

**BUSINESS IN
BELARUS
2017**

**STATUS
TRENDS
PERSPECTIVES**



IPM RESEARCH CENTER
Research • Forecasting • Monitoring

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Business in Belarus 2017: Status, Trends, Perspectives

Business in Belarus 2017: status, trends, perspectives. This issue of the yearbook analyzes recovery of small and medium business in Belarus after macroeconomic crisis of previous years. The report evaluates overall impact of state regulations on performance of small and medium business, emphasizing the role of legal and judiciary system in determining attractiveness of business climate in Belarus. It also 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 2017.

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1. INTRODUCTION

In 2017, Belarusian small and medium business (SME) restored its role in the economy that previously contracted due to consequences of economic recession. Recovery of the SME sector began in 2016, when employment at micro enterprises grew by 13.4% (see Chapter 2). However, at that stage recovery took place on a back of either export oriented businesses or businesses, supplying intermediate goods to exporters. Meanwhile, in 2017 domestic demand also contributed to the growth of SME sector. Besides, business confidence began to improve: the share of positive evaluations of economic climate done by enterprises, surveyed by the National Bank of Belarus, exceeded the share of negative responses for the first time since 2014.¹

The key factor of SME sector development in 2017 was macroeconomic stabilization: improved confidence in national currency and decelerated inflation reduced macroeconomic risks of doing business in Belarus (see Chapter 3)². Furthermore, lower inflation rates guaranteed cut in interest rates, which improved accessibility of external finances and revitalized sector of commercial lending.³

There was some improvement in institutional environment as well, that translated into the package of legislation drafts set by the Presidential Decree 7 aimed at liberalization of doing business in Belarus. As sector of the state-owned enterprises continues to contract, authorities have to consider small and medium business as a source of new employment possibilities for population, which implies that further efforts into improving of business environment is inevitable.

Significant part of this work is related to the reforms of judicial system. Before crisis, small and medium business rarely had to advocate their own interests within legal processes, but situation has changed. Payment defaults of counterparts, including state-owned enterprises, contributed to the increased number of legal actions initiated by SMEs, which exacerbated drawbacks of legal system. Unequal treatment of organizations of different ownership and distorted incentives of judges reduce business confidence in public sector and reduce effectiveness of any institutional reforms undertaken by authorities. Besides, business legislation also demands some changes: in particular, several legal acts, passed during recession, create additional risks for doing business (see Chapter 5). Although Decree 7 eliminated some barriers and economic recovery mitigated legal risks in general, comprehensive legal and judicial reform is still needed to guarantee attractive business environment in Belarus.

Therefore, in addition to the traditional issues related to the changes in economic stance of small and

medium enterprises, conditions of doing business, and effectiveness of business unions, this Yearbook reviews judicial and legal barriers of private sector development. Special attention is paid to the risks, stemming from legislation and law enforcement practices that may threaten business development both in the short and long-run perspective. Another emphasis is placed on SMEs' experience of participation in legal proceedings, their confidence in judiciary system and assessment of level of protection provided by courts, as well as level of understanding of legal mechanisms of proceedings.

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¹ See National Bank of Belarus (2017). *Monitoring of Enterprises – state of affairs*. Express review, November.

² Econometric analysis of factors of small and micro enterprises' development at regional level of Belarus revealed that inflation has negative impact on business development, see Chubrik A. (2017). Recession impact on the regions of Belarus: The role of initial conditions, economic policy, and small business, IPM Research Center, *Working Paper* WP/17/04.

³ IPM Research Center (2017). *Macroeconomic Update: Sources of economic growth*, 2017Q3, № 2(15), December 2017.

2. SMALL AND MEDIUM-SIZED BUSINESS SECTOR DEVELOPMENT IN BELARUS

2.1. Introduction

For a long time, development of Belarusian small and medium-sized business has been regarded as a possible source of long-term growth. However, available macroeconomic data do not point to a steady increase of entrepreneurial activity, or to growth of the private sector. The economy is still dominated by large state-owned enterprises whose restructuring remains an off-limits subject, even in the context of negotiations with international financial organizations with respect to possible lending programs.¹ Still, the role played by state-owned enterprises in the economy, especially the role of the main employer, is gradually declining in a natural way, with small business stepping in to replace such enterprises. Eventual success of failure of such replacement depends on the level of development and the economic position of the SME sector.

Our review of the economic position of the SME sector will rely on the findings of SME polls conducted by the IPM Research Center on an annual basis. The latest poll was conducted in April-May 2017. The size of the study population was determined in accordance with the formula used to measure the finite general population sample² for the relevant qualitative attribute:

$$n = \frac{z_{1-\alpha/2}^2 \cdot p \cdot (1-p) \cdot N}{N\Delta_{\text{доп}}^2 + z_{1-\alpha/2}^2 \cdot p \cdot (1-p)},$$

where n is the size of the sample; N is the size of the general population; α is the level of significance; $\Delta_{\text{доп}}$ is the maximum margin of sampling error expressed in unit fractions; p is the probability of selection of a given response option for the general population; $z_{1-\alpha/2}$ is the confidence coefficient corresponding to the selected value of α .

To achieve representativeness, we performed a proportional allocation of the study population depending on the size of the entity and its territorial affiliation. The size of the ultimate study population amounted to 404 research targets, which is consistent with the national representativeness criterion. It covered enterprises with the number of employees ranging from 15 to 250, represented by directors, owners, and leading specialists.

The key approach employed to examine poll findings is the comparison of means. In particular, we will be testing the hypothesis of equality of means by subgroups and by years. Multiple comparison of means will be performed within the framework of one-way analysis of variances subject to possible inequality of sample variances, while for pairwise comparison we will use the Welch test. In the course of multiple comparison of samples, we will also resort to the nonparametric Kruskal – Wallis test of equality of response distributions. This test does not require that the data distribution normality assumption be observed. Consequently, its application is more justified when dealing with smaller samples.³

The chapter has the following structure: First we review macroeconomic data describing the evolution of small and medium-sized businesses in Belarus in 2016. Then we take a look at how they self-assess their economic position, their progress over the course of the year, changes in their key economic metrics, and their plans for the future. The main findings are recapitulated in the conclusion.

2.2. Role of SME Sector in Belarusian Economy

Economic stagnation of 2015-2016 had a considerable impact on development of the sector of small and medium-sized enterprises (SME sector). One of the key drivers of economic contraction has been reduction of domestic demand, including household consumption – a critical SME sector success factor. Due to that, SMEs were forced to cut their costs and curtail production. In the SME sector, the scale of downsizing was larger than on the average in the economy, as small and medium-sized businesses are generally more flexible than their larger counterparts.⁴ The higher flexibility also became the reason for the sector's speedier recovery. The economy in general began to overcome the recession only in the 4th quarter of 2016⁵, but 2016 SME metrics firmly put the sector in the black, while in most other sectors annual growth rates remained negative.

¹ Chubrik, A. (2017). Reforms in Belarus after the cancelled IMF program: Totem and taboo, IPM Research Center, *Commentary* 02/2017.

² See data in Belstat (2016). *Small and Medium Entrepreneurship in Belarus*, National Statistical Committee of the Republic of Belarus.

³ Additional information on the methodology used for analysis is provided in Pelipas, I., Tochitskaya, I. (2016). Perception of corruption by Belarus SMEs, IPM Research Center, *Policy Discussion Paper* DP/2016/08.

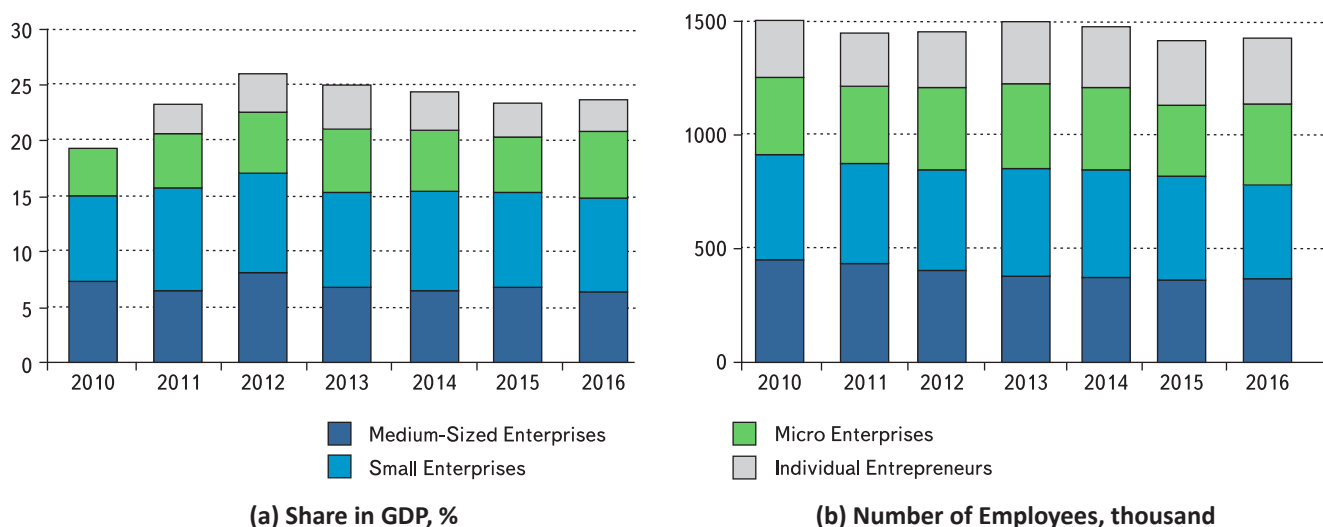
⁴ Shymanovich, G. (2016). Small and medium-sized business development trends in Belarus, IPM Research Center, *Policy Discussion Paper* PDP/2016/04.

⁵ IPM Research Center (2017). *Macroeconomic forecast for Belarus*, № 1(14).

**Table 2.1. SME Sector Contribution to Major Macroeconomic Indicators, 2009–2016, %**

	2009	2010	2011	2012	2013	2014	2015	2016
GDP	18.8	19.1	20.6	22.7	21.1	21.0	20.4	20.7
Employment	28.1	28.0	27.5	27.6	28.4	28.0	27.3	28.2
Production Output	20.0	20.0	22.2	22.6	20.8	20.9	20.2	21.9
Industrial Production	14.7	15.1	17.5	19.4	15.6	16.0	15.7	17.8
Investments	38.0	39.7	36.0	37.9	38.9	42.3	36.7	36.0
Exports	37.9	42.9	46.1	41.3	37.3	41.5	48.1	45.4
Excluding Mineral Products and Chemicals	–	13.7	16.3	14.0	16.4	19.5	21.7	24.3
Imports	33.5	37.4	31.1	34.7	35.7	35.0	35.5	38.6
Retail Trade Turnover	41.9	40.9	37.6	34.5	36.1	33.3	31.7	30.1
Wholesale Trade Turnover	80.3	81.5	90.6	76.1	81.6	79.1	83.2	83.2
Revenues	37.7	37.2	39.5	37.7	37.7	37.1	37.9	38.3

Source: National Statistical Committee of the Republic of Belarus.

Figure 2.1. Share of Individual Entrepreneurs, Small and Medium-Sized Businesses in GDP (a) and Total Employment (b), 2010–2016

Note. Statistical data on the share of individual entrepreneurs in the GDP is available only as of 2011. 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.

The SME sector is regarded as an alternative to the public sector based on the assumption that SME employment serves as a substitute for employment at large state-owned enterprises badly in need of restructuring. During the crisis, SME employment rates went down faster than in the other sectors of the economy, underscoring the fact that small business is more sensitive to changes in the general economic environment. However, in 2016 the number of workers employed in the SME sector went up yet again, despite the general contraction of the labor market. As a consequence, the share of the sector in total employment took a sound increase from 27.3% to 28.2% (see Table 2.1). Micro enterprises accounted for most

growth, with an employment rate increase of 13.4% (see Figure 2.1).

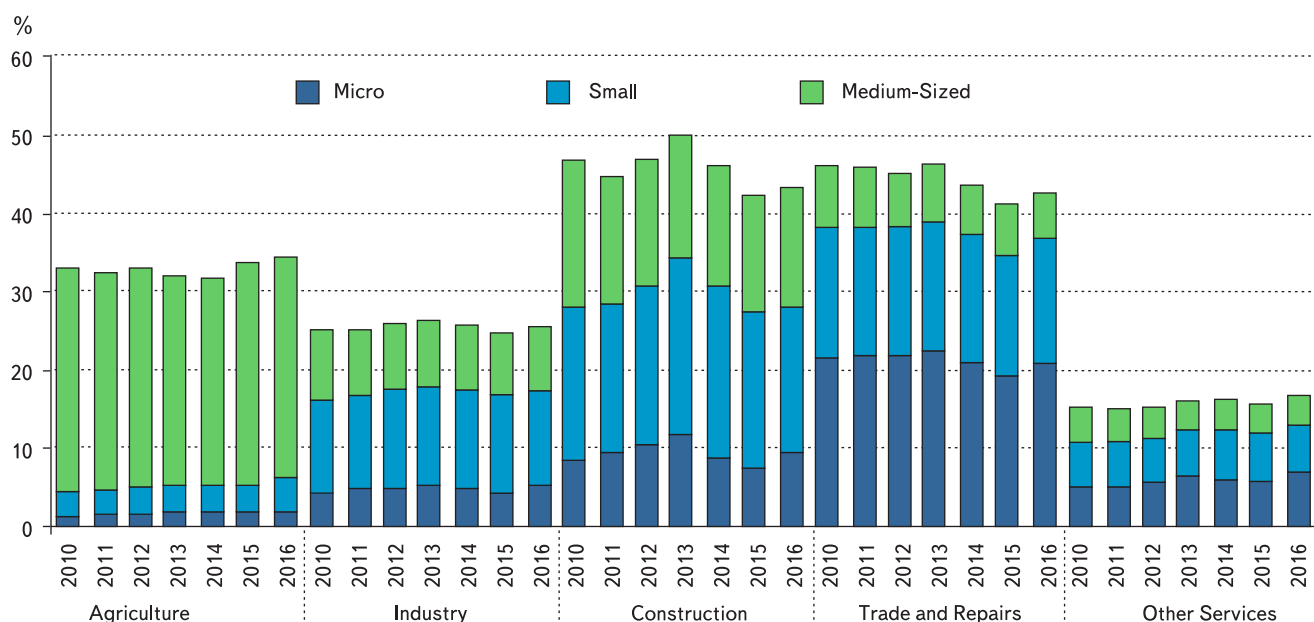
Individual entrepreneurs made a relatively modest contribution to general employment growth in the sector, mostly by increasing the number of hired workers. Employment rates posted by small and medium-sized enterprises, conversely, decreased by 4.6% and 2.7%, respectively, which is slightly above national employment rate reduction averages. Incidentally, at medium-sized enterprises employment rates have been going down for an extended period of time, reflecting their progressively shrinking role in the economy.

