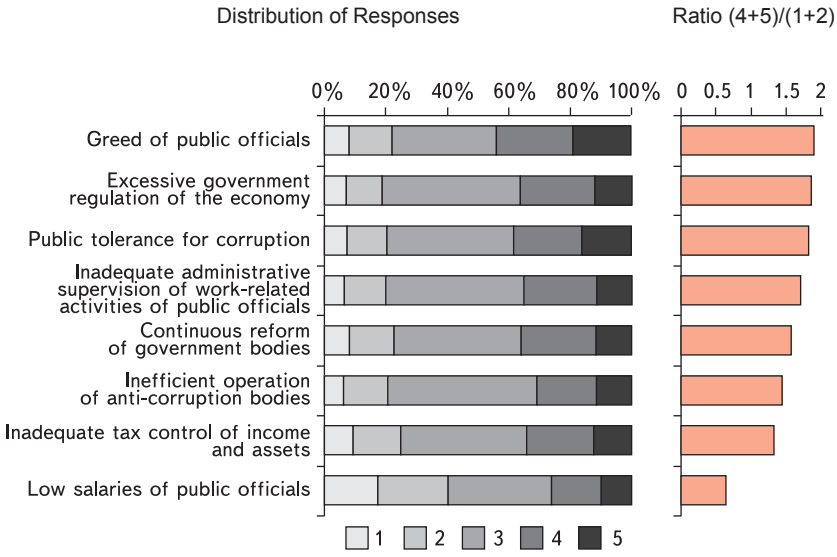
**Table 5.6. Main Causes of Corruption: Average Score**

| Causes of Corruption | Average Score | | Number of Observations | RMSD | 95% Confidence Interval | |
|---|---|---|---|---|---|---|
| | 2014 (for reference) | 2016 | | | Lower Value | Upper Value |
| Greed of public officials | 3.45 | 3.32↓ | 400 | 1.178 | 3.20 | 3.43 |
| Public tolerance of corruption | 3.40 | 3.25↓ | 400 | 1.118 | 3.14 | 3.36 |
| Excessive government regulation of the economy | 2.93 | 3.21↑ | 400 | 1.036 | 3.11 | 3.31 |
| Inadequate administrative supervision of work-related activities of public officials | 3.19 | 3.18↓ | 400 | 1.027 | 3.08 | 3.29 |
| Continuous reform of government bodies resulting in lack of confidence in the future | 2.88 | 3.16↑ | 400 | 1.079 | 3.06 | 3.27 |
| Inefficient operation of anti-corruption bodies | 3.26 | 3.14↓ | 400 | 1.011 | 3.05 | 3.24 |
| Inadequate tax control of income received, and assets owned, by public officials and their family members | 3.30 | 3.12↓ | 400 | 1.108 | 3.01 | 3.23 |
| Low salaries of public officials | 3.00 | 2.77↓ | 400 | 1.200 | 2.65 | 2.89 |

*Note*. Corruption causes identified by the respondents in 2016 are ranked by their average scores in the descending order. The symbols ↑ and ↓ are used to indicate that 2016 average scores have increased or decreased vis-à-vis 2014 average scores, respectively. The number of observations, root mean-square deviations, and confidence intervals are given for the 2016 results.

*Source:* In-house calculations.

**Figure 5.5. Main Causes of Corruption: Distribution and Ratio of Positive and Negative Responses**




*Note.* 1: "suggested cause is not important"; 5: "suggested cause is very important". The ratio of positive and negative responses for each cause is defined as the quotient obtained when the total number of 4 and 5 responses is divided by the total number of 1 and 2 responses.

*Source:* In-house calculations.

is presented by the ranking of the causes by their averages scores (the higher the score, the more important the cause). According to SME representatives, the most important cause is the greed of public officials, followed by public tolerance of corruption and excessive government regulation of the economy.

Notably, most respondents believe that low salary of public officials is the least important cause of corruption in the country. There have been certain changes in the relative importance of corruption causes since 2014, but we find it more interesting that perceived importance attributed to most causes has decreased (there are only two causes whose average scores have gone up since 2014, namely, excessive government regulation of the economy, and continuous reform of government bodies).

Figure 5.5 presents an alternative assessment of relative importance of corruption causes based on the ratio of "positive" and "negative" responses. This approach is preferable when the respondents tend to select responses from the middle of the scale (in our case, it is 3). We see that these results are generally consistent with the results which are presented in Table 5.6 and based on average scores. The only difference is that in this case excessive government regulation of the economy becomes the second most important cause of corruption.

Figure 5.5 provides a good illustration of the three distinct groups of problems with different ratios of "positive" and "negative" responses. The first group includes causes related to greed of public officials, excessive government regulation of the economy, and public tolerance of corruption. The second group is made up of causes associated with insufficient supervision of public official activities, continuous reform of government bodies, inefficient operation of anti-corruption bodies, and inadequate control of public official incomes. The third group (bringing up the rear with a massive lag) includes only one cause of corruption, namely, low salaries of public officials.

### *5.4.2. Main Areas of Manifestation of Corruption*

A similar methodology was used to identify government regulation areas with the most widespread manifestations of corruption. A 5-point scale was used, where 1 means that there is no abuse in the relevant area, and 5 means that abuse is observed very often. Like in the previous case, application of the 5-point scale makes it possible to obtain averaged scores and rank government regulation areas with most widespread corruption manifestations by the extent of their importance. A classification similar to that presented in Table 5.1 can also be applied to the question under review.

Table 5.7 presents the results ranked for 2016 by government regulation areas with the most widespread abuse and corruption (the higher the average score, the higher the incidence of corruption in the area). Information on average scores shown in the table is supplemented with information on the 95% confidence intervals. Also, average scores from the 2014 SME poll are presented for comparison purposes, enabling an assessment of changes in perception of SME government regulation areas with the highest incidence of abuse and corruption.

The following five government regulation areas were among those most exposed to abuse: sanitary supervision, fire safety supervision, government contract awards and participation in tenders, hygienic registration and certification, and receipt of various permits issued by local government bodies. The scores assigned to those area during the 2014 poll and the 2016 poll are virtually identical, which testifies to the chronic nature of the problems and their persistently negative impact on small and medium-sized enterprises. This is also borne out by a considerable increase of average scores for all areas listed in Table 5.7. Consequently, not only

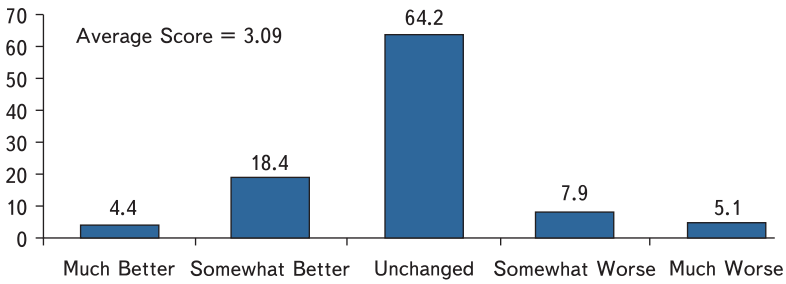
**Table 5.7. SME Government Regulation Areas with the Highest Incidence of Abuse and Corruption: Average Score**

| | Average Score | | Number of Observations | RMSD | 95% confidence interval | |
|---|---|---|---|---|---|---|
| | 2014 (for reference) | 2016 | | | Lower Value | Upper Value |
| Sanitary supervision | 3.25 | 3.47↑ | 400 | 1.138 | 3.36 | 3.59 |
| Fire safety supervision | 3.26 | 3.41↑ | 400 | 1.161 | 3.30 | 3.53 |
| Government contract awards and participation in tenders | 3.27 | 3.40↑ | 400 | 3.402 | 3.28 | 3.52 |
| Receipt of various permits issued by local government bodies | 3.01 | 3.39↑ | 400 | 3.388 | 3.28 | 3.50 |
| Hygienic registration and certification | 3.11 | 3.31↑ | 400 | 1.146 | 3.20 | 3.42 |
| Licensing | 3.06 | 3.25↑ | 400 | 1.161 | 3.14 | 3.36 |
| Customs clearance | 2.99 | 3.17↑ | 400 | 3.174 | 3.06 | 3.29 |
| Tax audits | 2.86 | 3.04↑ | 400 | 3.041 | 2.92 | 3.16 |
| Lease | 2.74 | 3.01↑ | 400 | 3.013 | 2.90 | 3.13 |
| Price regulation | 2.67 | 2.98↑ | 400 | 1.220 | 2.86 | 3.10 |
| Receipt of favorable court decisions | 2.81 | 2.94↑ | 400 | 2.941 | 2.82 | 3.06 |
| Payment of taxes | 2.73 | 2.88↑ | 400 | 2.879 | 2.76 | 3.00 |

*Note*. Areas with most widespread abuse and corruption in 2016 are ranked by their average scores in the descending order. The symbols ↑ and ↓ are used to indicate that 2016 average scores have increased or decreased vis-a-vis 2014 average scores, respectively. The number of observations, root mean-square deviations, and confidence intervals are given for the 2016 results.

*Source:* In-house calculations.

**Figure 5.6. Change in Corruption Status in 2015, %**




*Source:* In-house calculations.

do corruption and related abuse fail to abate, but, in the opinion of representatives of small and medium-sized business, they also tend to escalate. Nevertheless, based on resultant average scores, perceived corruption levels in all government regulation areas listed in Table 5.7 can be characterized as moderate.

### *5.4.3. Anti-Corruption Measures*

According to the 2016 SME poll, about 23% of the respondents believe that over the previous year (2015) the situation with corruption in their operating areas has improved. Most respondents (more than 64%) see no change, and 13% think that corruption has gotten worse (Figure 5.6). If we rely on the average score (derived from the 5-point scale), then the 2016 situation looks grimmer: where in 2014 the average score was 2.81, the latest poll shows that it has gone up to 3.09, which in this case means that there have been more negative ratings.

Table 5.8 lists anti-corruption measures which representatives of small and medium-sized enterprises believe to be the most efficient. The measures were rated using a 5-point scale where 1 means "completely inefficient" and 5 means "very efficient." As noted above, application of the 5-point scale makes it possible to obtain averaged scores and use them for comparison and statistical analysis purposes. As before, we can use the classification presented in Table 5.1.

The results are ranked for 2016 by the extent of importance of the relevant measures (the higher the average score, the more important the measure). Information on average scores shown in the table is supplemented with information on the 95% confidence intervals. Also, average scores from the 2014 SME poll are presented for comparison purposes, enabling an assessment of changes in implementation and effectiveness of anti-corruption measures.

According to Table 5.8, most respondents believe that the best way to combat corruption is to *create a public climate of intolerance of corruption*; they also maintain that it is necessary to introduce more severe penalties for corruption-related crimes, boost operating efficiency of anti-corruption bodies, and strengthen administrative supervision of work-related activities of public officials. The respondents also apparently believe that less extensive government regulation of the economy, reduced corruptogenicity of the existing legislation, and higher salaries of public officials play a less important role in combating corruption.