The growing contribution of micro enterprises to increasing SME sec-

tor employment rates can be attributed both to their higher flexibility and ability to promptly response to improvements in the economic environment, and to the comparatively higher appeal of this legal form of organization which is associated with less onerous tax and administrative burden vis-à-vis small and medium-sized enterprises.

Services and Industry have generated the most new jobs in the SME sector. In Construction, as well as in Trade and Repairs, the number of workers employed by small and medium-sized enterprises has been going down, but at rates which are below average for those sectors. As a consequence, the share of the SME sector in total employment

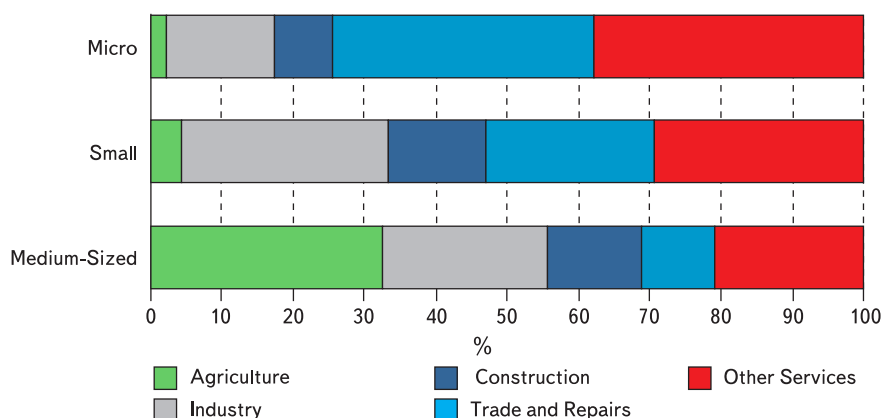
Figure 2.2. Share of Small and Medium-Sized Businesses in Total Employment Depending on Type of Economic Activity, 2010–2016, %



Note. Types of economic activities are presented in accordance with OKRB 005-2006 (National Classification of the Republic of Belarus) *Types of Economic Activities* for periods up to and including 2015, and in accordance with OKRB 005-2011 for the year of 2016. Selection of types of activities depends on their comparability in those two classifications.

Source: National Statistical Committee of the Republic of Belarus.

Figure 2.3. Structure of Employment at Micro, Small and Medium-Sized Enterprises by Type of Economic Activity



Source: National Statistical Committee of the Republic of Belarus.

has increased in all sectors of the economy (see Figure 2.2). In most sectors, the growth of the SME share represented a recovery after the 2015 decline, with a relatively stable increase of the sector's contribution to total employment observed only in Services (excluding Trade) and Agriculture. In the Services sector, the growth is supported primarily by the new jobs created by micro enterprises involved, in particular,

in transport operations, professional and research activities, and provision of information and communication services.

The growth of the share of small and medium-sized enterprises in Agriculture can be attributed to the fact that a considerable number of agricultural enterprises, including state-owned enterprises, can be classified as medium-sized enter-

prises in terms of the number of employees. For that reason, Agriculture accounts for one third of all workers employed by medium-sized enterprises, while for small and micro enterprises its share does not exceed 5% (see Figure 2.3).

The share of small and medium-sized enterprises in total employment in Industry is rather stable. Its increase in 2016 can be attributed to micro enterprises which previously had been known to significantly reduce the number of their employees.

The share of small and medium-sized enterprises in total employment in Trade and Construction is much higher than the share of the other sectors, but has a tendency to decrease. Its partial recovery in both sectors in 2016 was driven by micro enterprises. Trade remains the key target sector for micro enterprises, with small and medium-sized enterprises apparently specializing on provision of construction services. On the whole, the long-term trend which involves reduction of the role

**Table 2.2. SME Sector Contribution to Total Employment by Regions, 2010–2016, %**

	2010	2011	2012	2013	2014	2015	2016
Brest Region	26.7	26.5	25.8	26.4	26.2	25.6	26.5
Vitebsk Region	25.0	24.3	24.0	24.2	23.5	23.7	24.4
Gomel Region	21.9	19.9	20.1	21.2	21.5	21.1	21.4
Grodno Region	21.3	21.5	22.3	22.0	22.2	20.9	21.8
Minsk	37.6	37.2	37.6	38.5	37.3	35.9	37.0
Minsk Region	30.5	30.5	30.6	32.1	31.9	31.5	32.3
Mogilev Region	23.1	22.3	22.2	22.8	21.8	21.3	22.2

Source: National Statistical Committee of the Republic of Belarus.

of small business in these sectors can be explained both by regulatory changes, and by the impact of economic factors.

In Retail Trade, large networks seem to capture increasingly larger shares of total trade turnover, squeezing out small businesses. By the same token, government regulation is gradually curtailing the ability of individual entrepreneurs to maintain their positions in markets for consumer goods. In Construction, government regulation often reduces the number of market players. Other contributing factors include the protracted decline of investments into the economy, and reduction of public expenditures in the Construction sector.

Certain other indicators are also instrumental to tracking the growing role of the SME sector in the economy. In particular, there has been a significant increase in the share of small and medium-sized businesses in production of goods and services from 20.2% to 21.9% (see Table 2.1). The share of the SME sector in production is relatively lower than in total employment, which can be explained by smaller production scale, higher labor intensity, and limited capital expenditure capability. Accordingly, palpable increase of SME contribution to total output of goods and services is indicative of higher productivity of labor in this sector relative to the economy as a whole.

The increase of the role played by small and medium-sized businesses in production of goods and services is largely attributable to industrial enterprises. The share of SMEs in Industrial Production has increased from 15.7% in 2015 to 17.8% in

2016. Industry is also responsible for the increase of the SME share in exportation of goods (excluding mineral products and chemicals) from 21.7% to 24.3%. In value terms, SME exports have gone up by 17.2%, with machines, equipment and vehicles accounting for 46.6% of that increase. The volume of exportation of wood products has also grown quite substantially, accounting for 24.5% of total increase.

At the same time, the role of SMEs in Retail Trade Turnover and Investments is declining. This trend has persisted since 2016, despite the growth of the share of small and medium-sized businesses in Trade and Construction. The share of SMEs in Wholesale Trade turnover is still high, which is attributable to the nature of operations in that sector.

Small and medium-sized businesses display widely varying growth rates in different regions of the country.⁶ The SME sector plays the most significant role in the economy of Minsk and Minsk Region. Of all Belarusian regions, only Minsk Region has been able to maintain positive growth rates over an extended period of time (see Table 2.2). In 2016, the share of SMEs in total employment increased in all regions.

2.3. Self-Assessment of Current Economic Position

The results of a poll held in April-May 2017 verify that the situation in the

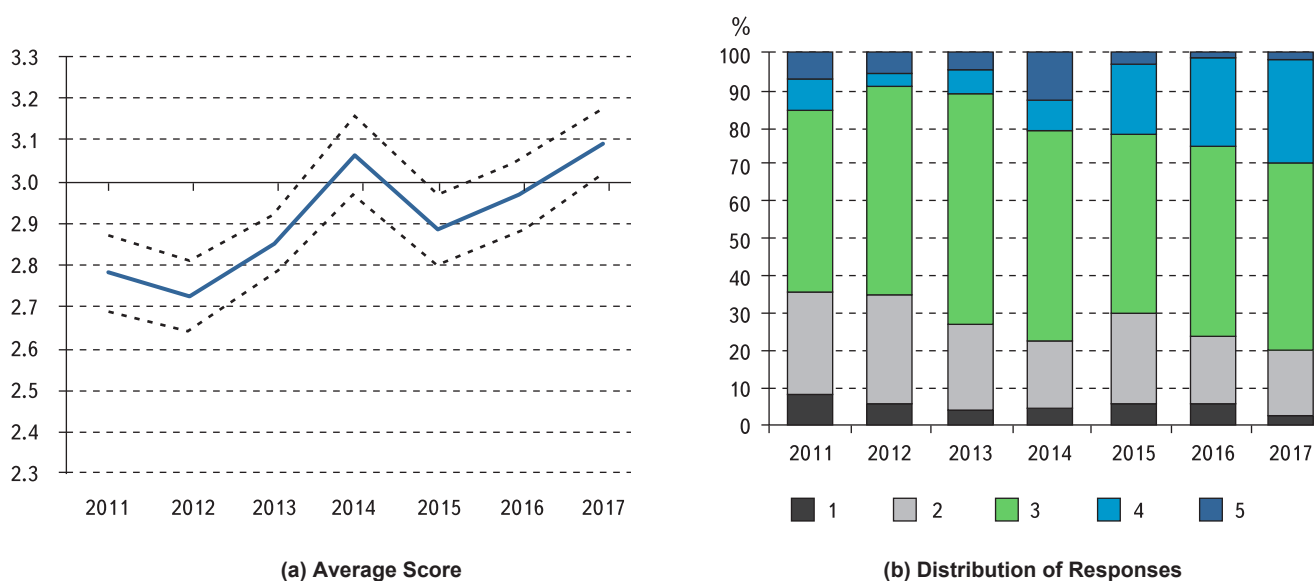
SME sector has, indeed, improved. The average score that respondents assign to the current economic position of their enterprises on a scale from 1 to 5 (where 1 corresponds to "very poor", and 5 corresponds to "very good") has, statistically, exceeded 3. Accordingly, the number of enterprises which have assessed their position as "good" (30%) is considerably larger than the number of those which tend to perceive it as "poor" (19.9%). This has happened for the first time since 2011.

Compared to the 2016 poll, the average score has increased by 0.13, which is a statistically significant change. The overall improvement of the average score has occurred because the number of respondents who describe the economic position of their enterprises as "rather good" has increased from 23.2% to 28.3%, while the number of those who see it as "rather poor" has decreased from 5.4% to 2.3% (Figure 2.4).

Better self-assessment of the current economic position by enterprises has been noted throughout the entire SME sector. Representatives of various industries have been upping their scores, but the increase was not large enough for us to be able to single out major individual contributors to the general improvement in the SME sector. Differences in self-assessment of economic position by representatives of small and medium-sized enterprises from various sectors of the economy are virtually non-existent (the Welch *F*-test conducted within the framework of one-way analysis of variances does not reject equality of average sectoral scores, while the Kruskal – Wallis *H*-test does

⁶ Chubrik, A. (2017). Recession impact on the regions of Belarus: The role of initial conditions, economic policy, and small business, IPM Research Center, *Working Paper* WP/17/04.

Figure 2.4. Assessment by Representatives of Small and Medium-Sized Businesses of the Current Economic Position of Their Enterprises, 2011–2017



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 5% confidence interval. The difference between average scores for 2016 and 2017 is statistically significant at the 5% level: the value of the Welch *t*-test is 2.230, $p = 0.026$. Before 2016, the poll sample also included micro enterprises and, accordingly, the data for 2011–2017 are not fully comparable.

Source: IPM Research Center.

Table 2.3. Tests for Equality of Average Scores Assigned by SMEs in the Course of Assessment of Their Current Economic Position Depending on Sectoral Affiliation, Year of Establishment, Size, and Location

	Levene Test	F-Test/Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	1.157 [0.326]	2.215 [0.086]	7.025 [0.071]
Year of Establishment	4.620 [0.003]	2.242 [0.086]*	5.268 [0.153]
Size of the Enterprise	6.918 [0.001]	0.136 [0.873]*	0.494 [0.781]
Location of the Enterprise	1.121 [0.290]	12.839 [0.000]	12.173 [0.000]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed in Figure 2.5. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances (grouping by year of establishment and size of the enterprise). In all other cases, the standard *F*-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the *p*-value. Grouping attributes for which average current economic position scores are unequal are marked with gray shading.

Source: in-house calculations.

not reject the equality of response distributions hypothesis). In practical terms, we can assume, based on confidence intervals, that there exists certain inequality between self-assessment scores of enterprises from Construction and Other Services⁷ (see Figure 2.5a).

⁷ Multiple comparison of means precludes a conclusion that they are different. However, pairwise comparison of means for Construction and Other Services based on the Welch *t*-test (2.148, $p = 0.034$) shows that differences may exist. The test cannot be used as conclusive evidence, though, due to the high probability of type I error occurring in the course of pairwise comparison of individual sub-groups within the set. However, the *post-hoc* Duncan test conducted within the framework of ANOVA also confirms the existence of differences between Construc-

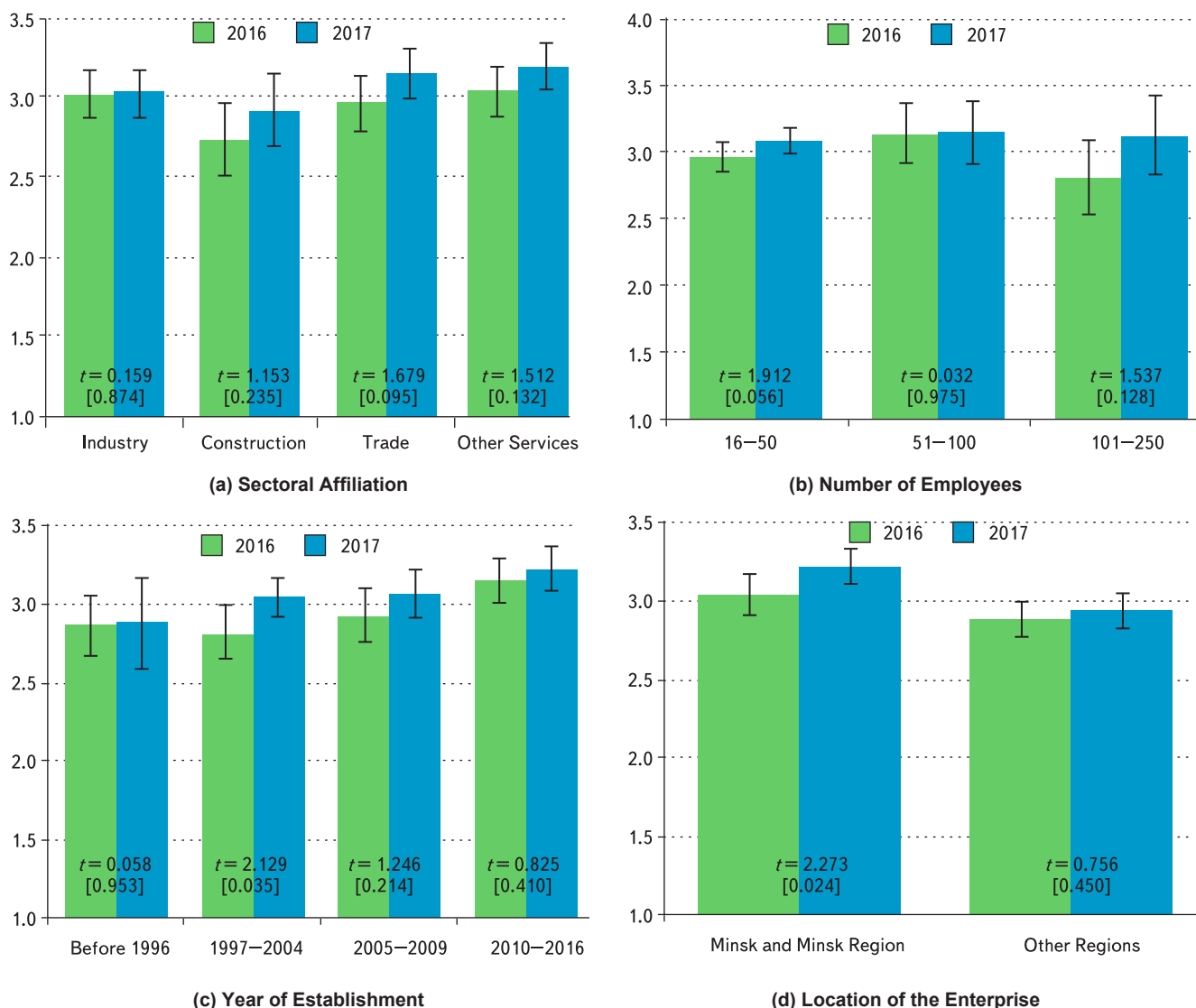
Against the backdrop of adverse changes in Construction, representatives of that sector assess their economic position more negatively than enterprises providing services, including those operating in less crisis-prone areas, such as Finance, Communications, and IT Services. Only in the Services sector (including Trade) the average current economic position self-assessment score has exceeded 3. Accordingly, it is the Services sector that has ultimately tipped the scales in favor of positive self-assessment scores.

tion and Other Services. The test singles out two groups with equal means where all sectors intersect – with the exception of the two listed above.

The extent of perceived improvement of the current economic position was not the same for small and medium-sized enterprises (Figure 2.5b). Statistically significant increase of average scores was posted only by small enterprises with the number of employees below 50, which yet again underscores their higher sensitivity to changes in the economic environment. Economic position scores did not change for small enterprises with the number of employees above 50. Score improvement for medium-sized enterprises is not statistically significant, which may be attributable, among other things, to the small number of observations in the sample. These changes in the



Figure 2.5. Assessment by SME Representatives of the Current Economic Position of Their Enterprises Depending on Sectoral Affiliation (a), Size (b), Year of Establishment (c), and Region (d)



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 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group. The figure in square brackets is the *p*-value.

Source: IPM Research Center.

perception of economic position by small and medium-sized enterprises have led to perceptions becoming aligned throughout the SME sector. No notable differences in economic position self-assessment scores were observed in 2017 between small and medium-sized enterprises (Table 2.3).

By the same token, we discovered no statistically significant differences between 2017 current economic position scores subject to the year of establishment of the enterprise. That said, younger companies (those established after 2010) stand

out as the only group of companies where positive scores prevail over negative scores (average score is higher than 3). This relatively more optimistic outlook is natural, as many of these younger companies are still growing.

Certain differences in current economic position scores were noted between enterprises established during different periods (Figure 2.5c). Compared to 2016, there has been a considerable increase in average current economic position scores posted by enterprises established during the period from

1997 to 2004. Because of that, their perception of their economic position has become similar to that of their younger counterparts. In all probability, the relatively older enterprises which emerged during a period of rapid economic growth have proven to be more sensitive to the change in national economic policy priorities from stimulating domestic demand to maintaining macroeconomic stability, and they have needed more time to adapt to the new operating conditions.

There are significant differences between perceived economic position

scores depending on the location of enterprises (Figure 2.5d). Enterprises from Minsk and Minsk Region are generally more optimistic. Their average score is significantly higher than 3, with the number of positive responses exceeding the number of negative responses (35.6% and 14.2%, respectively). On the one hand, this can be explained by the smaller depth of economic crisis in Minsk and Minsk Region. On the other hand, this result is consistent with macroeconomic data which testify to a generally more rapid growth of small and medium-sized businesses in Minsk and, particularly, in Minsk Region. Current economic position scores posted by companies from other regions are, conversely, rather neutral. The numbers of positive and negative responses are comparable: 22.9% of respondents from other regions perceive their position as "good", and 26.8% – as "poor."

This difference in self-assessment of economic position by enterprises from Minsk and Minsk Region on the one hand and enterprises from other regions on the other hand is statistically significant (see Table 2.3). Moreover, in 2017 this gap has widened, with enterprises from Minsk and Minsk Region claiming that their economic position has considerably improved, while their counterparts from other regions have, on the average, shown little, if any, change compared to last year.

A more detailed analysis of responses with a breakdown by regions was hampered by the small size of the sample. Nevertheless, the Kruskal – Wallis *H*-test (which is generally more applicable to small samples) shows the existence of differences between distributions of economic position self-assessment scores assigned by respondents from different regions. In particular, the Games – Howell test shows that statistically significant difference between average scores exists between Minsk (where those scores are the highest) and Vitebsk Region (where they are the lowest) (see Table 2.6).

2.4. Self-Assessment of Changes in Economic Position

Assessment by the business community of changes in its economic position is often more indicative of the trends shaping evolution of the SME sector than assessment of its current economic position. Previous research, for example, shows that assessment of changes in economic position is definitely linked to the movement of certain macroeconomic indicators.⁸

According to the 2017 poll findings, enterprises have assessed changes in their economic position much more positively than in previous years. The average score assigned by respondents answering the question "How has the economic position of your enterprise changed over the last year?" on a scale from 1 ("significantly deteriorated") to 5 ("significantly improved") has increased from 2.37 in 2016 to 2.68 in 2017. This has happened because the share of those who believe that their economic position has improved has doubled (from 10.3% to 21.8%, see Figure 2.6). Still, the number of enterprises noting a deterioration of their position (39.5%) continues to be higher than the number of enterprises noting an improvement of their position. As a consequence, the average score for the full sample remains much lower than 3.

Such distribution of responses to the question regarding changes in the economic position of enterprises (where the number of negative responses exceeds the number of positive responses) contradicts the results of the previous poll, according to which the number of enterprises which had a positive view of their economic condition increased compared to the 2016 poll. Incidentally, within the framework of any given poll, the level of correlation between responses to the questions regar-

ding the current economic position of the enterprise and changes in that position is very high (2017: 0.668), and there are very few, if any, contradictory responses. Accordingly, the reason may lie in the full annual rotation of the sample, which makes it impossible to retain enterprises with poor economic condition due to the simple fact that they close down. For that very reason any assessment of the trends affecting the SME sector will be more informative, if it relies on responses to the question on changes in the economic condition rather than the question on the current economic condition.

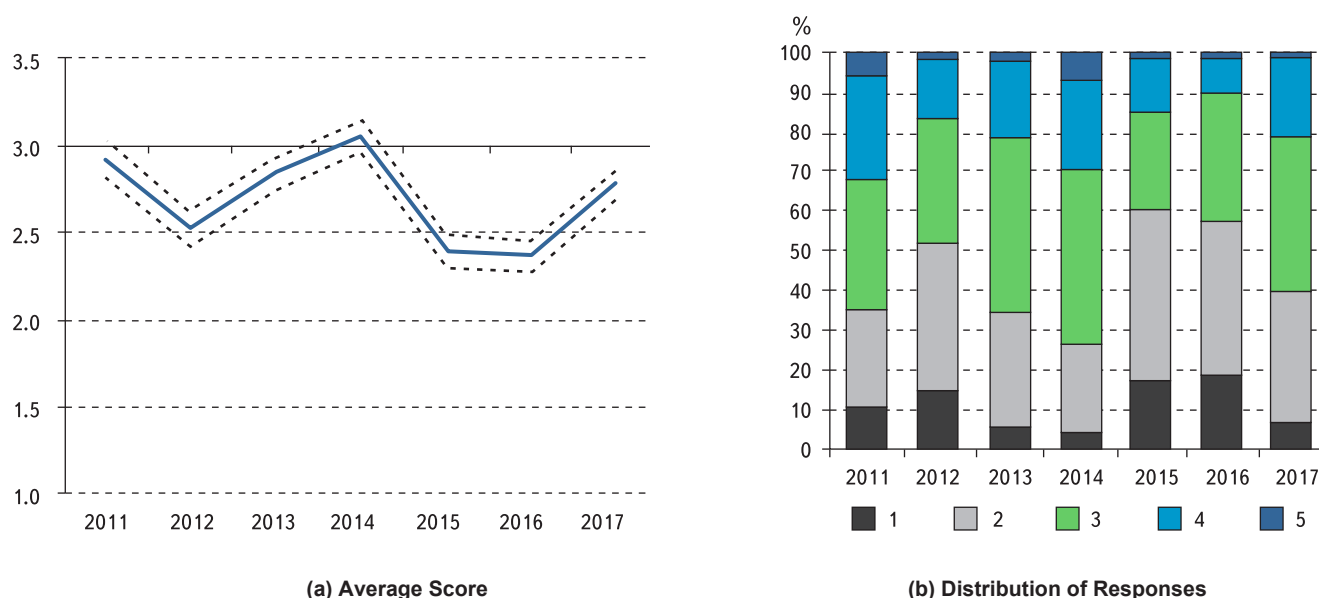
In last year's paper, we noted that assessment by representatives of small and medium-sized enterprises of changes in their economic position strongly correlates with changes in retail turnover and salaries. That confirmed that small and medium-sized enterprises were mostly focused on satisfying consumer demand in the domestic market. However, in the 2017 poll the link between retail turnover and assessment by enterprises of changes in their economic position has become less noticeable. The growth of the average score assigned by SMEs to changes in their economic position has occurred against the backdrop of accelerating reduction of retail turnover in Belarus in 2016 (Figure 2.7).

Available results prove that in the second half of 2016 and in the beginning of 2017 evolution of the SME sector was rather closely aligned with evolution of the general economic environment. By the same token, deceleration of GDP decrease at the end of 2016 and its slight increase in the beginning of 2017 could be attributed to improvement of external demand, meaning that external markets have begun to play a more important role in the operation of small and medium-sized businesses. These conclusions are consistent with macroeconomic data on changes in the SME sector structure, according to which contribution of small and medium-sized

⁸ Shymanovich, G. (2016). Small and medium-sized business development trends in Belarus, IPM Research Center, *Policy Discussion Paper PDP/2016/04*.



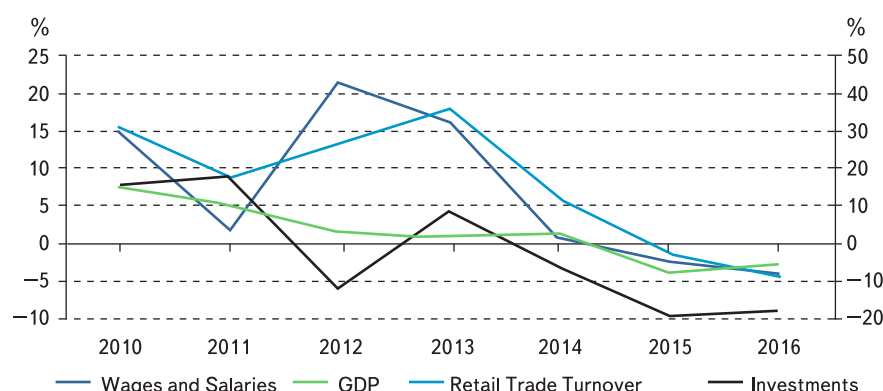
Figure 2.6. Assessment by Representatives of Small and Medium-Sized Businesses of Changes in the Economic Position of Their Enterprises, 2011–2017



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 5% confidence interval. The difference between average scores for 2016 and 2017 is statistically significant at the 5% level: the value of the Welch t -test is 6.354, $p = 0.000$. Before 2016, the poll sample also included micro enterprises and, accordingly, the data for 2011–2017 are not fully comparable.

Source: IPM Research Center.

Figure 2.7. Changes in Key Macroeconomic Indicators, 2011–2016



Note. Investments – right axis.

Source: National Statistical Committee of the Republic of Belarus.

enterprises to Industrial Production and Exports has increased, while their contribution to retail turnover has, conversely, decreased.