Despite the fact that individual rankings assigned to various anti-corruption measures in 2014 and 2016 are somewhat different, the general picture has not sustained any significant changes. The respondents continue to give preference to harsh and direct anti-corruption

**Table 5.8. Most Efficient Anti-Corruption Measures: Average Score**

| | Average Score | | Number of Observations | RMSD | 95% Confidence Interval | |
|---|---|---|---|---|---|---|
| | 2014 (for reference) | 2016 | | | Lower Value | Upper Value |
| Create a public climate of intolerance of corruption | 3.50 | 3.62↑ | 400 | 1.129 | 3.51 | 3.73 |
| Introduce more severe penalties for corruption-related crimes | 3.59 | 3.54↓ | 400 | 1.118 | 3.43 | 3.65 |
| Boost operating efficiency of anti-corruption bodies | 3.61 | 3.53↓ | 400 | 1.079 | 3.42 | 3.64 |
| Strengthen administrative supervision of work-related activities of public officials | 3.36 | 3.46↑ | 400 | 1.082 | 3.36 | 3.57 |
| Enhance tax control of income received, and assets owned, by public officials and their family members | 3.43 | 3.45↑ | 400 | 1.119 | 3.34 | 3.56 |
| Introduce more stringent selection criteria for public office candidates | 3.30 | 3.45↑ | 400 | 1.115 | 3.34 | 3.56 |
| Reduce government regulation of the economy | 3.18 | 3.43↑ | 400 | 1.031 | 3.33 | 3.54 |
| Reduce the level of corruptogenicity of the existing legislation | 3.03 | 3.18↑ | 400 | 1.104 | 3.07 | 3.29 |
| Increase salaries of public officials | 3.00 | 2.81↓ | 400 | 1.218 | 2.69 | 2.93 |

*Note.* The 2016 anti-corruption measures are ranked by their average scores in the descending order. The symbols ↑ and ↓ are used to indicate that 2016 average scores have increased or decreased vis-a-vis 2014 average scores, respectively. The number of observations, root mean-square deviations, and confidence intervals are given for the 2016 results.

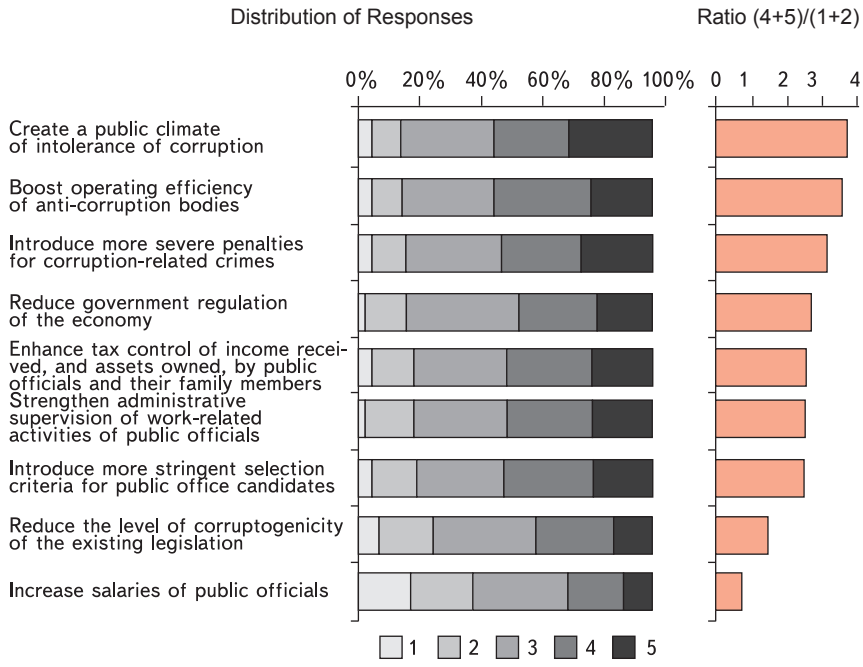
*Source:* In-house calculations.

measures. On the contrary, indirect measures conducive to creation of a corruption-intolerant environment enjoy less popularity among SME representatives.

Notably, the average score of "repressive" measures in 2016 has declined, while the perceived importance of "economic" measures has increased. The only exception is the suggestion to *increase salaries of public officials*, which is the least popular measure. According to the 95% confidence intervals, all measures may, to a larger or lesser degree, be regarded as moderately efficient (with the exception of *creation of a public climate of intolerance of corruption* which, pursuant to the accepted classification, is deemed to be an efficient anti-corruption measure).

Figure 5.7 presents the results of an alternative ranking of anti-corruption measures based on the ratio of "positive" and "negative" responses. As we see, in this case the ranking of importance of individual measures is somewhat different from the data presented in Table 5.8. In particular, reduction of government regulation of the economy is perceived as a more important anti-corruption measure. The general picture, however, remains virtually the same. "Non-economic" measures still take the lead, while economic measures are assigned a less significant, even secondary role.

**Figure 5.7. Most Efficient Anti-Corruption Measures: Distribution and Ratio of Positive and Negative Responses**




*Note.* 1: "the measure is completely inefficient"; 5: "the measure is very efficient". The ratio of positive and negative responses for each cause is defined as the quotient obtained when the total number of 4 and 5 responses is divided by the total number of 1 and 2 responses.

*Source:* In-house calculations.

Comparative analysis shows that SME representatives' perceptions regarding the causes of corruption and anti-corruption measures are often misaligned (Table 5.9[67]).

[67] The table also shows ranking differences attributable to the selection of assessment method (average score or positive/negative ratio).

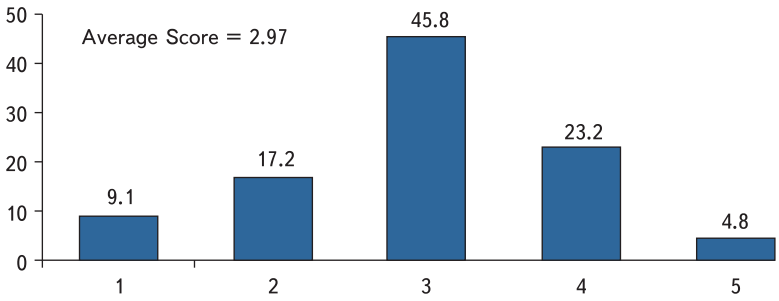
**Table 5.9. Causes of Corruption and Anti-Corruption Measures**

| Causes of Corruption | Rank by Average Score | Rank by Ratio of Positive and Negative Responses | Anti-Corruption Measures | Rank by Average Score | Rank by Ratio of Positive and Negative Responses |
|---|---|---|---|---|---|
| Greed of public officials | 1 | 1 | Create a public climate of intolerance of corruption | 1 | 1 |
| Public tolerance of corruption | 2 | 3 | Introduce more severe penalties for corruption-related crimes | 2 | 3 |
| Excessive government regulation of the economy | 3 | 2 | Boost operating efficiency of anti-corruption bodies | 3 | 2 |
| Inadequate administrative supervision of work-related activities of public officials | 4 | 4 | Strengthen administrative supervision of work-related activities of public officials | 4 | 6 |
| Continuous reform of government bodies resulting in lack of confidence in the future | 5 | 5 | Enhance tax control of income received, and assets owned, by public officials and their family members | 5 | 5 |
| Inefficient operation of anti-corruption bodies | 6 | 6 | Introduce more stringent selection criteria for public office candidates | 6 | 7 |
| Inadequate tax control of income received, and assets owned, by public officials and their family members | 7 | 7 | Reduce government regulation of the economy | 7 | 4 |
| Low salaries of public officials | 8 | 8 | Reduce the level of corruptogenicity of the existing legislation | 8 | 8 |
| | | | Increase salaries of public officials | 9 | 9 |

*Note.* Inconsistencies are marked with gray shading.

*Source:* Developed by the authors.

**Figure 5.8. Assessment of Efficiency of State and Business Unions Anti-Corruption Efforts, %**




*Note.* "1": anti-corruption efforts of the state and business unions are completely inefficient; "5": anti-corruption efforts of the state and business unions are very efficient.

*Source:* In-house calculations.

For example, excessive government regulation of the economy is named among the main causes of corruption (ranked No. 3 by the average score, and No. 2 by the ratio of "positive" and "negative" responses). Despite that, the position of its counterpart (reduction of government regulation of the economy) in the ranking of anti-corruption measures is much lower: No. 7 by the average score, and No. 4 by the ratio of "positive" and "negative" responses. Similar "mismatches" (with varying degrees of disparity) can also be observed in a number of other cases.

What reserves can the state and the business community employ to intensify their fight against corruption in Belarus? From the 2016 poll data presented in Figure 5.8, it follows that 28% of SME representatives believe that joint efforts of the state and business unions directed at abatement of corruption were efficient, at least to some extent, while more than 26% stated that those efforts had produced no tangible results.

Still, the opinion of the overwhelming majority of the respondents on that matter is quite nebulous. The average score of 3 shows that, if we apply the 5-point scale classification used in this paper, the level of efficiency of the efforts expended by the state and the business community to combat corruption is deemed to be rather moderate (average). Apparently, both interested parties have to do more to make those efforts more efficient.

## 5.5. Conclusion

Using the data collected in the course of the polls which involved representatives of small and medium-sized enterprises, we have measured general perceptions of corruption in Belarus, and assessed the level of corruption with a breakdown by various grouping attributes, and its impact on the economic development of the country. We have also identified the main causes of corruption, the areas of its manifestations, and the key anti-corruption measures. Below we present the main conclusions drawn on the basis of our research.

*1*. The average score of perceived corruption level in 2016 is 2.64 on the 5-point scale, and 1.77 on the 3-point scale. These scores fall within the range consistent with the average (moderate) level of corruption based on the classification used in this paper. Compared to the 2014 poll, there has occurred a statistically significant reduction of the averages scores describing corruption levels as perceived by SMEs. Our analysis shows that the use of the 3-point scale to assess perceived corruption levels makes the analysis more precise in terms of statistically significant differences, classification, and interpretability of the resultant values.

*2*. The results of the 2016 SME poll show that the lowest perceived corruption levels were observed among the managers of larger enterprises which seek to expand or at least maintain their business, entertain generally more upbeat views of possible improvements in the existing business environment, and are determined to surmount the existing external barriers. Conversely, their antipodes recorded higher perceived corruption levels. We also found that there exist certain regional differences in perceived corruption levels. As a result, we identified three homogeneous groups differing by their perceived corruption level scores. The first group includes Brest Region (which features the lowest perceived corruption level), the second group comprises Gomel Region, Vitebsk Region, Minsk Region, Mogilev Region, and the City of Minsk, while the third group consists only of Grodno Region (with the highest perceived corruption level).

*3*. Our analysis shows that corruption has the most detrimental effect on growth and development of private business, general economic growth, and efficiency of public administration.

*4*. Based on obtained data, we can draw the conclusion that both "demand-side" corruption and "supply-side" corruption exist in Belarus, but in most cases corruption is initiated by public officials.