If we now turn to sectoral affiliation, the share of respondents saying that their economic position has improved has increased in all sectors with the exception of Construction. The increase of the average score assigned by Construction enterprises to changes in their economic position was statistically insignificant.

This is consistent with the general level of investment activity which in 2016 remained in deep recession.

The lack of improvements in the Construction sector has resulted in emergence of significant differences in assessment of changes in the economic position of enterprises depending on their sectoral affiliation. For example, the Kruskal – Wallis H -test shows differences in distribution of responses to the question regarding changes in the economic

position of enterprises, while the Welch F -test shows differences in average scores (Table 2.4). The *post-hoc* Games – Howell test conducted within the framework of one-way analysis of variances shows that differences between average scores assigned to changes in the economic position exist between enterprises operating in the Services (2.97) and Construction (2.45) sectors. Services is the only sector where the average score is indistinguishable from 3 (see Figure 2.8a), i. e. where the numbers of respondents claiming that their economic position had improved and deteriorated are comparable. In the other sectors, like the year before, there have been more negative scores than positive scores. Nevertheless, industrial SMEs and Trade enterprises gave a much more optimistic assessment of the trends affecting their development in 2017 compared to the previous poll.

We have observed no significant differences in assessment of changes in the economic position based on the size of the enterprise. The relevant scores have gone up both for small and medium-sized enterprises

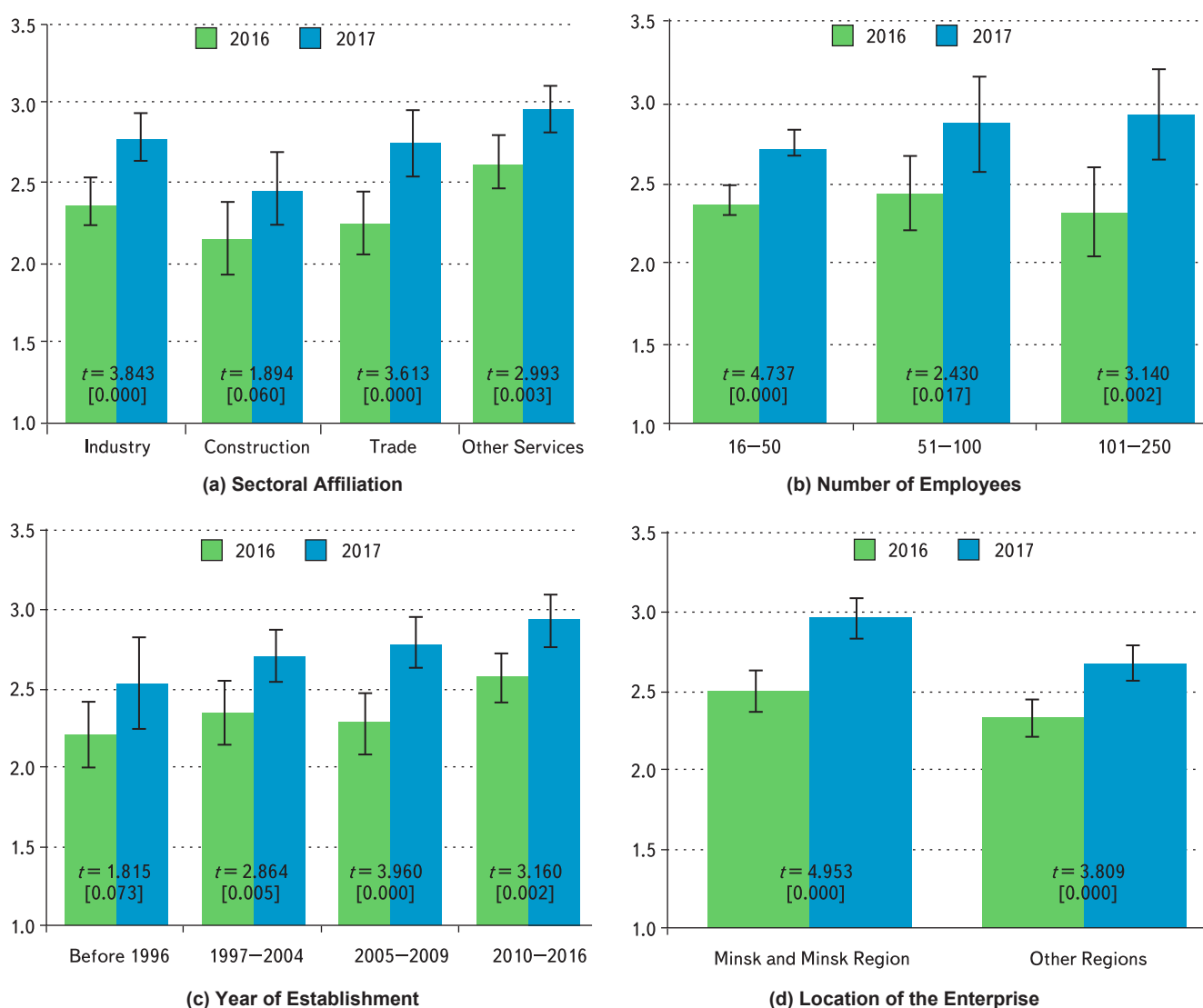
Table 2.4. Tests for Equality of Average Scores Assigned by SMEs in the Course of Assessment of Changes in Their Economic Position Depending on Sectoral Affiliation, Year of Establishment, Size, and Location

	Levene Test	F-Test / Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	5.595 [0.001]	4.922 [0.003]*	16.399 [0.001]
Year of Establishment	0.581 [0.628]	2.681 [0.047]	9.205 [0.027]
Size of the Enterprise	0.716 [0.489]	1.623 [0.199]	2.240 [0.326]
Location of the Enterprise	1.351 [0.246]	10.927 [0.001]	11.134 [0.000]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed in Figure 2.8. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances (grouping by sectoral affiliation). In all other cases, the standard *F*-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the *p*-value. Grouping attributes for which average economic position change scores are unequal are marked with gray shading.

Source: in-house calculations.

Figure 2.8. Assessment by SME Representatives of Changes in the Economic Position of Their Enterprises Depending on Sectoral Affiliation (a), Size (b), Year of Establishment (c), and Region (d)



Note. Scores are assigned on a scale from 1 to 5, where 1 is “significantly improved” and 5 is “significantly deteriorated.” The segments represent the 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group. The figure in square brackets is the *p*-value.

Source: IPM Research Center.

(see Figure 2.8b). Still, as regards medium-sized enterprises and small enterprises with the number of employees above 50, we note

that, on the average, they have presented a neutral assessment of changes in their economic position. Their average scores are statistically

indistinguishable from 3, but that is largely attributable to the wide confidence interval due to the small size of the relevant sub-samples.



As for small enterprises with the number of employees below 50, negative assessment of changes in their economic position continued to prevail (40.5% of respondents claimed that their economic position had deteriorated, while the share of optimists was 19.4%).

There exist significant differences in assessment of changes in the economic position of enterprises depending on the year of its establishment. The younger enterprises have a generally less negative view of changes in their economic position. Particularly large differences have been noted between the scores assigned by enterprises established after 2010 and before 1996 (Figure 2.8c). For the latter, the Welch *t*-test does not confirm that their scores have improved compared to the 2016 poll, which makes the older enterprises stand out among all other respondents. The average scores assigned by the other small and medium-sized enterprises have gone up, and in the case of recently established enterprises (after 2010) have come close to 3.

Location of the enterprise also has a material impact on its assessment

of changes in the economic position. Enterprises from Minsk and Minsk Region have been noticeably more optimistic in their assessment of changes in the economic position compared to enterprises from other regions (Figure 2.8d). A more detailed analysis based on the results of the Kruskal – Wallis *H*-test and the Games – Howell test for equality of average scores within the framework of one-way analysis of variances shows that significant changes exist only between the scores assigned by enterprises from Minsk, where respondents have, on the average, given a neutral assessment of changes in their economic position, and enterprises from Brest and Mogilev most of which have seen a deterioration in their economic position (see Table 2.6).

2.5. Self-Assessment of Changes in Certain SME Economic Indicators

Poll results related to changes in certain SME economic indicators are generally consistent with the prevailing macroeconomic trends. For example, the share of enterprises

noting a decrease in the volume of sales has gone down from 59.6% in 2016 to 48.8% in 2017. Conversely, higher sales have been claimed by 23% of respondents in 2017 vs. 11.8% in 2016. Concurrently, SMEs do not mention recovery of employment in the sector (Figure 2.9b). In 2017 the share of respondents representing enterprises where the number of employees has decreased stands at 41.5%, which is close to the level registered in 2016 (39.3%). This is consistent with the recent trend where the growth of contribution of the SME sector to employment in the national economy is attributable to declining employment in the other sectors rather than to any increase of the number of workers employed by the SME sector.

The answers given by the respondents also reflect continued reduction of investments (Figure 2.9c). The share of enterprises which have noted that trend currently stands at 35% (2016: 27.8%), which is consistent with the general decrease of SME contribution to investments in Belarus. The poll also shows that, parallel to the increase in the number

Figure 2.9. Normalized Average Scores Assigned to Changes in the Volume of Sales (a), Employment (b), and Investments (c) by Small and Medium-Sized Enterprises, 2011–2017



Note. Inasmuch as the scale applied to the question regarding changes in economic indicators has been modified from year to year, it has been normalized to assure comparability of results. The final score range is from 0 to 1, where 0 is "significantly decreased", 1 is "significantly increased", and 0.5 is "did not change." Normalization was performed in accordance with the following formula:

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

where \bar{x} is the scale mode, and σ is standard deviation.

The dotted lines in the figures represent the 5% confidence interval. Before 2016, the poll sample also included micro enterprises and, accordingly, the data for 2011–2017 are not fully comparable even after scale normalization.

Source: in-house calculations based on IPM Research Center data.

Table 2.5. Tests for Equality of Average Scores Assigned by SMEs in the Course of Assessment of Changes in Their Economic Indicators Depending on Sectoral Affiliation, Year of Establishment, Size And Location of the Enterprise

	Levene Test	F-Test / Welch F-Test*	Kruskal – Wallis H-Test
<i>Sales</i>			
Sectoral Affiliation	1.447 [0.229]	5.133 [0.002]	16.140 [0.001]
Year of Establishment	1.010 [0.388]	5.104 [0.001]	15.884 [0.001]
Size of the Enterprise	0.352 [0.703]	2.493 [0.084]	3.913 [0.141]
Location of the Enterprise	1.177 [0.279]	9.502 [0.002]	7.905 [0.005]
<i>Employment</i>			
Sectoral Affiliation	0.837 [0.474]	3.792 [0.011]	10.786 [0.013]
Year of Establishment	1.018 [0.384]	4.144 [0.007]	13.130 [0.004]
Size of the Enterprise	0.132 [0.877]	1.037 [0.355]	1.402 [0.496]
Location of the Enterprise	6.458 [0.011]	3.871 [0.050]*	2.849 [0.091]
<i>Investments</i>			
Sectoral Affiliation	2.593 [0.052]	0.642 [0.588]	1.927 [0.588]
Year of Establishment	2.647 [0.049]	1.466 [0.226]*	5.866 [0.118]
Size of the Enterprise	0.651 [0.522]	4.394 [0.013]	6.212 [0.045]
Location of the Enterprise	4.962 [0.026]	18.160 [0.000]*	17.301 [0.000]
<i>Profit</i>			
Sectoral Affiliation	2.345 [0.072]	2.781 [0.041]	10.081 [0.018]
Year of Establishment	2.021 [0.110]	2.430 [0.065]	6.527 [0.100]
Size of the Enterprise	0.010 [0.990]	2.892 [0.057]	5.197 [0.074]
Location of the Enterprise	3.084 [0.080]	8.873 [0.003]	7.116 [0.008]
<i>Payables</i>			
Sectoral Affiliation	0.440 [0.725]	4.159 [0.006]	11.679 [0.009]
Year of Establishment	2.424 [0.065]	0.742 [0.528]	1.999 [0.573]
Size of the Enterprise	0.912 [0.402]	1.420 [0.243]	3.650 [0.161]
Location of the Enterprise	0.902 [0.343]	2.619 [0.106]	2.770 [0.096]
<i>Receivables</i>			
Sectoral Affiliation	0.634 [0.593]	2.255 [0.082]	9.826 [0.020]
Year of Establishment	2.822 [0.039]	0.154 [0.927]*	1.159 [0.763]
Size of the Enterprise	2.402 [0.092]	1.409 [0.246]	3.642 [0.162]
Location of the Enterprise	0.001 [0.973]	0.422 [0.517]	0.091 [0.763]

Note. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances. In all other cases, the standard *F*-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the *p*-value. Grouping attributes for which average scores of changes in economic indicators of the enterprise are unequal are marked with gray shading.

Source: in-house calculations.

of enterprises cutting their investments, there is a small increase in the number of small and medium-sized enterprises stepping up their investment activities. Accordingly, enterprises comprising the SME sector are apparently moving in different directions, which is largely attributable to the disparity of prevailing trends affecting different branches of the economy. This assumption is borne out by the high polarization of responses to the question on changes in profits. The share of neutral responses is only 25.9%, while 49.6% of respondents said their profits had gone down, with 24.5% claiming they had gone up.

Differences in perceived changes in economic indicators are particularly well-pronounced depending on the *sectoral affiliation* of the enterprise. The most optimistic assessments are typical for enterprises from the Other Services sector (excluding Trade, see Figures 2.10 – 2.12). In

particular, last year scores assigned by those enterprises to changes in the volume of sales have considerably improved and become statistically different from scores assigned by enterprises from other sectors (see Table 2.5 and Figure 10a). According to *post-hoc* tests conducted within the framework of one-way analysis of variances for pairwise comparison of means (Games – Howell test), there have emerged significant differences between perceived changes in the volume of sales between Services and Construction.

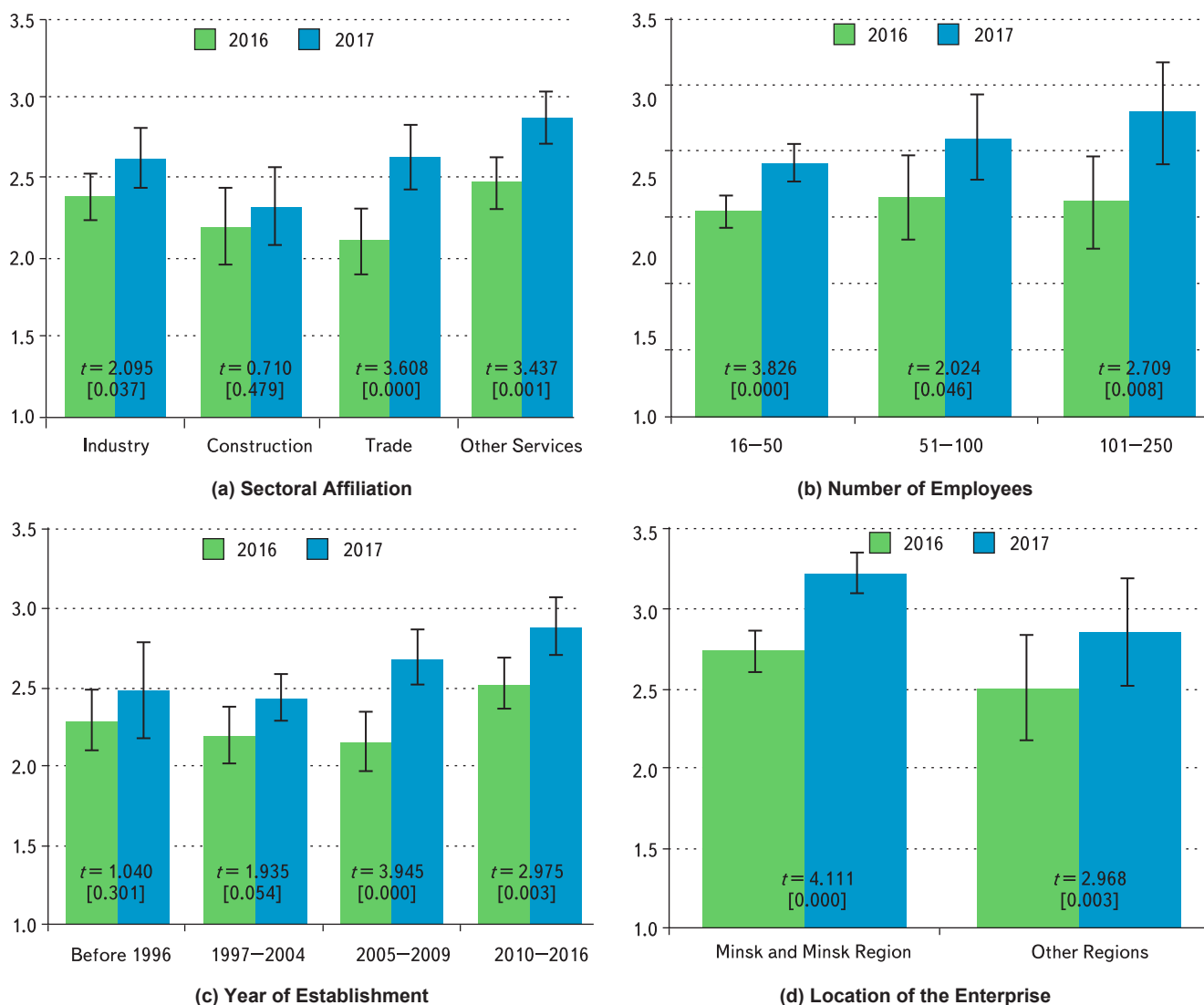
In addition to that, respondents from the Other Services sector assign higher scores to changes in their financial indicators (see Figure 2.12). They (unlike the SME sector as a whole) have noted a meaningful reduction of both receivables and payables (average score: < 3). Besides, their scores for changes in profits are considerably higher than

the relevant averages. Of all indicators under review, only changes in investments and employment in the Services sector did not differ from the relevant averages (and continued to decline). Therefore, stabilization of the volume of sales and financial indicators in the sector is attributable to optimization of costs and rapid recovery of demand (including external demand), rather than to expansion of the sector.

Certain positive changes have also been registered in the Trade sector. Trade enterprise (in line with poll averages) have assigned higher scores to changes in the volume of sales (Figure 2.10a). Still, even in this sector the share of enterprises which have to deal with falling sales is higher than the share of enterprises whose sales have increased. Concurrently, Trade enterprises have assigned considerably higher scores to changes in employment (Figure 2.11a), which



Figure 2.10. Assessment by SME Representatives of Changes in Sales Depending on Sectoral Affiliation (a), Size (b), Year of Establishment (c), and Region (d)



Note. Scores are assigned on a scale from 1 to 5, where 1 is "sales significantly decreased", and 5 is "sales significantly increased." The segments represent the 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group. The figure in square brackets is the *p*-value.

Source: IPM Research Center.

reflects recovery of the SME share in the total number of people employed by the Trade sector.

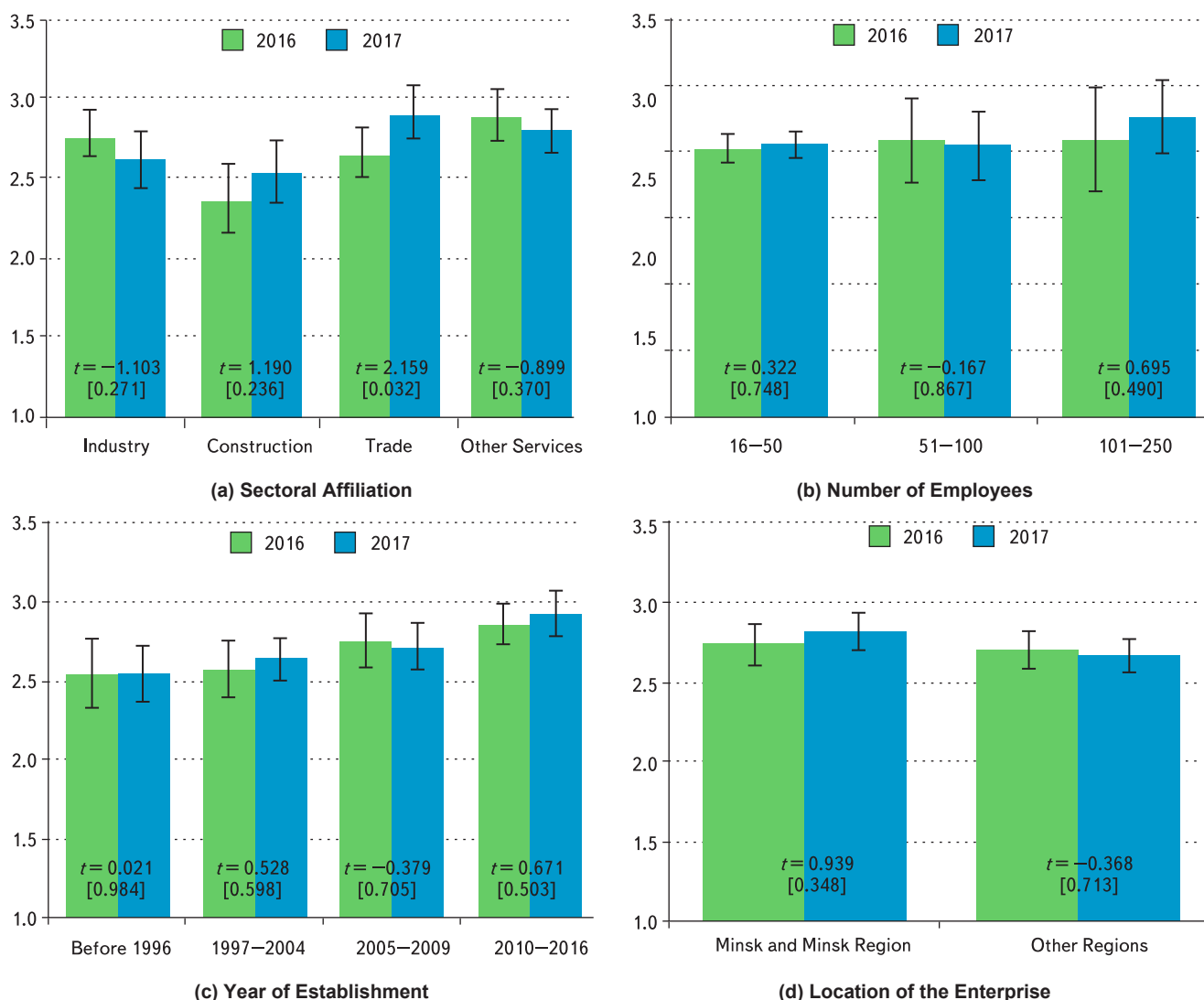
Trade has become the only sector where the average score of changes in employment may be statistically equated to 3. Enterprises operating in other sectors are more likely to have encountered reduction in employment than its growth. Scores assigned by Trade enterprises to changes in the other economic indicators (investments, profits, payables, and receivables) have not changed, remaining rather negative – which is typical for most

small and medium-sized enterprises (Figure 2.12). Neutral scores assigned by Trade enterprises to changes in employment are probably attributable to the idiosyncratic nature of labor market in this sector.

The most negative trends have been registered in Construction. Here, unlike elsewhere in the SME sector, there have been no improvements in the volume of sales. As a consequence, Construction is lagging far behind other sectors (see Table 2.5 and Figure 2.10a). Besides, Construction enterprises have experienced a sizeable reduction of

employment. Accordingly, average scores assigned by Construction enterprises are statistically lower than those assigned by enterprises from other sectors, particularly Trade (see Table 2.5 and Figure 2.11a). The same is true for perceived changes in the level of profits – they are statistically lower than in the Services sector. This state of affairs in small and medium-sized enterprises operating in Construction is related to the general situation in the industry which has been shrinking against the background of dwindling government investment expenditures,

Figure 2.11. Assessment by SME Representatives of Changes in Employment Depending on Sectoral Affiliation (a), Size (b), Year of Establishment (c), and Region (d)



Note. Scores are assigned on a scale from 1 to 5, where 1 is "employment significantly decreased" and 5 is "employment significantly increased." The segments represent the 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group. The figure in square brackets is the *p*-value.

Source: IPM Research Center.

individual incomes, and overall economic activity in the country.

Answers provided by respondents from Industrial Production are consistent with SME sector averages. They basically reflect a certain improvement of the situation with respect to the volume of sales, and lack of changes in the other indicators.

No significant differences in scores assigned to changes in economic indicators have been noted depending on the *size of the enterprise*. The only indicator where scores as-

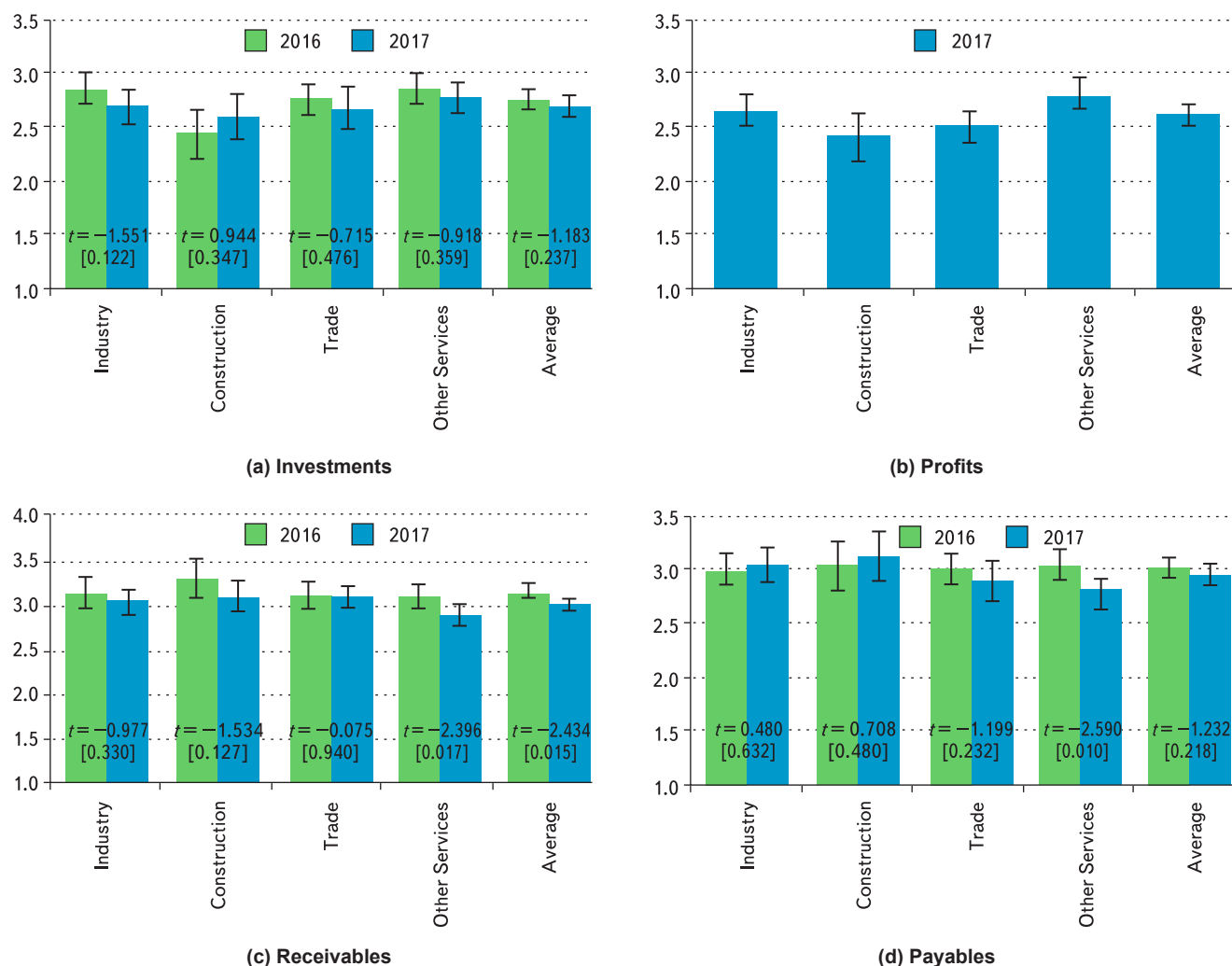
signed by small and medium-sized enterprises are statistically different is changes in investments (see Table 2.5). Medium-sized enterprises assess those changes neutrally (average score: 3.06), while small enterprises, particularly those with the number of employees below 50, have to deal (like in previous years) with decreasing investments (average score: 2.66). Some differences may also exist in assessment of changes in profits (where scores are getting better as the size of the enterprise increases – from 2.58 to 2.92), but tests do not support that hypothesis at the 5% significance

level due to the small size of the sub-sample for medium-sized enterprises. Accordingly, the fact that investment activity of medium-sized enterprises has stopped to decline is probably only partially attributable to improvements in their financial position. Another possible explanation is the gradual restoration of access to external funding (see Chapter 3).