*5*. Having reviewed the causes of corruption, we have arranged them into several groups. The *first* group includes causes related to greed of public officials, excessive government regulation of the economy, and public tolerance of corruption. The *second* group is made up of causes associated with insufficient supervision of public official activities, continuous reform of government bodies, inefficient operation of anti-corruption bodies, and inadequate control of public official incomes. The third group includes only one cause of corruption, namely, low salaries of public officials.

*6*. The following five government regulation areas were among those most exposed to abuse: sanitary supervision, fire safety supervision, government contract awards and participation in tenders, hygienic registration and certification, and receipt of various permits issued by local government bodies.

*7*. As for combating corruption, the respondents apparently prefer harsh and direct measures. On the contrary, indirect measures conducive to creation of a corruption-intolerant environment enjoy less popularity among SME representatives. Therefore, "non-economic" measures take the lead, while economic measures are assigned a less significant, even secondary role.

*8*. In 2015, the *Transparency International* Corruption Perception Index for Belarus was 32 points, which corresponded to the 107$^{th}$ position in the general country ranking. Based on our calculations derived from the 2016 SME poll data, we would get perceived corruption level scores of 59 points and 62 points for the 5-point scale and the 3-point scale, respectively. This would correspond to the 30$^{th}$ to 35$^{th}$ position in the ranking, alongside with such countries and Poland, Taiwan, Cyprus, Israel, Lithuania, and Slovenia. Without putting in doubt the data presented by *Transparency International*, we maintain that these scores may enrich the assessment of the level of corruption in Belarus by introducing another aspect, namely, the opinion of small and medium-sized enterprises.

# 6. BUSINESS UNION ACTIVITIES AS PERCEIVED BY SMALL AND MEDIUM-SIZED ENTERPRISES

## 6.1. Introduction

Vibrant growth of small and medium-sized enterprises (SMEs) is a critical success factor of economic development in Belarus for a number of reasons. *First*, SMEs are an important source of local and national budget revenues. *Second*, SMEs create new jobs, and may play an important role in redistribution of workforce. *Third*, development of SMEs boosts real household incomes. Accordingly, the need to support SME growth is recognized at all levels, and work is always underway to improve regulations governing their operations.

However, despite the incessant attempts of the government to improve the situation, businessmen remain pessimistic. Unlike in previous years, most enterprises have begun to perceive external business barriers as insurmountable (see *Chapter* 3).

In the light of the foregoing, there arises the question regarding the role in this process of entities acting as mouthpieces and advocates of the business community: business unions. It may well be that even though the government is seeking to improve the operating environment, its efforts apparently do not have any tangible impact on business. In turn, government bodies do not receive adequate feedback about the measures they implement.

Development of the Belarus National Business Platform (BNBP) has been going on since 2006, with direct involvement of the expert community, stakeholders and representatives of the business community, with a view to improve conditions for doing business in Belarus. Index of compliance with BNBP recommendations is calculated on an annual basis.

The purpose of this chapter is to review activities of business unions in Belarus from the perspective of small and medium-sized businesses. The main tasks of the paper are to analyze activities of business unions, and determine the level of their cooperation with SMEs. These issues are discussed in the *second* section. The *third* section features an assessment of SMEs' awareness and perception of the Belarus National Business Platform. The last section contains main conclusions.

## 6.2. SMEs and Business Unions

The SME sector operates in legislative framework that undergoes regular amendments. According to the *Doing Business* report of the World Bank, most of the recent changes contributed to improvement of business environment. Business support programs are being developed at the national government level. The latest such document, a government program called *Small and Medium-Sized Businesses in Belarus in 2016–2020*[68], was approved by Decree of the Council of Ministers on February 23, 2016. The program envisages extension of support to SMEs in several key areas.

Nevertheless, according to our research, 68.5% of Belarus businessmen note that conditions for doing business in the country have deteriorated. Perception of government activities in the areas associated with business climate improvement in 2016 has sustained virtually no change since 2015[69]. Thus, despite the incessant attempts of the government to improve the situation, businessmen remain pessimistic about growth prospects due to existing external barriers.

Low efficiency of state measures aimed at improvement of business environment illustrates weak communication between public authorities and business community. Consequently, it stresses the problem of creation of business unions by private businesses that protect and promote their interests, and guarantee adequate feedback about the measures undertaken by the government.

Such organizations enable more productive dialog between the government and the business community, which results in better economic policy. Existence of respected business unions and a ramified business support infrastructure is as important for business as favorable macro-economic and institutional environment. However, a poll taken among small and medium-sized businesses has shown that only a small fraction of such businesses have acceded to business unions. Thus, only 12% of businesses which participated in the poll noted that they were members of such unions.

Figure 6.1 shows that, over the last six years, the share of businesses involved in such unions has been fluctuating, but has never

[68] *On State Program for the Support of Small and Medium-Sized Businesses in the Republic of Belarus for 2016–2020*, Decree of the Council of Ministers of the Republic of Belarus dated February 23, 2016, No. 149.

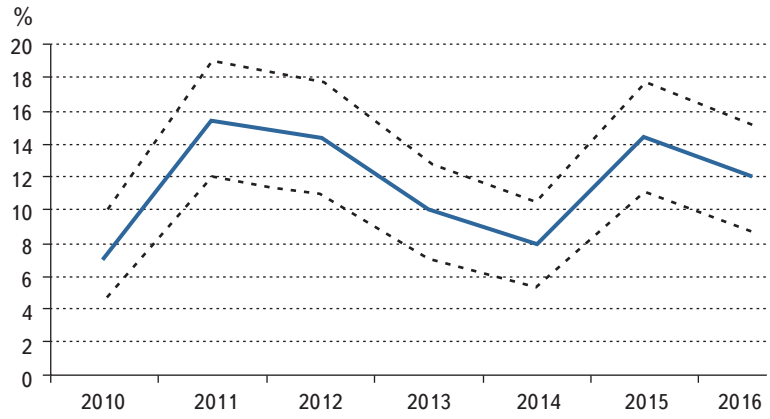
[69] See *Chapter* 2.

exceeded 20% of the total number of respondents. It may testify to the fact that businessmen do not perceive business unions as particularly successful, are not interested in membership, and are not convinced that business unions can offer them any real support in protecting and promoting their interests. On the other hand, this may give an insight into the "mindset" of SME owners in the sense that they are not interested in having a dialog with the government, and do not deem it necessary to promote their interests and improve the current economic and legal environment over the long run, focusing instead on short-term objectives.

Thus, about 90% of all respondents which are not business union members do not perceive the dialog between the government and business unions as particularly efficient (Figure 6.2). Business union members differ in their opinion regarding the efficiency of such dialog, but most SMEs which have joined the unions believe that the dialog between the government and business may have some positive effect. This point of view may be directly affected by the overall quality of the business union to which the respondent belongs, and by the nature of the respondent's operations.

It should be noted though that we have not been able to identify any meaningful impact that the nature of operations may have had on the number of members in business unions (Figure 6.3). Construction companies have a modest lead in terms of business union representation, while trade companies, repair and maintenance companies, and industrial manufacturers have the lowest share of union members. According to our research, financial institutions, transport companies, hotels, agricultural companies, and utilities have almost identical business union representation rates, and in Figure 6.3 they are lumped into one group.

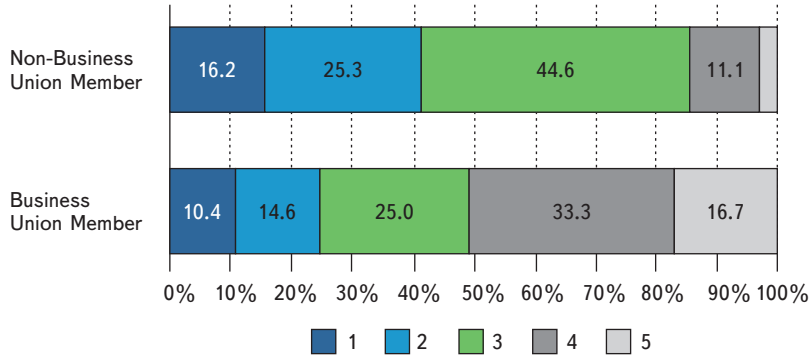
**Figure 6.1. Share of Businesses Involved in Business Unions, 2010–2016, by year**




*Note*. Dotted lines represent the 95% confidence interval.

*Source:* In-house calculations.

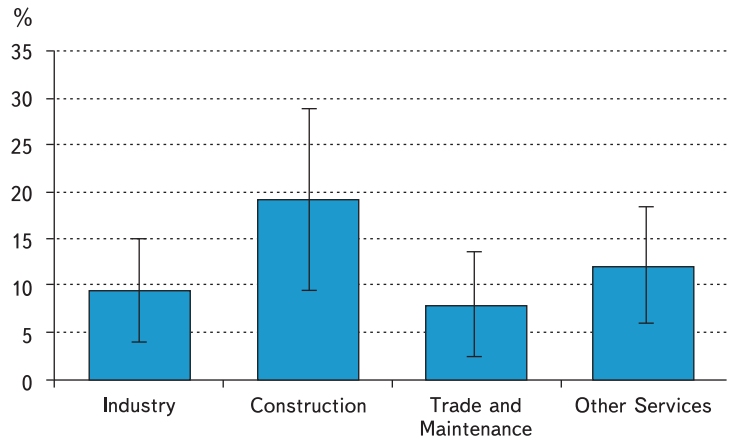
**Figure 6.2. Perception of Efficiency of the Dialog between Business Unions and the Government, by Union Membership**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is "efficiency very low or non-existent", and 5 is "efficiency very high."

*Source:* IPM Research Center.