A comparison of findings of the 2016 and 2017 polls does not reveal any differences in evolution of scores, either. Representatives of both small and medium-sized enterprises have improved their scores year-on-year



Figure 2.12. Assessment by SME Representatives of Changes in Investments (a), Profits (b), Receivables Depending (c), and Payables (d) on Sectoral Affiliation



Note. Scores are assigned on a scale from 1 to 5, where 1 is "indicator significantly decreased", and 5 is "indicator significantly increased." The segments represent the 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group. The figure in square brackets is the *p*-value.

Source: IPM Research Center.

only with respect to changes in the volume of sales. As regards all other indicators, respondents, grouped by the size of their enterprises, have not changed their assessment, which is generally consistent with poll findings.

An analysis of changes in responses given in different years depending on the *year of establishment of the enterprise* has not revealed any significant differences, either. The volume of sales indicator is the only exception. Its changes have been assessed most positively by newly created enterprises (after 2010). The average scores they have assigned

answering the question regarding changes in the volume of sales have significantly increased year-on-year (Figure 2.10c). An increase in the share of positive responses has also been posted by enterprises established in 2005–2009. On the contrary, the older enterprises have seen no improvement in the volume of sales, which has caused considerable differences between the relevant scores as assigned by them and by new enterprises.

The economic position of newly created enterprises is generally considerably better than that of enterprises which have operated in the

market for extensive periods of time. Besides, over the last several years, enterprises established after 2010 have displayed more optimism with respect to changes in the number of employees (Figure 2.11c). This is a rather predictable result attributable to the fact that enterprises established before 2000 and after 2010 are going through different phases of their life cycle.

Perception by enterprises of their economic indicators strongly depends on their location (see Table 2.5). Enterprises from Minsk and Minsk Region assign higher scores to changes in their sales, number of

Table 2.6. Regional Differences between Average Scores Assigned by SME Representatives to Changes in Economic Indicators

	Kruskal – Wallis <i>H</i> -Test	Brest Region	Vitebsk Region	Gomel Region	Grodno Region	Minsk	Minsk Region	Mogilev Region
Current Economic Position	21.907 [0.001]	2.98	2.73	3.06	2.98	3.32	2.99	2.95
Change in Economic Position	20.589 [0.002]	2.42	2.58	2.85	2.67	2.98	2.71	2.53
Change in Volume of Sales	23.908 [0.001]	2.25	2.70	2.76	2.43	2.89	2.53	2.29
Changes in Payables	10.02 [0.124]	3.01	3.07	2.84	3.32	2.93	2.90	2.94
Change in Receivables	9.536 [0.146]	3.02	2.91	2.97	3.32	2.99	3.09	3.13
Change in Employment	10.503 [0.105]	2.52	2.91	2.63	2.59	2.85	2.71	2.66
Change in Investments	24.109 [0.000]	2.53	2.35	2.67	2.46	2.96	2.71	2.55
Change in Profits	14.494 [0.025]	2.39	2.45	2.68	2.25	2.84	2.64	2.64

Note. Shading is used to mark those regions where average scores assigned to changes in the relevant economic indicator are unequal according to the Games – Howell test. Gray shading indicates lower values, and blue shading indicates higher values. The test was conducted only for those indicators which have displayed regional differences in distribution of responses as shown by the Kruskal – Wallis *H*-test.

Source: in-house calculations.

employees, investments, and profits. The most negative assessments are typical for enterprises from Brest Region (Table 2.6). They are statistically different from assessment of changes in the volume of sales, profits, and investments by respondents from Minsk. In addition to that, scores assigned to changes in the volume of sales in Mogilev Region, and to changes in investments in Vitebsk Region, are much lower than the relevant scores assigned by enterprises from Minsk. Scores assigned in the other regions are also lower than those assigned by enterprises from Minsk, but the small size of the relevant sub-samples (when respondents are grouped by regions) precludes any meaningful conclusions as to the significance of those differences.

Regional differences in scores have not changed over the last several years, with improvement or deterioration of scores over time occurring uniformly at all enterprises regardless of their location. On the one hand, this is related to the nature of regional differences in the Belarusian economy: they are shaped not by economic policies pursued by local authorities, but rather by original growth potentials dating back to the USSR era. On

the other hand, changes occurring in the economy are determined by the macroeconomic policy of the state which equally affects all Belarusian regions.⁹

2.6. Changes in SME Strategic Objectives

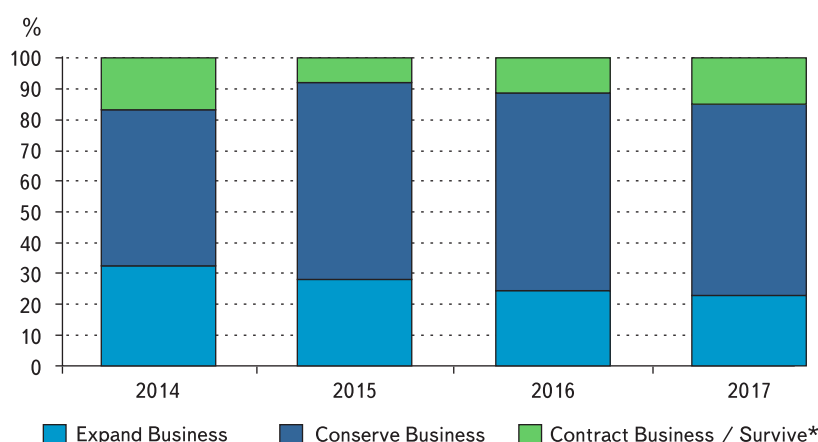
Despite a certain improvement of assessment of the current economic position of small and medium-sized enterprises, the overall sector development trend remains negative: most enterprises are still facing shrinking sales, which forces them to lay off workers and reduce investments. For that reason, the main objective, as formulated by Belarusian entrepreneurs, is to conserve their business. According to the findings of the 2017 poll, that objective was relevant for 62% of respondents. Only 22.5% of respondents intended to expand their business, while 15.5% of all enterprises were forced to take steps to downsize their operations.

This distribution of objectives as stated by small and medium-sized

enterprises is generally consistent with responses registered last year. However, if we extend our analysis further back in time, we will notice considerable changes. Belarusian businesses have increasingly less expansion plans, and are increasingly often forced to downsize their operations (Figure 2.13).

Statistical tests confirm that the structure of distribution of responses to the question about strategic objectives pursued by respondent enterprises has changed during the period from 2015 to 2017. The Kruskal – Wallis criterion (*H*-test 8.035, $p = 0.018$) shows that there are differences in response variances in 2015–2017. If we assess business contraction, conservation and expansion strategies on a scale from 1 to 3, where 1 corresponds to the negative business contraction scenario, and 3 corresponds to the positive business expansion scenario, we can analyze changes occurring to average scores over time within the framework of one-way variance analysis. The appropriate *F*-test (4.446, $p = 0.012$) shows that means registered in the latest 3 polls are different. The *post-hoc* Duncan test clearly shows that a difference exists between scores assigned in 2015 and 2017 (Table 2.7). At the

⁹ Chubrik, A. (2017). Recession impact on the regions of Belarus: The role of initial conditions, economic policy, and small business, IPM Research Center, *Working Paper* WP/17/04.


Figure 2.13. Distribution of Enterprises by Strategic Objectives, 2014–2017, %


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

Source: IPM Research Center.

same time, there are no meaningful differences between the structures of SME objectives as registered in consecutive years (2015–2016 and 2016–2017). Therefore, the evolution of SME strategy from expansion to contraction was gradual, and became statistically significant only with accumulated impact of external negative factors.

The tasks facing enterprises operating in different branches of the

economy are, in fact, identical (Table 2.8. Despite the more optimistic perception of their economic position by enterprises in the Services sector, they seek expansion in the same way as enterprises from the other sectors. Nevertheless, perception of changes in the economic position of enterprises has a significant impact on their strategic objectives.

The business contraction task is only set by those enterprises whose eco-

nomical position has deteriorated over the last year (30.6% of enterprises whose position has deteriorated are trying to conserve their business, see Figure 2.14a). On the contrary, the business expansion task is primarily relevant for enterprises whose position has improved (43.2% of enterprises whose economic position has improved are trying to expand their business).

No differences in strategic tasks have been identified based on the size of the enterprise or its location, either. Some strategy differences have been revealed by the tests only with respect to the year of establishment of enterprises. In particular, enterprises established after 2005 are more ambitious to expand than the other enterprises. Accordingly, enterprises created before 2005 are more focused on business conservation (Figure 2.14b). The shares of enterprises forced to contract their business are approximately equal in all enterprise groups differing by their year of establishment.

2.7. Conclusion

Over the last year, the economic position of the SME sector has im-

Table 2.7. Multiple Comparison of Average Scores Assigned to Strategic Objectives of Enterprises by Years: Duncan Test

Poll Year	Number of Enterprises	Average Score Sub-Groups at $\alpha = 0.05$	
		1	2
2015	416	1.808	
2016	400	1.877	1.877
2017	404		1.930
Significance Level		0.092	0.203

Note. Comparison of average scores was performed using the 5% level of significance ($\alpha = 0.05$). The level of significance for each sub-group refers to the null hypothesis that average scores in the appropriate sub-group are equal.

Source: in-house calculations.

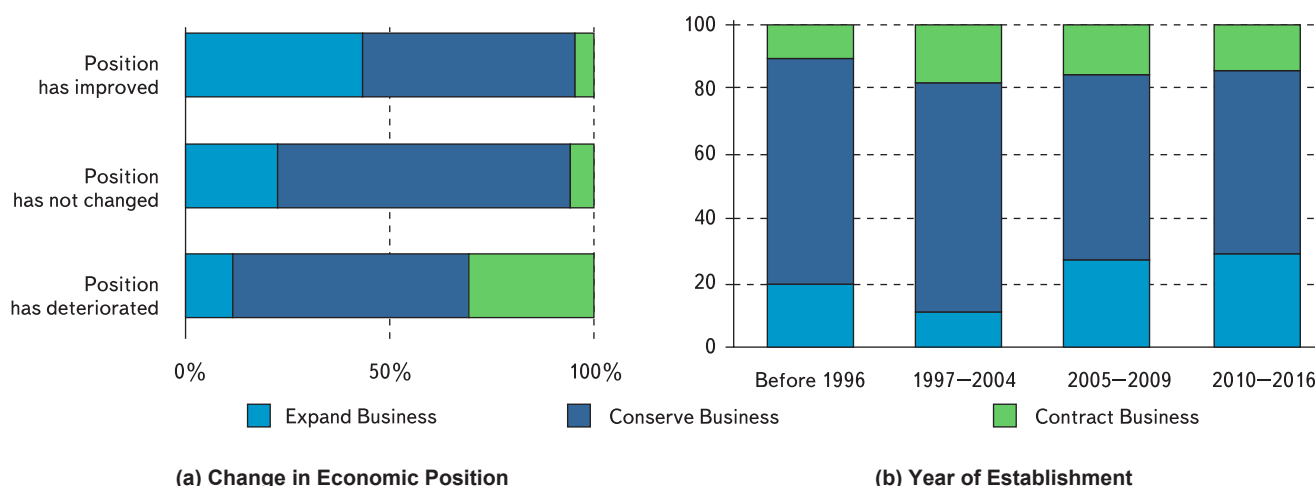
Table 2.8. Tests for Equality of Average Scores Assigned by SMEs in the Course of Assessment of Their Strategic Objectives Depending on Sectoral Affiliation, Year of Establishment, Size, and Location

	Levene Test	F-Test / Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	2.625 [0.050]	1.140 [0.334]*	3.955 [0.266]
Year of Establishment	3.821 [0.010]	2.857 [0.039]*	8.114 [0.044]
Size of the Enterprise	0.060 [0.942]	0.406 [0.666]	0.816 [0.665]
Location of the Enterprise	8.471 [0.004]	1.087 [0.298]*	1.044 [0.307]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed in Figure 2.8. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances (grouping by sectoral affiliation and year of establishment). In all other cases, the standard F-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the p -value. Grouping attributes for which average scores of strategic objectives of the enterprise are unequal are marked with gray shading.

Source: in-house calculations.

Figure 2.14. Distribution of Enterprises by Strategic Objectives Depending on Change in Economic Position (a) and Year of Establishment (b)



Source: IPM Research Center.

proved. Macroeconomic data testify to the fact that the share of the sector in major macroeconomic indicators has increased, which shows that it is recovering more rapidly than the economy as a whole. In particular, the SME sector has considerably strengthened its positions in Industrial Production and Exportation of Goods. Conversely, the share of the SME sector continues to decline in Construction and Trade against the backdrop of shriveling domestic demand, increasingly stringent regulation, and growing role of large businesses.

Results of the poll generally confirm that the SME sector has recovered, and that the role of domestic demand in its development has weakened. Enterprises operating in the Services sector (excluding Trade) have expressed the most optimism with respect to their economic position and the way it has changed over the last year. The only sector where the economic position of enterprises has not

improved is Construction. Improvement of the economic position was strongly supported by recovery of the volume of sales which, however, has failed to produce a meaningful growth of employment by small and medium-sized enterprises, or spur their investment activities.

Despite the fact that enterprises have begun to more positively assess changes in their key economic indicators, the number of enterprises which have experienced a deterioration of their economic position is still higher than the number of enterprises whose economic position has improved. As a consequence, enterprises are less optimistic in their assessment of development prospects than they were before the 2015–2016 recession. Over the last two years, the number of enterprises forced to scale down their business operations has increased.

Ultimately, the SME sector has begun to recover earlier than the

economy as a whole. Poll findings show that the Services sector has been the main contributor to that recovery. In addition to that, macroeconomic data testify to positive developments in the export-oriented Industrial Production sector. Sectors targeting the domestic market, particularly the Construction sector, find themselves in a less advantageous position. Meanwhile, SME representatives, regardless of their sectoral affiliation, continue to maintain a rather somber view of their growth rates, and display mounting pessimism with respect to their business expansion prospects, tending to reduce investments and refrain from hiring new workers. Therefore, by the beginning of 2017, the situation in the SME sector has stabilized, but prevailing economic conditions and existing business environment prevent the SME sector from developing in a sustainable fashion and becoming a catalyst of economic growth in the country.



3. EXTERNAL ENVIRONMENTAL IMPACT ON DEVELOPMENT OF SMALL AND MEDIUM-SIZED BUSINESS IN BELARUS

3.1. Introduction

The sector of small and medium-sized enterprises (SME) was one of the first to begin recovering after the 2015–2016 recession. Its general role in the economy remains rather limited, but small business does perform important functions in the regional development domain.¹ Existence of a well-developed small business sector enables Belarusian regions and the country as a whole to more promptly respond to changes in the external environment and mitigate fluctuations of economic circumstances by securing stronger mobility. Small business plays a particularly important role in dealing with challenges arising as labor market responds to deterioration of macroeconomic situation and contraction of the state-owned enterprise sector.

The operation of the SME sector in Belarus is significantly constrained by a number of barriers – both internal barriers related to HR, management, marketing, finance, and partnership capabilities of enterprises,² and external barriers created by government regulation and macroeconomic factors. Incidentally, most private small and medium-sized enterprises opt out in favor of extensive, rather than intensive, development, which eventually lends more weight to external barriers.³ The recent recession could

only exacerbate the hamstringing effect that external barriers have on the operation of small and medium-sized enterprises.

The purpose of this chapter is to examine the opinion of small and medium-sized businesses with respect to the changes that have occurred in government regulation of their activities over the last year, and determine the extent to which government steps designed to achieve macroeconomic stabilization and improve regulatory environment contribute to removal of barriers hampering further development of private business in Belarus.

Our review of changes in the external operating environment of the SME sector is based on the findings of SME polls conducted by the IPM Research Center on an annual basis. The latest poll was conducted in April and May 2017. It covered 404 enterprises with the number of employees ranging from 15 to 250, represented by directors, owners, and leading specialists. The key approach employed to examine poll findings is the comparison of means (see Chapter 2.1 for details).

The chapter has the following structure: First, we describe the results of assessment by small and medium-sized enterprises of changes in conditions of doing business that have occurred over the last year. Then we review the impact of government regulation on entrepreneurial activities as perceived by private business. In the fourth section, we look at how the crisis has affected the operation of the SME sector. The fifth section dwells on changes in the relevance of individual external barriers to development of small and medium-sized enterprises. The final

section contains conclusions with respect to the effect that external barriers have on doing business in Belarus.

3.2. Assessment by Small and Medium-Sized Enterprises of Changes in Conditions of Doing Business in Belarus

In the second half of 2016 and in the beginning of 2017, there have been no significant legislative changes that could affect conditions of doing business in Belarus. As a consequence, in the World Bank's Doing Business 2018 ranking, Belarus occupies the 38th position in Ease of Doing Business, having gone down by one notch compared to the previous year. Therefore, after the leap in the ranking that Belarus made last year (from the 50th position in Doing Business 2016 to the 37th position in Doing Business 2017), no noticeable changes have been made to the existing legislation by June 1, 2017, that would enhance ease of doing business. The loss of one position in the ranking is related to legislative reforms completed by other countries participating in the research project.

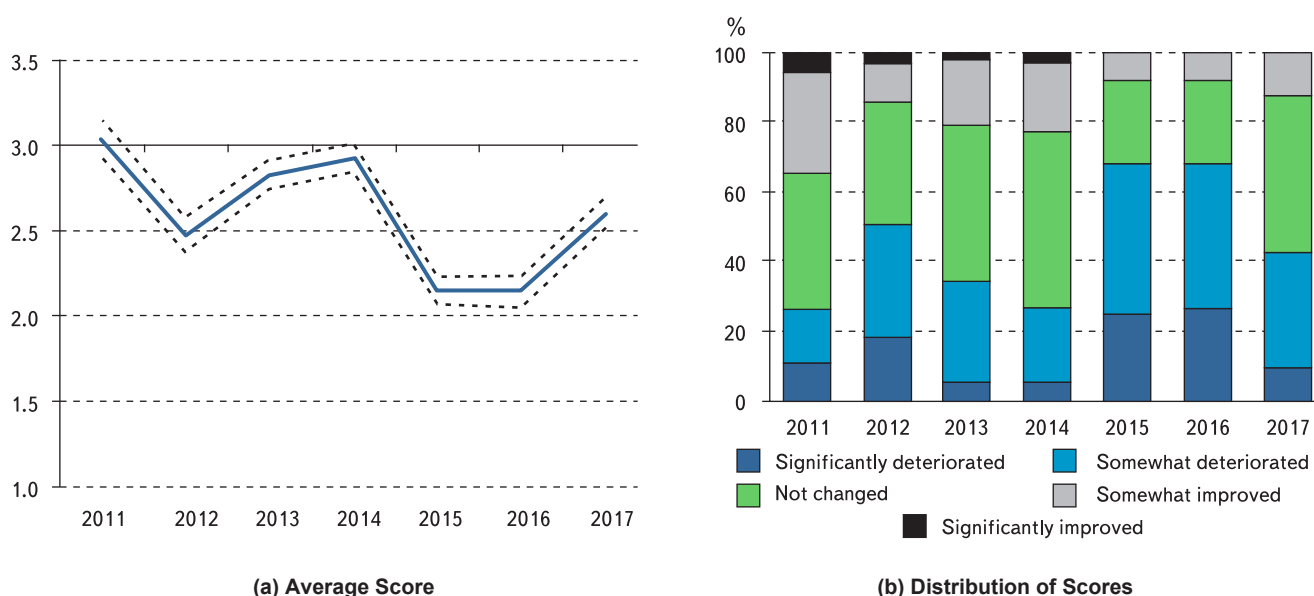
According to the authors of the ranking, only one legislative reform related to extension of credits has been completed during the year, namely, introduction of a register of encumbered movable property which went online on September 1, 2016. The register was created pursuant to Decree of the President of the Republic of Belarus No. 539 dated December 31, 2015. Procedures governing creation, maintenance, and operation of, and access to, the register are stipulated by Decree of the Council of Ministers

¹ Chubrik, A. (2017). Recession impact on the regions of Belarus: The role of initial conditions, economic policy, and small business, IPM Research Center, *Working Paper WP/17/04*.

² Uryutina, D., Mihailova, I. (2015). Internal barriers of private sector development in Belarus, IPM Research Center, *Commentary 01/2015*.

³ Uryutina, D. (2015). Internal barriers of private sector development in Belarus, IPM Research Center, *Working Paper WP/15/02*.

Figure 3.1. Average Score and Distribution of Scores Assigned by SMEs to Changes in Conditions of Doing Business, 2011–2017



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 5% confidence interval.

Source: in-house calculations based on IPM Research Center data.

Table 3.1. Tests for Equality of Average Scores Assigned to Changes in Conditions of Doing Business Depending on Enterprise Characteristics

	Levene Test	F-Test / Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	1.282 [0.280]	2.231 [0.086]	6.598 [0.086]
Year of Establishment	0.432 [0.730]	0.833 [0.477]	2.255 [0.521]
Size of the Enterprise	0.028 [0.972]	3.311 [0.041]	5.834 [0.054]
Location of the Enterprise	3.398 [0.066]	0.069 [0.793]	0.223 [0.637]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed in Figure 3.2. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances. In all other cases, the standard F-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the *p*-value. Grouping attributes for which average scores of perceived changes in conditions of doing business are unequal are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

of the Republic of Belarus and the National Bank of the Republic of Belarus No. 681/21 dated August 26, 2016. The register can be used to check whether movable property is encumbered by a pledge, and to determine priority of pledgee claims (where the first pledgee to make the relevant entry in the register gets preemptive right to have its claim satisfied before the other pledgees in the event of subsequent pledge)⁴.

In addition to that, in 2017 the government launched the control procedure simplification process. On February 9, 2017, the Emergency Response Ministry announced its in-

tention to discontinue audits of small and medium-sized enterprises, retaining the right to offer consultations on fire safety and other matters lying within its scope of competence. The exemption does not apply to public facilities (hospitals, schools, kindergartens) and explosion/fire hazardous facilities⁵.

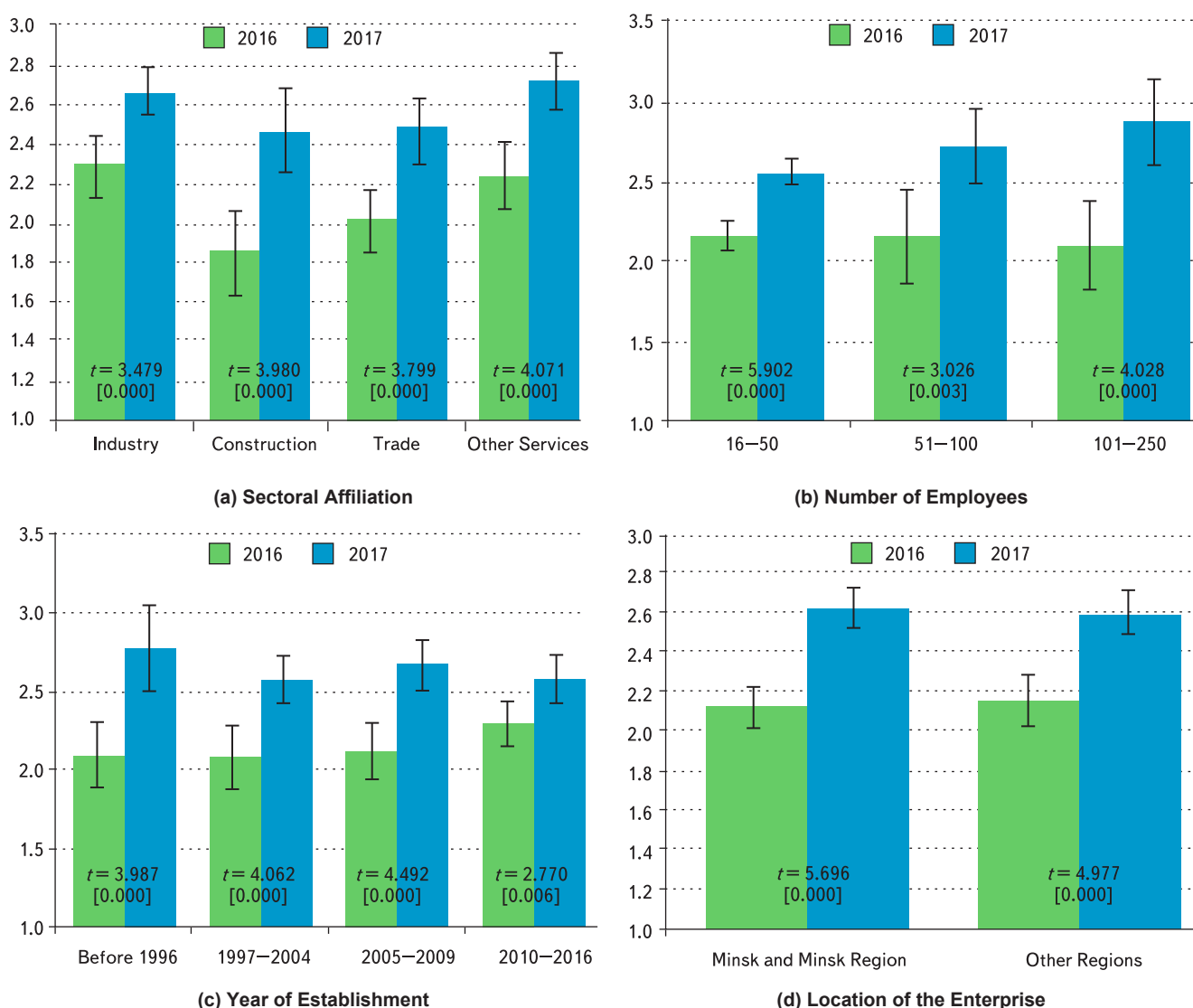
In all the years when we have conducted polls SME polls, the average score assigned by small and medium-sized enterprises to changes in the business environment has never been positive. Only in 2011 and 2013–2014 it could be deemed neutral, which corresponds

to "3" on a scale from 1 to 5, where 1 indicates a significant deterioration, a 5 – a significant improvement of conditions of doing business (see Figure 3.1a).

In 2017, the average score assigned to changes in the business environment (2.6) is still considerably lower than 3. That said, scores assigned to conditions of doing business have become significantly better relative to previous years. The share of enterprises which have noted a deterioration of those conditions stands at 42.9%, which is much lower than the 2016 score (68.5%, Figure 3.1b). On the other hand, the number of companies claiming an improvement of the business environment has changed little, if at all, and their

⁴ See <https://news.tut.by/economics/510408.html>.

⁵ See <https://news.tut.by/economics/530861.html>.


Figure 3.2. Average Assessment of Changes in Conditions of Doing Business Depending on Enterprise Characteristics


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 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group.