**Figure 6.3. Business Union Membership, by Nature of Operations**

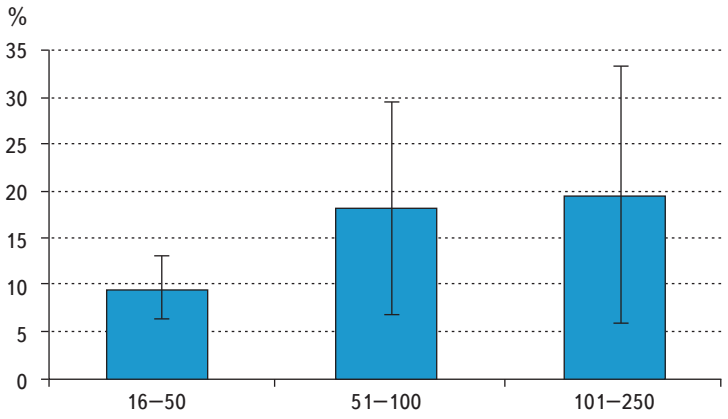



Note. The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

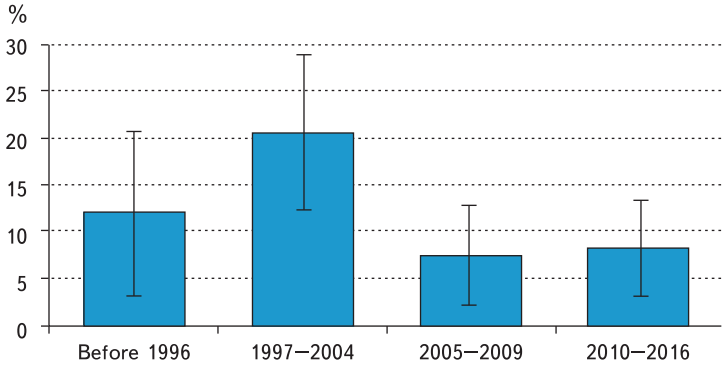
Figure 6.4 also shows that larger businesses (defined as companies with 51–100 employees and 101–250 employees) are more likely to join business unions. This may be attributable to the fact

**Figure 6.4. Business Union Membership, by Business Size, %**



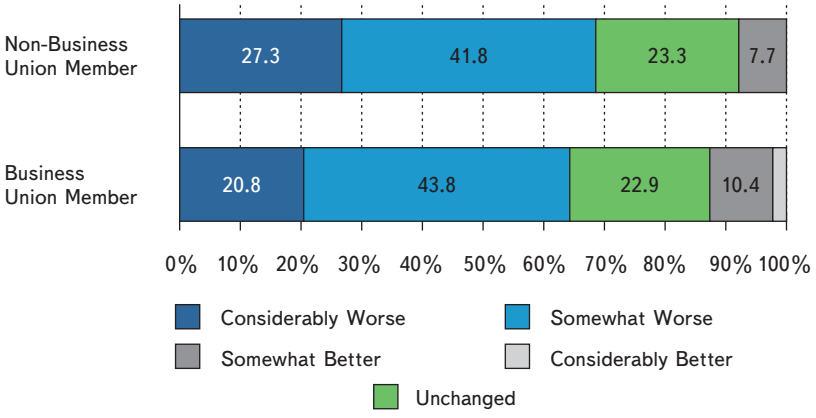

Note. The segments represent the 95% confidence interval.
*Source:* IPM Research Center.

**Figure 6.5. Business Union Membership, by Year of Establishment, %**




*Note*. The segments represent the 95% confidence interval.
*Source:* IPM Research Center.

**Figure 6.6. Perception of Changes in Conditions for Doing Business, by Business Union Membership**




*Source:* IPM Research Center.

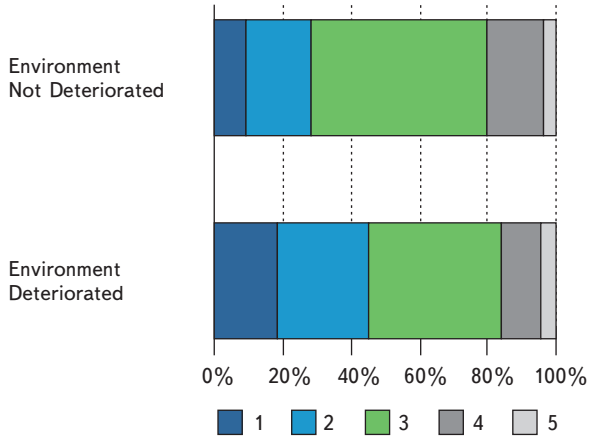
that larger businesses are more assertive, transparency-oriented, and interested in having a dialog with the government with a view to improve business environment. Besides, this may be due to their inferior mobility and, consequently, their stronger dependence on the quality of business environment. Such businesses are usually making long-term plans and looking for influence channels to promote their interests. Their size is generally perceived as an advantage, as it gives them more clout and boosts their bargaining power.

More than half of all respondents with business union membership are companies established before 2004 (including that year, see Figure 6.5), which is only natural, as such companies have market track records of at least 10 years, have accumulated considerable work experience, and are confident of their market strength. Relying on their protracted business histories, they feel they are prepared to make their contribution to the efforts designed to promote business and improve economic and legal environment in the country on a longer-term basis. Our research shows that the most active stance is typical for companies established during the period from 1997 up to and including 2004.

An analysis of the poll sample has revealed that companies from Minsk, Mogilev and Vitebsk Regions are among those most actively involved in business unions.

There also arises the matter of quality of interaction between the business community (as represented by business unions) and the government. Are business unions sufficiently thorough in identifying the needs of their members? Are they accurate in articulating those needs when transmitting them to government bodies? Are they tenacious in protecting their members' interests? And, conversely, is the government responsive to the queries it receives from business unions? Is it open to cooperation? We cannot answer those questions relying only on our poll findings, but it should be noted that respondents which are business union members have a somewhat more positive view of the recent changes in conditions for doing business. By the same token, those few respondents which believe that conditions for doing business have greatly improved are all business union members (Figure 6.6).

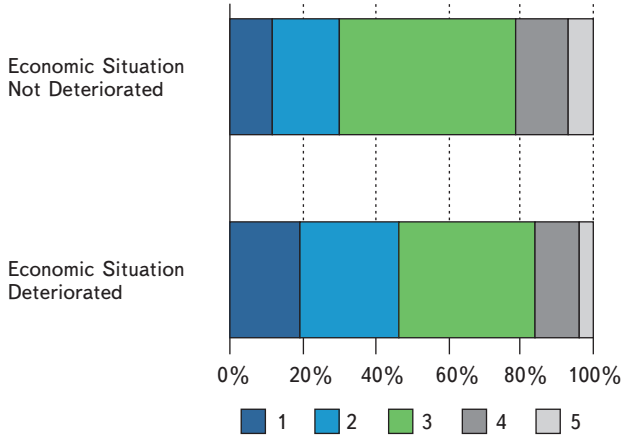
**Figure 6.7. Perception of Efficiency of the Dialog between Business and the Government, by Perception of Business Environment Changes**




*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "efficiency very low or non-existent", and 5 is "efficiency very high."

*Source:* IPM Research Center.

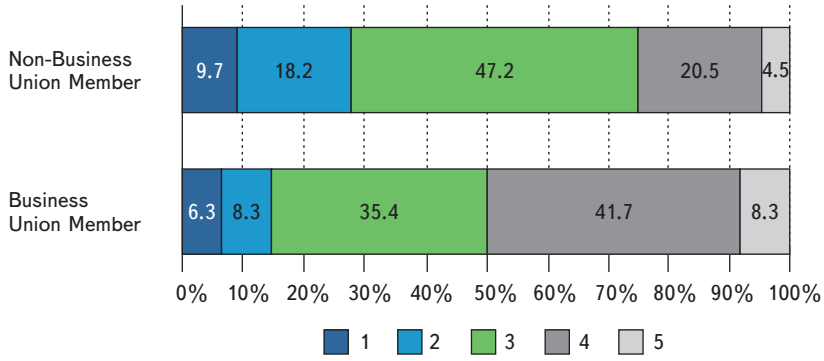
**Figure 6.8. Perception of Efficiency of the Dialog between Business and the Government, by Perception of Changes in the Economic Condition of Individual Companies**




*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "efficiency very low or non-existent", and 5 is "efficiency very high."

*Source:* IPM Research Center.

**Figure 6.9. Perception of Efficiency of Anti-Corruption Measures, by Business Union Membership**




*Note.* Scores are assigned on a scale from 1 to 5, where 1 is "Completely Inefficient", and 5 is "Very Efficient."

*Source:* IPM Research Center.

Moreover, our research has revealed that there is a connection between perception of business unions efficiency and perception of changes in business environment (Figure 6.7). Thus, respondents which do not believe that business climate is worsening generally have a better opinion of business unions efficiency. At the same time, companies asserting that their economic condition has not weakened usually assign higher efficiency ratings to the dialog between business and the government (Figure 6.8).

This reveals an even more palpable connection between perceived business environment changes and perceived business unions efficiency. Apparently, business unions manage to play a significant role in protecting their members' interests from the negative influence of the existing regulatory environment. As a result, the more successful companies see the dialog as more efficient.

In addition to that, union members have a more positive view of the efforts made by the government and business unions to combat corruption, with half of such businesses rating those efforts as "efficient" and "very efficient" (Figure 6.9).

Therefore, based on the above data we can draw the conclusion that at this time cooperation between business unions and the business community in Belarus is still rather unimpressive. Only a fraction of businessmen have acceded to such unions. The reasons for such state of affairs may include both passivity of businesses and their lack of interest in engaging in the dialog with the government and promoting their interests, and the low activity of business unions (lack of information about their achievements, or about advantages and prospects of membership).

Accordingly, most businesses have no or little idea about which business union they could join, and why they would want to do that. Based on our research findings, we can also make the conclusion that business union members vary by business age and size and by the nature of its operations, meaning that at different stages of their development certain businesses do grow interested in becoming involved in the dialog with the government and improving business environment.

### 6.3. SMEs and Belarus National Business Platform

The Belarus National Business Platform has been in operation since

2007. Over this time, the number of its active participants has almost tripled from twelve thousand to thirty-five thousand people. The increase in the number of stakeholders spiked in 2008–2009. Approximately during the same period of time, in 2008–2010, the number of coalition members also rose considerably (Table 6.1). This may have been caused by the signing of Decree of the President of the Republic of Belarus dated May 21, 2009, *On Certain Measures to Provide Government Support to Small Businesses*, and the related Decree of the Council of Ministers of the Republic of Belarus dated December 28, 2009, *On State Program for the Support of Small and Medium-Sized Businesses in the Republic of Belarus for 2010–2012.*

One of the objectives of the program was to "improve the laws governing the operations of small and medium-sized businesses," which made it possible to accelerate NBP implementation by encouraging the dialog with the government and promoting the recommendations formulated in the NBP. During that period, the share of recommendations put forward by NBP authors that were subsequently adopted, whether fully or partially, was the highest.

Following its rapid growth in 2008–2010, the platform retained and reinforced its positions, steadily generating meaningful deliverables. Since the creation of the NBP in 2007, the number of its copies has quadrupled, meaning that the platform and its operation have been commanding more and more interest among the stakeholders. Therefore, we can conclude that over its nine-year lifespan the platform has been actively expanding its operating scope.

The BNBP-2015 recommendations compliance index stands at 34.8% (10 points, or 100%: all recommendations have been, or are being, implemented; 0 points, or 0%: all recommendations have been ignored in terms of both law-making activities and discussions with the business community). The NBP compliance index was calculated in several stages. Stage 1: selection of a 25-strong expert team to monitor the index. All team members are familiar with how the NBP is designed, adopted, and promoted. They are all economists, lawyers, auditors, entrepreneurs, or university professors who are involved in various regulatory or economic pursuits. Assessment of NBP recommendations compliance was performed interactively based on expert opinions.

Stage 2: selection of index scale and values. It was decided to assess compliance with each of the 87 NBP-2015 recommendations on a scale from 0 (no progress, the government completely ignores proposals put forth by the business community) to 10 (full implementation of the recommendation, efficient enforcement). When assigning specific values, the experts took into consideration the following factors:

- Whether a new legislative act was adopted (an existing legislative act was amended) to assure compliance with NBP recommendations;
- How the newly-adopted normative acts are being enforced; whether it is actually possible to attain the purposes declared in the relevant law, decree, or order; whether there are any regulations (methodological explanations, recommendations, etc.) which block or impede implementation of the relevant legislative provisions;
- In what forum NBP recommendations were discussed (working group, Council of Ministers, Consultative Council under the Administration of the President, Chamber of Representatives, regional government bodies, ministries and agencies);
- Whether draft legislative acts have been developed to assure compliance with NBP recommendations; what is their discussion and adoption status;
- What is the stance of various government bodies with respect to NBP recommendations (consent, rejection and denial, willingness to engage in a dialog);
- Findings of the business poll conducted by the IPM Research Center;
- Statistical data provided by the State Statistical Committee of the Republic of Belarus describing the level of development of private business and of the national economy in general (number of commercial entities…);
- International indices reflecting various parameters of business climate in Belarus (*Doing Business* from the World Bank, *Paying Taxes* from PricewaterhouseCoopers, *Prosperity Index* from Legatum Institute, *Economic Freedom Index*, *Governance Research Indicator Country Snapshot* (GRICS) from the World Bank Institute).

Each member of the expert team assessed compliance with each NBP recommendation independently. In the course of expert team meetings,

**Table 6.1. Movement of Certain *Belarus National Business Platform* Indicators, 2007–2015**

| Indicator | Number of Active NBP Process Participants | Number of Coalition Members | Number of NBP Copies | Number of Fully or Partially Adopted Recommendations |
|---|---|---|---|---|
| BNBP-2007 | 12,000 | 12 | 40,000 | 8 of 51 |
| BNBP-2008 | 18,000 | 18 | 70,000 | 51 of 112 |
| BNBP-2009 | 30,000 | 30 | 100,000 | 62 of 145 |
| BNBP-2010 | 30,000 | 38 | 120,000 | 53 of 117 |
| BNBP-2011 | 30,000 | 55 | 120,000 | 55 of 104 |
| BNBP-2012 | 33,000 | 60 | 120,000 | 31 of 105 |
| BNBP-2013 | 35,000 | 70 | 150,000 | 22 of 107 |
| BNBP-2014 | 35,000 | 75 | 150,000 | 15 of 98 |
| BNBP-2014 | 35,000 | 78 | 150,000 | 17 of 87 |

*Source:* Business unions.

its members negotiated and approved the definition of each numeric value on a scale from 0 to 10.

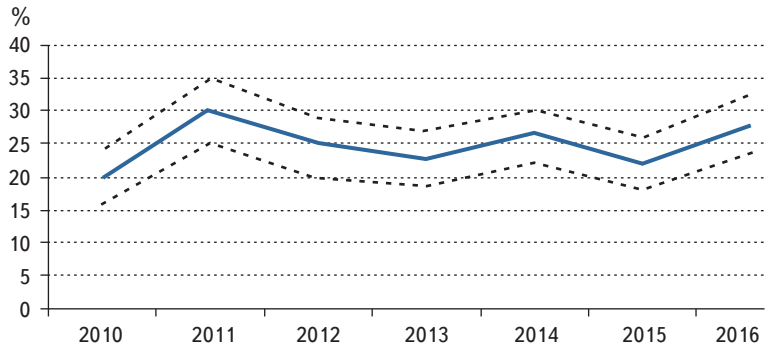
Stage 3: assessment of the government's compliance with each NBP recommendation. Individual efforts were accompanied by regular expert team meetings to discuss the process and progress in implementation of NBP recommendations. Stage 4: technical work involving the summing up of values assigned to each recommendation. The measure of compliance with each NBP recommendation is the arithmetic mean of all 25 expert-assigned values. Recommendations compliance index was measured for each section of the platform.

The resultant program implementation index shows that the quality of dialog between the government and the business community is rather low. The government does not completely ignore recommendations issued by the business community, but few of those recommendations result in actual amendments to the existing laws and regulations.

Figure 6.10 shows the change of the share in the poll sample of businesses that were aware of the existence and operations of the Belarus National Business Platform. Over the last year, the share of NBP-aware respondents has increased, which testifies to the fact that business unions and authors of the planform are actively working with representatives of the Belarus business community. It also reflects the relevance of operations conducted by the authors of the Belarus National Business Platform.

According to the poll, 28% of SME representatives (compared to 22.1% last year) are aware of the annual business and expert community initiative envisaging creation, presentation to all stakeholders, and massive promotion of the Belarus National Business Platform (BNBP). The degree of BNBP awareness among businessmen has been growing with every passing year since 2006, when it was originally created by the business community.

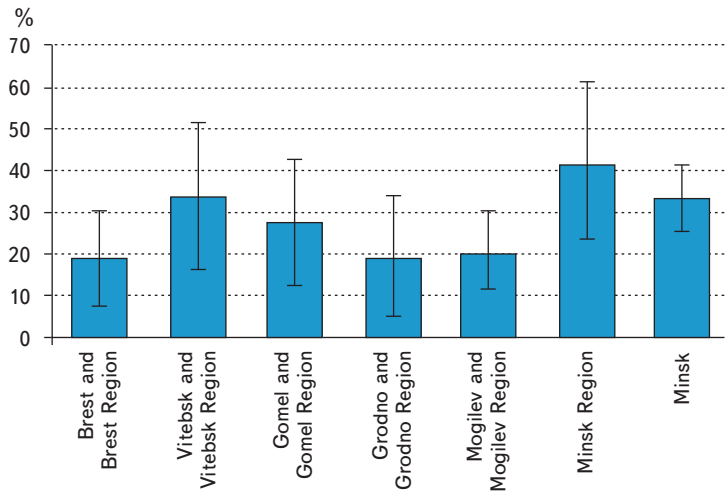
**Figure 6.10. Change in the Level of Awareness of the BNBP among Respondents Included into the Poll Sample, by Year**




*Note*. Dotted lines represent the 95% confidence interval.

*Source:* IPM Research Center.

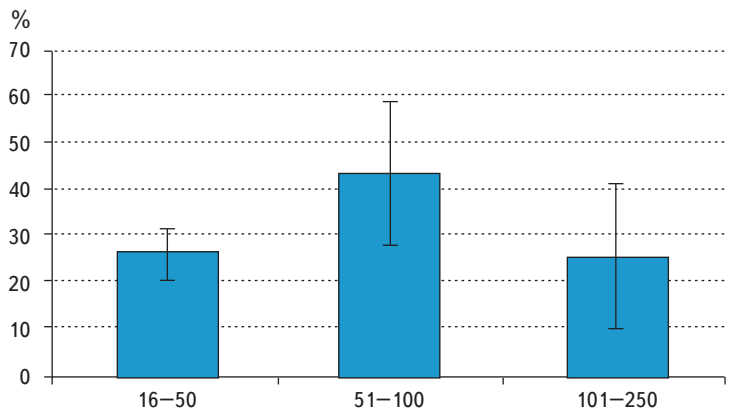
**Figure 6.11. Awareness of the BNBP, by Business Registration Location, %**




*Note*. The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

**Figure 6.12. Awareness of the BNBP, by Business Size, %**

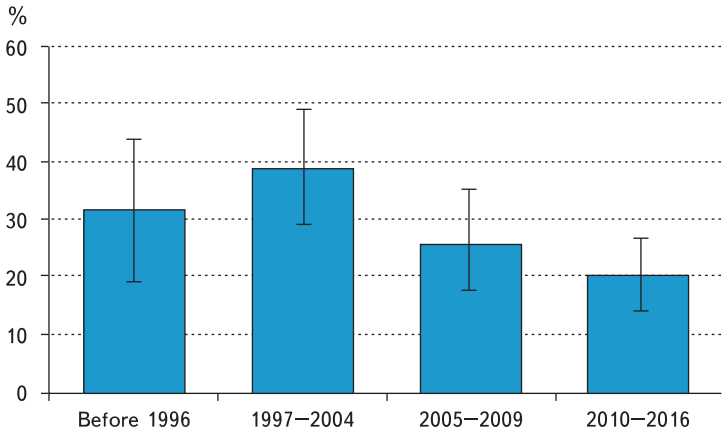



*Note*. The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

The highest platform awareness levels were registered in Minsk, Minsk Region, Mogilev Region,

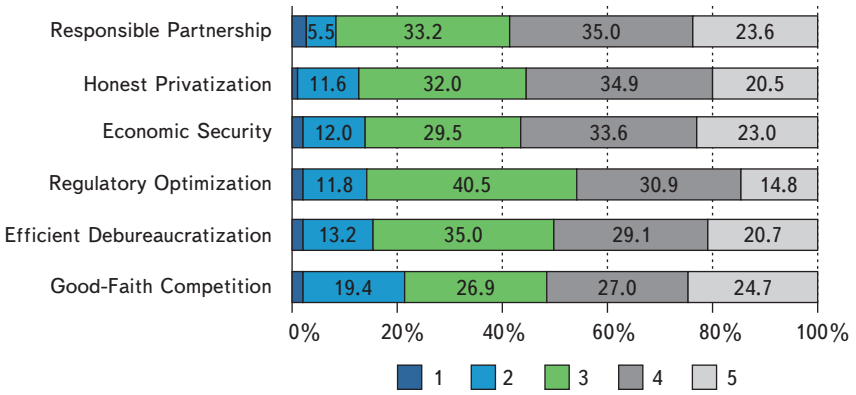
**Figure 6.13. Awareness of the BNBP, by Year of Establishment, %**




*Note*. The segments represent the 95% confidence interval.

*Source:* IPM Research Center.

**Figure 6.14. Perception of Importance of the Key BNBP Tasks by Respondents Aware of the Platform, %**




*Note*. Scores are assigned on a scale from 1 to 5, where 1 is "not important", and 5 is "very important."

*Source:* IPM Research Center.

**Table 6.2. Perceived Importance of the Role Played by the BNBP in the Following Areas, % of the total number of respondents aware of the Platform**

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Consolidation of the Business Community | 1.7 | 24.7 | 45.1 | 24.8 | 3.6 |
| Improvement of Business Climate | 1.8 | 17.9 | 46.4 | 28.6 | 5.4 |

*Note*. Scores are assigned on a scale from 1 to 5, where 1 is "not important", and 5 is "very important."

*Source:* IPM Research Center.

and Vitebsk Region, and in all those areas cooperation between businessmen and business unions was at its highest (Figure 6.11). This is only logical, as it is business unions (and, accordingly, their members) that are most actively engaged in development and implementation of the platform, and in assessment of compliance with its recommendations.

Interestingly, approximately the same level of BNBP awareness was registered for small businesses (16–50 employees) and businesses with the number of employees ranging from 101 to 250 (Figure 6.12). Less than half of all businesses employing from 51 to 100 people knew about the platform. This distribution pattern is somewhat different from that typical for the relation between business union membership and business size. In that case, it was businesses with the number of employees in the 51–100 and 101–250 brackets that had the highest business union representation (see Figure 6.4).

Business unions may need to pay more attention to small businesses to increase such businesses' level of awareness of their operations. Small businesses that are aware of, and interested in, the BNBP are more likely to join business unions.

We have discovered statistically significant differences in the level of BNBP awareness among businesses depending on their age (see Figure 6.13). As in the case of business union membership (see Figure 6.5), the highest awareness levels are registered for businesses established before 1996 (32.2%) and during the period from 1997 up to and including 2004 (38.9%).

It should also be noted that almost 70% of respondents which were aware of the National Business Platform were also members of business unions. Therefore, there still remains about one third of business union members which have never heard of the platform. However, the overwhelming majority of those which are aware of the platform note that they support its key ideas.

The research did not reveal any statistically significant differences in perceived level of importance of the six key tasks of the platform (Figure 6.14), meaning that all those tasks were seen as similarly important. This testifies to the fact that the tasks are relevant, and their attainment will result in a tangible improvement of economic and legal environment for the business.

There were no significant differences in perceived importance of the

tasks of the platform by businesses depending on their age, size or nature of operations, or the place of their registration. This leads us to the conclusion that the tasks are truly universal and equally important for all types of businesses working in the country.

Respondents have assigned relatively high scores to the role played by the platform in consolidation of the business community and improvement of business climate (Table 6.2). This, without any doubt, is a major achievement of the authors of the platform.

Therefore, based on the findings of our research, we can come to the conclusion that the Belarus National Business Platform is rather highly appreciated by those who are aware of its existence. The main tasks of the platform are aligned to the needs of a broad range of businesses with varying ages, sizes, operations, and registration sites. This means that if the authors of the platform and business unions do their best to promote and distribute information about the NBP among all businesses, regardless of their membership in business unions, it will increase the chance of the platform's successful implementation and, as a consequence, will attract more businesses seeking to improve business climate and promote entrepreneurial initiative.

### 6.4. Conclusion

Over the entire period covered by our research, the share of small and medium-sized businesses which have become members of various business unions has not exceeded 20%. At this time cooperation between business unions and the business community in Belarus is still rather unimpressive.

As a rule, SMEs which have joined business unions have a higher rate of appreciation of the quality of dialog between the government and the business community, and of their joint efforts to combat corruption.

The BNBP-2015 compliance index stands at 34.8%. The low value of the index shows that the quality of dialog between the government and the business community is rather low. The government does not completely ignore recommendations issued by the business community, but few of those recommendations result in actual amendments to the existing laws and regulations.

Based on the findings of our research, we can come to the conclusion that the Belarus National Business Platform is rather highly appreciated by those who are aware of its existence. The main tasks of the platform meet the needs of a broad range of businesses with varying ages, sizes, operations, and registration sites. This means that if the authors of the platform and business unions do their best to promote and distribute information about the NBP among all businesses, regardless of their membership in business unions, it will increase the chance of the platform's successful implementation and, as a consequence, will attract more businesses seeking to improve business climate and promote entrepreneurial initiative.

# ANNEX
# DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN BELARUS, 2016

The poll was conducted for the IPM Research Center in April-May 2016 by NOVAK Axiometric Research Laboratory. The sample contains only small and medium-sized private enterprises with the workforces ranging from 16 to 250 employees. In contrast to previous years, micro enterprises with the workforce below 16 employees were not covered by the research. Respondents were directors, owners and senior staff of the enterprises.

Businesses were included into the sample for this research on the basis of their core activities and regional affiliations. For research purposes, we used the following sample calculation formula for the finite population for nominal scales, and performed a proportional allocation of the sample depending on the type of economic activities conducted by constituent entities (permissible error $\Delta$ = 5%; confidence interval $\beta$ = 95%):

$$n = \frac{Z^2_{1-\alpha/2} \times p(1-p)N}{N\Delta^2_{perm} + Z^2_{1-\alpha/2} \times p(1-p)},$$

where $n$ is volume of the sample; $p(1-p)$ is variance; $Z_{1-\alpha/2}$ $Z_{1-\alpha/2}$ is confidence coefficient corresponding to $\alpha$ = 0.05; $N$ is volume of the population; $\Delta_{perm}$ is maximum permissible value of random error expressed in unit fractions.

The achieved volume of the sample is 400 observation units. To assure representativeness and conformity of the sample to population properties, we performed proportional selection of enterprises[70] and weighted our variables. Resultant distributions by specified parameters are provided below.

## SECTION 1. GENERAL INFORMATION

### 1. What is the main sphere of activity of Your company?

| | Number | % |
|---|---|---|
| Manufacturing | 117 | 29.2 |
| Agriculture, forestry and fishery | 21 | 5.2 |
| Construction | 70 | 17.5 |
| Trade, repairs | 97 | 24.2 |
| Hotels and restaurants | 14 | 3.5 |
| Transport and communications | 29 | 7.2 |
| Finance and real estate | 40 | 10.0 |
| Education, health | 4 | 1.0 |
| Public utilities, social and private services | 8 | 2.0 |
| Total | 400 | 100.0 |

### 2. Where is Your company registered?

| | Number | % |
|---|---|---|
| Minsk | 155 | 38.7 |
| Minsk region | 69 | 17.3 |
| Brest and Brest region | 46 | 11.5 |
| Vitebsk and Vitebsk region | 31 | 7.8 |
| Gomel and Gomel region | 37 | 9.3 |
| Grodno and Grodno region | 32 | 8.0 |
| Mogilev and Mogilev region | 30 | 7.5 |
| Total | 400 | 100.0 |

### 3. What is the number of employees at Your company?

| | Number | % |
|---|---|---|
| 16–50 | 314 | 78.5 |
| 51–100 | 48 | 12.0 |
| 101–250 | 38 | 9.5 |
| Total | 400 | 100.0 |

[70] Based on data published by the National Statistical Committee of the Republic of Belarus (2015).

### 4. What is the year of foundation of Your company?

| | Number | % |
|---|---|---|
| Before 1996 | 59 | 14.9 |
| 1997–2004 | 96 | 24.2 |
| 2005–2009 | 102 | 25.9 |
| 2010–2016 | 138 | 34.9 |
| Total | 395 | 100.0 |

## SECTION 2. ECONOMIC SITUATION AT THE ENTERPRISES

### 5. What is the current economic situation of Your company?

| | Number | % |
|---|---|---|
| Very bad | 22 | 5.4 |
| Rather bad | 74 | 18.4 |
| Niether bad, nor good | 206 | 51.5 |
| Rather good | 93 | 23.2 |
| Very good | 6 | 1.5 |
| Total | 400 | 100.0 |

### 6. How did the economic situation in Your company change over the last year?

| | Number | % |
|---|---|---|
| Significantly worsened | 73 | 18.3 |
| Slightly worsened | 154 | 38.6 |
| Remained the same | 131 | 32.8 |
| Slightly improved | 33 | 8.4 |
| Significantly improved | 8 | 1.9 |
| Total | 400 | 100.0 |

### 7. How did the economic indicators of Your company change over the last year?

(*% of respondents, n = 400*)

| | Significantly decreased | Slightly decreased | Remained the same | Slightly increased | Significantly increased |
|---|---|---|---|---|---|
| Turnover | 22.0 | 37.6 | 28.6 | 11.3 | 0.5 |
| Accounts payable | 4.3 | 12.2 | 62.9 | 17.4 | 3.3 |
| Accounts receivable | 3.1 | 10.3 | 60.1 | 19.7 | 6.8 |
| Employment | 7.5 | 31.8 | 44.0 | 16.0 | 0.8 |
| Investment | 9.0 | 18.8 | 58.3 | 11.8 | 2.1 |

### 8. Which objectives is Your business concentrated on at the moment?

| | Number | % |
|---|---|---|
| Business expansion | 96 | 24.0 |
| Maintaining the level achieved | 257 | 64.3 |
| Business reduction | 47 | 11.7 |
| Total | 400 | 100.0 |

### 9. Have You applied for a loan over the last 12 months?

| | Number | % |
|---|---|---|
| Yes and I have received it | 87 | 21.8 |
| Yes, but I was turned down | 36 | 9.1 |
| No, I haven't | 276 | 69.0 |
| Total | 400 | 100.0 |

### 10. If You have not applied for a loan over the last year, then what were the reasons?

*Multiple choice possible (n = 276)*

| | Number | % |
|---|---|---|
| High interest rates for loans in national currency | 74 | 27.0 |
| High interest rates for loans in foreign currency | 48 | 17.3 |
| Difficulties in fulfilling collateral requirements | 21 | 7.5 |
| I do not need a loan | 179 | 64.7 |

## SECTION 3. CONDITIONS OF DOING BUSINESS IN BELARUS

### 11. In Your opinion, how did the business environment change during the last year?

| | Number | % |
|---|---|---|
| Significantly worsened | 106 | 26.5 |
| Slightly worsened | 168 | 42.0 |
| Remained the same | 93 | 23.1 |
| Slightly improved | 32 | 8.1 |
| Significantly improved | 1 | 0.3 |
| Total | 400 | 100.0 |

**12. How would You assess the following government efforts?** *(% of respondents, n = 400)*

| | Negatively (impeded a lot) | Rather negatively | No impact | Rather positively | Positively (helped a lot) |
|---|---|---|---|---|---|
| Creating equal conditions for doing business and ensuring fair competition of business entities regardless of ownership | 6.6 | 25.7 | 42.0 | 20.6 | 5.1 |
| Adopting measures to enhance the development of private property ownership and protection of the right to use property | 7.4 | 17.8 | 48.0 | 22.0 | 4.8 |
| Removing excessive administrative barriers | 7.6 | 16.5 | 40.0 | 27.6 | 8.3 |
| Developing the tax legislation that stimulates the conscientious fulfillment of tax obligations and business initiative | 8.8 | 18.4 | 45.9 | 20.8 | 6.0 |
| Giving control (supervisory) activities a preventive nature, moving towards preventive measures | 7.5 | 22.2 | 36.2 | 28.8 | 5.2 |
| Providing a clear legislation, improving the quality of governing business regulations | 6.0 | 22.2 | 43.8 | 21.6 | 6.5 |

**13. In what spheres, in Your opinion, do businesses experience unequal conditions for doing business comparing to the state-owned enterprises?**
*Choose up to three answers (n = 358)*

| | Number | % |
|---|---|---|
| Supervisory bodies attitude | 186 | 51.9 |
| Rental rates | 170 | 47.4 |
| Commodity prices | 102 | 28.7 |
| Obtaining permits and licenses conditions | 129 | 36.2 |
| Access the credit facilities | 103 | 28.9 |
| Judiciary bodies' attitude | 52 | 14.5 |
| Government procurements | 78 | 21.9 |

**14. Please, indicate the five most important external barriers for business development in Belarus** *(n = 400)*

| | Number | % |
|---|---|---|
| Currency market regulation | 112 | 27.9 |
| High rent | 179 | 44.8 |
| High crime | 16 | 4.0 |
| High interest rates | 179 | 44.8 |
| High tax rates | 199 | 49.8 |
| Changeable legislation (tax including) | 164 | 40.9 |
| Corruption | 80 | 19.9 |
| Land ownership impossibility, complicated land use rules | 31 | 7.8 |
| Unfair competition | 71 | 17.7 |
| Unequal business environment compared to the state-owned enterprises | 93 | 23.2 |
| Unequal business environment compared to the foreign enterprises | 31 | 7.8 |
| Poor stock market development | 36 | 9.0 |
| National currency instability (high inflation rate, unpredictable exchange rate fluctuations) | 247 | 61.7 |
| Ineffective judicial system (courts are not independent, the complexity of contract implementation, investors' rights, etc.) | 25 | 6.3 |
| Poor quality of higher and other education of the specialists | 43 | 10.7 |
| Burdensome administrative procedures (licenses, certificates, control, etc.) | 122 | 30.6 |
| Poor health of the population | 28 | 6.9 |
| An arbitrary interpretation of the legislation by the authorities | 54 | 13.6 |
| Labor market regulation (dismissal and recruitment procedures) | 24 | 6.0 |
| Wage regulation | 40 | 10.0 |
| Price regulation | 68 | 17.1 |
| Economic policy of the other countries (tariff and non-tariff barriers, etc.) | 21 | 5.2 |

**15. Which of the following statements do You agree with (regarding your company)?**

| | Number | % |
|---|---|---|
| Existing external barriers are rather insurmountable, they lead to the curtailment of business | 157 | 39.2 |
| Existing external barriers may be overcome, they force entrepreneurs to look for more efficient business models and promising markets | 243 | 60.8 |
| Total | 400 | 100.0 |

## SECTION 4. CORRUPTION

### 16. How widespread is the incidence of corruption of one form or another in the sphere of Your company's activities?

*On a one to five scale, where 1 – "it never happens", 5 – "it is widespread" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Corruption in general | 21.7 | 23.7 | 32.2 | 13.2 | 9.2 | 100.0 |
| Shadow turnover | 25.9 | 26.2 | 26.9 | 14.5 | 6.5 | 100.0 |
| Bribes | 23.5 | 26.0 | 29.3 | 13.5 | 7.6 | 100.0 |
| Kickbacks for getting government contracts | 30.5 | 23.7 | 26.0 | 11.1 | 8.7 | 100.0 |

### 17. In Your opinion, how do corruption incidences in your activities increase the price of the final product (assess the burden on the consumer)?

| | Number | % |
|---|---|---|
| Significantly increase | 26 | 6.6 |
| Slightly increase | 105 | 26.2 |
| Do not affect | 199 | 49.7 |
| Slightly decrease | 63 | 15.7 |
| Significantly decrease | 7 | 1.8 |
| Total | 400 | 100.0 |

### 18. In Your opinion, who is the main initiator of the corruption incidences in your sphere?

| | Number | % |
|---|---|---|
| Civil servants mainly | 100 | 24.9 |
| Business representatives mainly | 30 | 7.6 |
| Civil servants and business representatives | 90 | 22.5 |
| No answer/Don't know | 180 | 45.0 |
| Total | 400 | 100.0 |

### 19. Assess the extent to which corruption incidences impede problem solution in the economy of Belarus

*On a one to five scale, where 1 – "do not impede at all", 5 – "significantly impede" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Economic growth | 4.9 | 14.6 | 28.6 | 32.2 | 19.8 | 100.0 |
| Domestic producers market development | 7.3 | 16.0 | 34.5 | 28.9 | 13.4 | 100.0 |
| Foreign investment promotion | 8.0 | 17.3 | 34.2 | 25.2 | 15.4 | 100.0 |
| Private business growth and development | 5.4 | 9.9 | 31.2 | 32.4 | 21.1 | 100.0 |
| Governance improvement | 4.9 | 13.2 | 37.0 | 28.5 | 16.3 | 100.0 |
| Public welfare increase | 7.3 | 12.2 | 37.5 | 26.1 | 16.9 | 100.0 |
| Resolution of the commercial disputes at court | 8.7 | 20.1 | 34.6 | 23.0 | 13.6 | 100.0 |

### 20. How, in your opinion, did the corruption situation in your sphere of activities change over the last year?

| | Number | % |
|---|---|---|
| Significantly worsened | 20 | 5.0 |
| Slightly worsened | 32 | 7.9 |
| Remained the same | 257 | 64.2 |
| Slightly improved | 74 | 18.4 |
| Significantly improved | 18 | 4.4 |
| Total | 400 | 100.0 |

### 21. Which anti-corruption instruments do you find most effective?

*On a one to five scale, where 1 – "completely ineffective", 5 – "very effective" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Reducing corruption potential of the legislation | 7.4 | 18.6 | 35.1 | 26.3 | 12.6 | 100.0 |
| Setting higher wages for civil servants | 18.4 | 20.7 | 32.4 | 18.8 | 9.7 | 100.0 |
| Increasing criminal penalties for corruption offenses | 4.9 | 11.3 | 33.0 | 26.9 | 24.0 | 100.0 |
| Anti-corruption bodies efficiency increasing | 5.3 | 9.5 | 31.9 | 33.2 | 20.0 | 100.0 |
| Strengthening the administrative control over the duties of civil servants | 3.3 | 16.0 | 31.7 | 28.9 | 20.0 | 100.0 |
| Raising staff requirements for the public service selection | 5.1 | 14.7 | 30.3 | 30.3 | 19.7 | 100.0 |
| Reducing the degree of state regulation of the economy | 2.9 | 13.8 | 38.5 | 26.6 | 18.2 | 100.0 |
| Building social intolerance towards corruption | 5.0 | 9.3 | 32.3 | 25.9 | 27.5 | 100.0 |
| Strengthening the tax control over civil servants' and their families' incomes and property | 5.3 | 13.8 | 31.6 | 28.9 | 20.4 | 100.0 |

### 22. Rate administrative causes of corruption incidents in Your sphere

*On a one to five scale, where 1 – "is not a cause", 5 – "is a major cause of corruption" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Low civil servants' salaries | 18.0 | 22.5 | 33.7 | 16.3 | 9.6 | 100.0 |
| Greed of civil servants | 8.5 | 14.2 | 33.5 | 24.9 | 18.9 | 100.0 |
| Lack of effective performance of anti-corruption bodies | 6.4 | 14.4 | 48.9 | 19.1 | 11.3 | 100.0 |
| Insufficient administrative control over the duties of civil servants | 6.9 | 13.5 | 44.7 | 24.0 | 10.9 | 100.0 |
| Ongoing government authorities reform, that leads to an uncertain future ahead | 8.6 | 14.0 | 41.5 | 24.4 | 11.5 | 100.0 |
| High degree of state regulation of the economy | 7.4 | 11.7 | 45.1 | 24.4 | 11.4 | 100.0 |
| Social tolerance towards corruption | 8.0 | 12.8 | 41.2 | 21.9 | 16.1 | 100.0 |
| Lack of tax control over civil servants' and their families' incomes and property | 9.3 | 16.0 | 40.6 | 22.0 | 12.1 | 100.0 |

### 23. In Your opinion, which areas of government regulation of business have most abuse of power and corruption incidences?

*On a one to five scale, where 1 – "there is no such thing", 5 – "happens frequently" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Price regulation | 15.5 | 18.1 | 29.7 | 26.2 | 10.6 | 100.0 |
| Obtaining licenses | 8.2 | 16.7 | 33.8 | 24.7 | 16.7 | 100.0 |
| Hygienic registration and certification | 6.7 | 17.9 | 30.1 | 28.4 | 16.9 | 100.0 |
| Sanitary inspection | 4.2 | 17.1 | 28.2 | 28.1 | 22.4 | 100.0 |
| Fire inspection | 5.7 | 16.8 | 29.2 | 27.1 | 21.2 | 100.0 |
| Tax payments | 16.5 | 21.8 | 29.2 | 22.4 | 10.1 | 100.0 |
| Tax audit | 11.8 | 21.6 | 29.2 | 25.6 | 11.9 | 100.0 |
| Customs clearance | 10.0 | 16.3 | 33.5 | 26.6 | 13.6 | 100.0 |
| Getting government orders, winning tenders | 7.7 | 15.1 | 27.1 | 29.5 | 20.6 | 100.0 |
| Obtaining various permits with local authorities | 7.2 | 12.2 | 33.9 | 27.9 | 18.7 | 100.0 |
| Favorable court decision obtaining | 14.8 | 19.5 | 31.8 | 24.4 | 9.4 | 100.0 |
| Rent | 11.7 | 20.2 | 34.0 | 23.3 | 10.8 | 100.0 |

### 24. Assess anti-corruption efforts of the government and business associations

*On a one to five scale, where 1 – "completely ineffective", 5 – "very effective" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Effectivity of efforts | 9.1 | 17.2 | 45.8 | 23.2 | 4.8 |

## SECTION 5. BUSINESS ASSOCIATIONS AND BELARUS NATIONAL BUSINESS PLATFORM

### 25. Are You a member of business associations?

| | Number | % |
|---|---|---|
| Yes, I am | 48 | 12.0 |
| No, I am not | 352 | 88.0 |
| Total | 400 | 100.0 |

### 26. Do You know about the Belarus National Business Platform?

| | Number | % |
|---|---|---|
| Yes, I do | 112 | 28.0 |
| No, I don't | 288 | 72.0 |
| Total | 400 | 100.0 |

### 27. If you know about the BNBP, do You support its main ideas?

*On a one to five scale, where 1 – "don't support at all", 5 – "support completely" (% of respondents, n = 112)*

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Level of support | 0.9 | 6.1 | 47.4 | 36.8 | 8.8 |

**28. Assess the importance of the goals of the Belarus National Business Platform in 2016**

*On a one to five scale, where 1 – "completely unimportant", 5 – "very important" (% of respondents, n = 112)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Fair competition | 2.0 | 19.4 | 26.9 | 27.0 | 24.7 | 100.0 |
| Effective de-bureaucratization | 2.0 | 13.2 | 35.0 | 29.1 | 20.7 | 100.0 |
| Regular optimization | 2.0 | 11.8 | 40.5 | 30.9 | 14.8 | 100.0 |
| Economic security | 1.8 | 12.0 | 29.5 | 33.6 | 23.0 | 100.0 |
| Honest privatization | 0.9 | 11.6 | 32.0 | 34.9 | 20.5 | 100.0 |
| Responsible partnership | 2.7 | 5.5 | 33.2 | 35.0 | 23.6 | 100.0 |

**29. What is the role of the Belarus National Business Platform in Belarus in business community consolidation and business climate improvement?**

*On a one to five scale, where 1 – "no role", 5 – "a significant role" (% of respondents, n = 112)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Business community consolidation | 1.7 | 24.7 | 45.1 | 24.8 | 3.6 | 100.0 |
| Business climate improvement | 1.8 | 17.9 | 46.4 | 28.6 | 5.4 | 100.0 |

**30. Assess the productivity of the dialogue between businesses (business associations) and the government**

*On a one to five scale, where 1 – "none, not effective at all", 5 – "very effective" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Effectivity of dialogue | 15.8 | 24.0 | 42.2 | 13.5 | 4.5 |

**31. The Council of the Republic of the National Assembly of the Republic of Belarus came up with the idea to create an Entrepreneurship Chamber of a compulsory membership, Chamber activities will be aimed at strengthening of the government-business dialogue, business' interests advocacy and its engagement in the process of legislation and regulatory instruments creation. Do You consider the Chamber necessary?**

| | Number | % |
|---|---|---|
| No, it is not necessary | 203 | 50.6 |
| Yes, it is necessary | 197 | 49.4 |
| Total | 400 | 100.0 |

**32. If no, then why is that?**

*Multiple choice possible (n = 203)*

| | Number | % |
|---|---|---|
| We solve problems on our own | 72 | 35.7 |
| Our company already participates in association | 10 | 5.0 |
| It will increase costs | 50 | 24.4 |
| Membership should be voluntary | 101 | 49.6 |
| It will create another bureaucratic body | 83 | 40.8 |

## SECTION 6. LABOUR MARKET AND ECONOMIC CRISIS

**33. How badly does Your company experience the effects of the economic crisis?**

*On a one to five scale, where 1 – "does not experience", 5 – "experience keenly" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Lower demand on companies' goods/services | 7.0 | 14.0 | 26.5 | 28.0 | 24.5 | 100.0 |
| Difficulties in getting financing through the regular channels | 11.2 | 21.1 | 36.6 | 19.6 | 11.5 | 100.0 |
| Defaults | 9.9 | 15.3 | 30.5 | 22.9 | 21.3 | 100.0 |
| Difficulties in obtaining goods intermediates from regular suppliers | 22.8 | 16.9 | 31.9 | 19.4 | 9.0 | 100.0 |

**34. How did Your company respond to the manifestations of the crisis?**

*Multiple choice possible (n = 400)*

| | Number | % |
|---|---|---|
| Reduce production | 78 | 19.6 |
| Keep prices unchanged | 89 | 22.3 |
| Reduce prices | 133 | 33.3 |
| Cost cutting (including those, related to human resources) | 330 | 82.4 |
| Other | 24 | 6.1 |

### 35. If You cut costs, then in what ways?

*Multiple choice possible (n = 330)*

| | Number | % |
|---|---|---|
| Reduce variable wage elements (bonuses, benefits, etc.) | 166 | 50.5 |
| Reduce basic salary | 79 | 23.9 |
| Adjust the number of working hours of employees (part-time, vacation at own expense) | 109 | 33.1 |
| Reduce the number of temporary employees | 85 | 25.8 |
| Reduce the number of permanent employees | 67 | 20.4 |
| Reduce costs, not related to human resources | 169 | 51.2 |

### 36. If You cut employees, then whom in the first place?

| | Number | % |
|---|---|---|
| Managers (top, middle and lower-level managers) | 30 | 13.6 |
| Workers (staff, involved directly in the wealth creation process, as well as engaged in repair, movement of goods, transportation of passengers, provision services, etc.) | 116 | 52.3 |
| Specialists (staff, performing engineering, technical, economic and other works) | 20 | 8.9 |
| Clerks (workers, carrying out documentation, accounting and control, support service) | 56 | 25.2 |
| Total | 222 | 100.0 |

### 37. Did You hire people over the last year?

| | Number | % |
|---|---|---|
| Yes, for existing jobs | 119 | 29.7 |
| Yes, for new jobs | 60 | 14.9 |
| No | 221 | 55.4 |
| Total | 400 | 100.0 |

### 38. Which employees did You hire over the last year?

*Multiple choice possible (n = 179)*

| | Number | % |
|---|---|---|
| Managers (top, middle and lower-level managers) | 25 | 13.8 |
| Workers (staff, involved directly in the wealth creation process, as well as engaged in repair, movement of goods, transportation of passengers, provision services, etc.) | 120 | 67.3 |
| Specialists (staff, performing engineering, technical, economic and other works) | 52 | 29.2 |
| Clerks (workers, carrying out documentation, accounting and control, support service) | 33 | 18.8 |

### 39. Have You hired migrant workers from other countries?

| | Number | % |
|---|---|---|
| Yes, from Ukraine | 16 | 8.8 |
| Yes, from other CIS countries | 13 | 7.0 |
| Yes, from other countries | 12 | 6.5 |
| No | 140 | 77.7 |
| Total | 180 | 100.0 |

### 40. How were You looking for new employees?

*Multiple choice possible (n = 180)*

| | Number | % |
|---|---|---|
| Through internet | 75 | 41.7 |
| Using own database | 43 | 24.1 |
| Recruitment agency service | 18 | 10.1 |
| According to friends recommendations | 68 | 37.9 |
| Through employment office | 48 | 26.8 |
| Through ads in the media | 61 | 33.8 |
| Submitting requests for graduates | 6 | 3.5 |
| At job fairs | 4 | 2.3 |

### 41. Has it become easier to find right employees?

| | Number | % |
|---|---|---|
| No, it has become much more difficult | 9 | 5.1 |
| Slightly more difficult | 22 | 12.1 |
| The situation remains the same | 57 | 31.7 |
| Slightly easier | 35 | 19.3 |
| Yes, it has become significantly easier | 57 | 31.9 |
| Total | 180 | 100.0 |

**42. How much does labor market supply meet your requirements?**
*On a one to five scale, where 1 – does not meet, 5 – meet completely (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 | Total |
|---|---|---|---|---|---|---|
| Qualification level | 3.0 | 9.3 | 36.4 | 38.7 | 12.6 | 100.0 |
| Education level | 2.3 | 7.4 | 35.8 | 40.5 | 14.1 | 100.0 |
| Working experience | 2.8 | 15.1 | 35.5 | 35.2 | 11.5 | 100.0 |
| Salary expectations | 9.1 | 20.3 | 41.6 | 23.8 | 5.3 | 100.0 |

**43. Other things being equal, do You prefer employees with working experience for state-owned or private companies?**

| | Number | % |
|---|---|---|
| State-owned | 32 | 7.9 |
| Private | 96 | 24.1 |
| No difference | 272 | 68.0 |
| Total | 400 | 100.0 |

**44. How will retirement age increase affect Your company?**

| | Number | % |
|---|---|---|
| Negatively | 25 | 6.4 |
| Rather negatively | 74 | 18.5 |
| Will not affect | 268 | 67.0 |
| Rather positively | 25 | 6.3 |
| Positively | 7 | 1.8 |
| Total | 400 | 100.0 |

**45. In Your opinion, how widespread is what known as "salary in envelope"?**
*On a one to five scale, where 1 – "there is no such thing", 5 – "it is widespread" (% of respondents, n = 400)*

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Degree of incidence | 18.6 | 22.1 | 32.9 | 16.1 | 10.2 |

**46. What measures should be taken to reduce shadow economy sector?**

*Please, choose up to* three *answers (n = 400)*

| | Number | % |
|---|---|---|
| Social security contribution reduction | 181 | 45.1 |
| Other taxes reduction | 205 | 51.1 |
| Increase penalties for participation in such activities | 69 | 17.3 |
| Increase tax inspection control | 63 | 15.7 |
| Simplify business environment | 254 | 63.5 |

**47. Which employees have You trained over the last 12 months and which ones are You planning to train during the next 12 months?** *(% of respondents, n = 400)*

| | We have trained them | We are planning to train them | Haven't trained | Not planning to train them | Total |
|---|---|---|---|---|---|
| Managers (top, middle and lower-level managers) | 10.4 | 9.5 | 46.1 | 34.0 | 100.0 |
| Workers (staff, involved directly in the wealth creation process, as well as engaged in repair, movement of goods, transportation of passengers, provision services, etc.) | 15.8 | 10.4 | 45.1 | 28.6 | 100.0 |
| Specialists (staff, performing engineering, technical, economic and other works) | 13.4 | 10.9 | 45.2 | 30.6 | 100.0 |
| Clerks (workers, carrying out documentation, accounting and control, support service) | 8.2 | 8.2 | 44.6 | 39.0 | 100.0 |

**48. What are the main forms of middle and top personnel training?**
*Multiple choice possible (n = 190)*

| | Number | % |
|---|---|---|
| Short-term programs, seminars and trainings (up to three months) | 84 | 44.1 |
| Long-term programs, seminars and trainings (three months and longer) | 17 | 9.0 |
| Inner training using companies capacities | 90 | 47.5 |
| Internships | 60 | 31.7 |
| Inner training involving external consultants | 41 | 21.4 |
| Participation in the conferences | 24 | 12.4 |
| Self-education | 55 | 28.8 |

**49. What education areas are Your company interested in?**
*Multiple choice possible (n = 192)*

| | Number | % |
|---|---|---|
| Management | 64 | 33.6 |
| Finance, investment | 45 | 23.5 |
| Personal development | 51 | 26.7 |
| Human resource management | 43 | 22.3 |
| Marketing, PR, advertisement | 76 | 39.4 |
| Sales | 91 | 47.4 |
| Coaching | 7 | 3.7 |
| Other | 16 | 8.1 |

**50. What are Your requirements for business education?**
*Multiple choice possible (n = 193)*

| | Number | % |
|---|---|---|
| Practice-oriented | 127 | 66.0 |
| International standards compliance | 61 | 31.5 |
| Trainers with practical experience | 58 | 30.2 |
| Internationally recognized diploma | 24 | 12.7 |
| Actual Belarusian case studies use | 25 | 13.1 |
| Positive friends' feedback | 41 | 21.2 |
| Other | 4 | 2.1 |

**51. Based on what criteria do You pick courses**
*Please, choose up to three answers (n = 140)*

| | Number | % |
|---|---|---|
| Price | 91 | 46.5 |
| Course length | 56 | 28.7 |
| Teaching staff | 49 | 25.0 |
| Colleagues' and friends' recommendations | 50 | 25.8 |
| Course contents | 110 | 56.4 |
| Institution reputation | 35 | 18.0 |
| Opportunity to obtain a state recognized diploma | 23 | 11.8 |
| Opportunity to obtain an internationally recognized diploma | 21 | 10.9 |

**52. Please, name business training organizations You are familiar with (at least with the name)**
*Multiple choice possible (n = 400)*

| | Number | % |
|---|---|---|
| School of business and management of technology of BSU | 162 | 40.4 |
| XXI Century Consult | 82 | 20.6 |
| IPM Business School | 66 | 16.5 |
| Key solutions | 29 | 7.2 |
| Here and Now | 47 | 11.6 |
| EMAS | 18 | 4.6 |
| SATIO | 17 | 4.2 |
| None of the above | 161 | 40.3 |
| Other | 5 | 1.3 |

**53. Do you use or plan to use *crowdsourcing* and *crowdfunding* in your business?**
*(% of respondents, n = 400)*

| Procedure/Instrument | We use it | We are planning to use it | We do not use it | We are not planning to use it | I don't know what it is | Total |
|---|---|---|---|---|---|---|
| Crowdsourcing | 3.7 | 6.0 | 31.7 | 20.5 | 38.1 | 100.0 |
| Crowdfunding | 2.1 | 5.4 | 33.6 | 20.0 | 38.8 | 100.0 |

# Business in Belarus 2016:
# Status, Trends, Perspectives