Source: in-house calculations based on IPM Research Center data.

share now stands at 12.6%. Therefore, fewer enterprises believe that the external environment hampers their entrepreneurial activities, and more enterprises perceive its impact as neutral.

An improvement of scores assigned to the business environment has been registered in all branches of the economy, with Construction demonstrating the most optimistic attitude. According to the 2016 poll, Construction enterprises experienced the worst deterioration of conditions of doing business. In particular, their scores were considerably different

from those assigned by enterprises operating in Industry and Other Services (Figure 3.2a). In 2017, that difference in assessments of perceived changes in the business environment by representatives of different branches of the economy disappeared. The Kruskal – Wallis test and the Welch *F*-test conducted within the framework of one-way analysis of variances show that differences in business environment change scores in 2017 are insignificant (Table 3.1).

Reduction of the share of negative scores assigned to changes

in the business environment was registered for all types of small and medium-sized enterprises designated by the number of employees. The most positive scores were assigned by medium-sized enterprises with the number of employees ranging from 101 to 250: the Welch *F*-test and the *post-hoc* Duncan test conducted within the framework of one-way analysis of variances have shown statistically significant differences between the scores assigned by medium-sized enterprises and those assigned by all other enterprises in the SME

Table 3.2. Average Scores Assigned to Government Actions in Certain Economic Policy Areas

	2015	2016	2017	2017 vs. 2016	
				t-test	p-value
Creation of equal conditions of doing business and promotion of fair competition among all business entities regardless of their form of ownership	2.91	2.92	3.01	1.445	0.149
Development of private ownership and enhanced protection of the right to own and use property	2.98	2.99	3.12	2.031	0.043
Liquidation of excessive administrative barriers	3.06	3.12	3.24	1.737	0.083
Extended use of tax legislation to encourage good-faith discharge of tax liabilities and business initiative	3.00	2.97	3.17	3.016	0.003
Increasingly preemptive nature of control (supervisory) activities, transition to predominant use of preventive measures	2.99	3.02	3.26	3.584	0.000
Elimination of legislative ambiguity, improvement of quality of newly-adopted normative acts governing entrepreneurial activities	3.02	3.00	3.19	2.788	0.005

Note. Scores are assigned on a scale from 1 to 5, where 1 represents a negative assessment of government actions suggesting that they strongly hampered doing business, and 5 represents a positive assessment of government actions suggesting that they strongly assisted doing business.

Source: in-house calculations based on IPM Research Center data.

sector.⁶ In fact, medium-sized enterprises, unlike all other enterprises, gave a neutral assessment of changes in the business environment in 2017 (the average score is statistically indistinguishable from 3, see Figure 3.2b).

Enterprises in all groups designated by the year of establishment have also improved their assessment (Figure 3.2c). There are no statistically significant differences between their scores. A similar lack of differences in assessments of changes in the business environment was also noted for enterprises operating in various locations. An improvement of scores assigned to changes in the business environment has been registered in all regions of Belarus (Figure 3.2d). This is consistent with the conclusion of previous research to the effect that conditions of doing business in Belarusian regions are affected primarily by macroeconomic factors (see Section 2.4) and government regulation of entrepreneurial activities on the national level (see Section 2.3), while the ability of local authorities to change the business environment is rather limited⁷.

3.3. Assessment of Government Regulation of Entrepreneurial Activities

Despite the absence of significant legislative changes during the period between the 2016 poll and the 2017 poll, representatives of small and medium-sized businesses have begun to express more favorable views regarding the steps taken by the government to improve the business environment. According to the 2016 poll, respondents were generally neutral in their assessment of any activity of the government in that area. The only exception was the government's campaign to liquidate excessive administrative barriers, with the average score on a scale from 1 to 5 (where 1 is "extremely negative assessment", and 5 is "extremely positive assessment") exceeding 3 (meaning that the number of positive scores assigned by representatives of the business community significantly exceeded the number of negative scores, see Table 3.2).

In 2017, there was a considerable improvement in the attitude of small and medium-sized enterprises towards the actions implemented

by the government. The average scores assigned to most government actions related to regulation of conditions of doing business posted a statistically significant increase relative to 2016 (or, as regards actions intended to liquidate excessive administrative barriers, relative to 2015⁸). As a consequence, positive scores began to prevail with respect to all government actions. The exception is the creation of equal conditions for doing business and promotion of fair competition among all business entities regardless of their form of ownership. The average score assigned to that action is still below 3, emphasizing persistent urgency of the problem of unfair competition between large state-owned enterprises and small and medium-sized businesses.

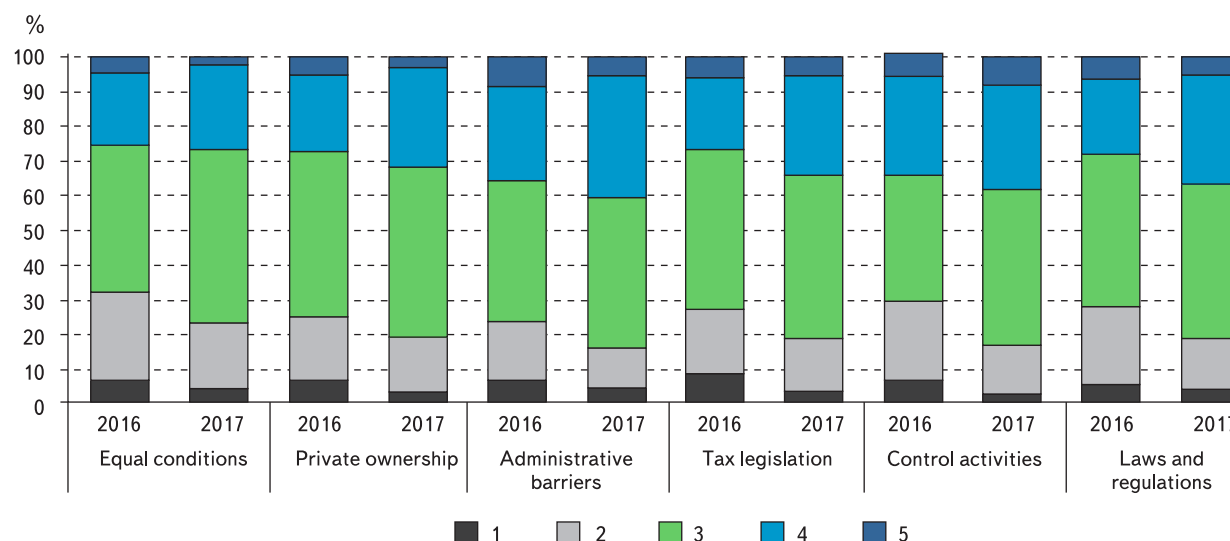
In most cases, average scores improved because there were fewer negative responses (Figure 3.3). The share of positive responses generally remained unchanged, while the share of neutral responses increased. The largest percentage (~40%) of positive responses given by small and medium-sized enterprises is related to govern-

⁶ The Kruskal – Wallis *H*-test does not reject differences in distribution of scores assigned to changes in the business environment depending on the size of the enterprise at the 10% significance level, either.

⁷ See Chubrik, A. (2017). Recession impact

on the regions of Belarus: The role of initial conditions, economic policy, and small business, IPM Research Center, *Working Paper* WP/17/04.

⁸ The *t*-value of the test for equality of means in the assessment of government action intended to liquidate excessive administrative barriers in 2015 and 2017 was 2.793 (*p*-value = 0.005).


Figure 3.3. Distribution of Scores Assigned by Respondents to Government Actions in Certain Economic Policy Areas, %


Note. Description of areas affected by government actions is provided in Table 3.2. Scores are assigned on a scale from 1 to 5, where 1 represents a negative assessment of government actions suggesting that they strongly hampered doing business, and 5 represents a positive assessment of government actions suggesting that they strongly assisted doing business.

Source: IPM Research Center.

ment actions designed to reduce administrative barriers and emphasize preemptive nature of control activities. They are followed by actions intended to improve the quality of normative acts, assure their unequivocal construction, and simplify taxation procedures.

Government actions do not always assist business. Nevertheless, over the last year there was a significant decline in the percentage of cases where such actions strongly hampered doing business. Combined with the absence of significant legislative changes, this amounts to a change in regulatory enforcement, making it more business-friendly and focused on supporting economic activity of the private sector.

In the opinion of representatives of small and medium-sized enterprises, the government's persistent unwillingness to create equal conditions of doing business remains the largest drawback in its economic regulatory activity. Only 12.9% of respondents maintained that private and state-owned enterprises enjoyed equal conditions of doing business. This percentage has generally remained at the 2016 level. The only change

is the newly emerged difference in the number of respondents seeing competition between the private and public sectors as fair depending on their sectoral affiliation.⁹ In the Construction sector the share of such enterprises in 2017 reached 22.6% vs. 11.9% the year before.¹⁰ This can be attributed to the generally adverse situation in the sector which had a similarly negative effect on both state-owned and private companies, and was the dominant external environmental factor.

First and foremost, the negative bias against the private sector is displayed by control bodies. This problem was noted by almost half of all respondents both in 2016 (46.5%) and 2017 (47.4%, Figure 3.4). The second most important area where small and medium-sized enterprises fell pray to unfair competition in 2016 was lease rates. However, in

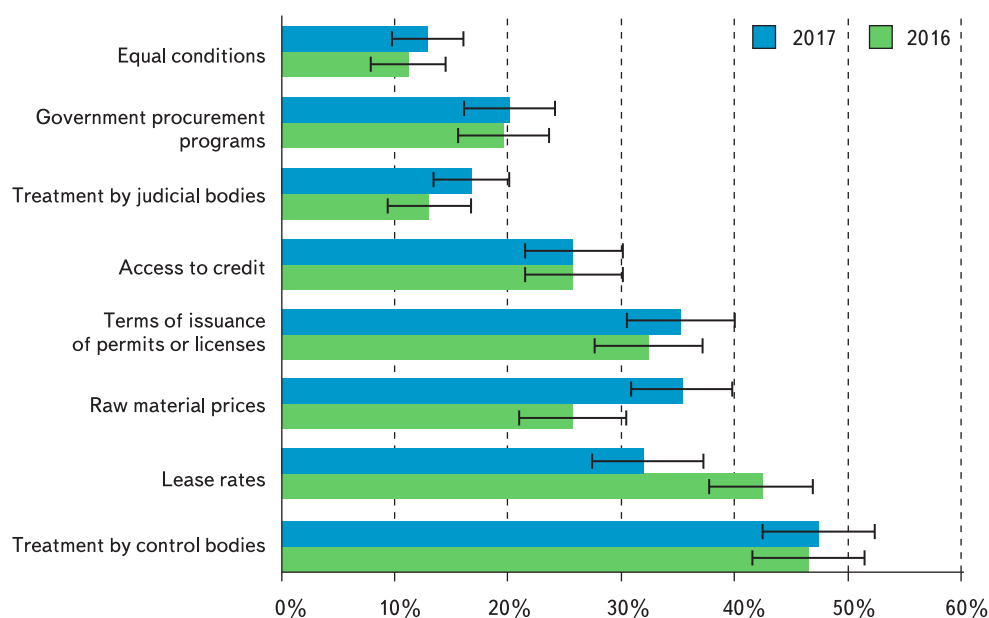
2017 private businesses no longer perceived inflated lease rates as a pressing problem. The share of respondents bringing up the problem of disparate lease terms went down from 42.4% to 32%, which is a statistically significant reduction (Welch *t*-test value = -3.041, *p* = 0.002). This may be attributable to the general improvement of situation in the office real estate market, where the combination of growing supply and economic recession translated into lower lease rates.

Instead of unequal lease rates, small and medium-sized enterprises were much more concerned (compared to 2016) with the difference in the prices paid for raw materials by state-owned and private companies. The share of relevant scores increased from 25.6% to 35.2% (Welch *t*-test value for their equality is 2.926, *p* = 0.004). This problem is most relevant for the Industry sector. In 2016 and 2017, it was noted by 37% and 44%, respectively, of all respondents representing that sector. Incidentally, test findings indicate that, formally, differences in the incidence of the problem of unequal access to raw materials in

⁹ The χ^2 value produced by the Kruskal – Wallis test for inequality of distribution of responses with respect to the absence of differences in conditions of doing business with a breakdown by sectoral affiliation was equal to 9.332, *p* = 0.025.

¹⁰ The increase is statistically significant only at the 10% level: the Welch *t*-test value is 1.694, *p* = 0.093.

Figure 3.4. Areas Where Private Business Notes Inequality in Conditions of Doing Business Compared to the Public Sector, % of respondents



Note. The segments represent the 5% confidence interval.

Source: in-house calculations based on IPM Research Center data.

various economic sectors existed only in 2016.¹¹ Increased relevance of that problem in Trade and Construction has basically eliminated all differences in its perception within the SME sector in 2017. On the one hand, the fact that the problem of unequal access to raw materials has become more relevant may testify to the growing economic activity of the private sector which spurs demand for primary resources, on the other hand, it may be a consequence of stronger indirect support of state-owned enterprises in an attempt to set off the impact of recession and tighter monetary policy.

Traditionally, licensing and access to credit are critical areas where private businesses see themselves as disadvantaged vis-à-vis state-owned enterprises. Despite the imposition of restrictions on directed lending and availability of preferential lending programs for small businesses,

private sector players continued to perceive unequal access to credit as an unfair practice due to the generally high level of interest rates in the economy (see Section 3.5.2).

3.4. Impact of Crisis on Assessment of Conditions of Doing Business

Perception of conditions of doing business is shaped not only by government regulations and regulatory enforcement practices, but also by the general macroeconomic situation. Evolution of the scores assigned by representatives of small and medium-sized enterprises to changes in their economic position – which correlates with evolution of the key macroeconomic indicators (see Section 2.4) – replicates, to a rather large extent, evolution of the scores assigned to changes in conditions of doing business in 2011–2017. As a consequence, there is a high degree of correlation between assessments by enterprises of changes in conditions of doing business and changes in their economic position.

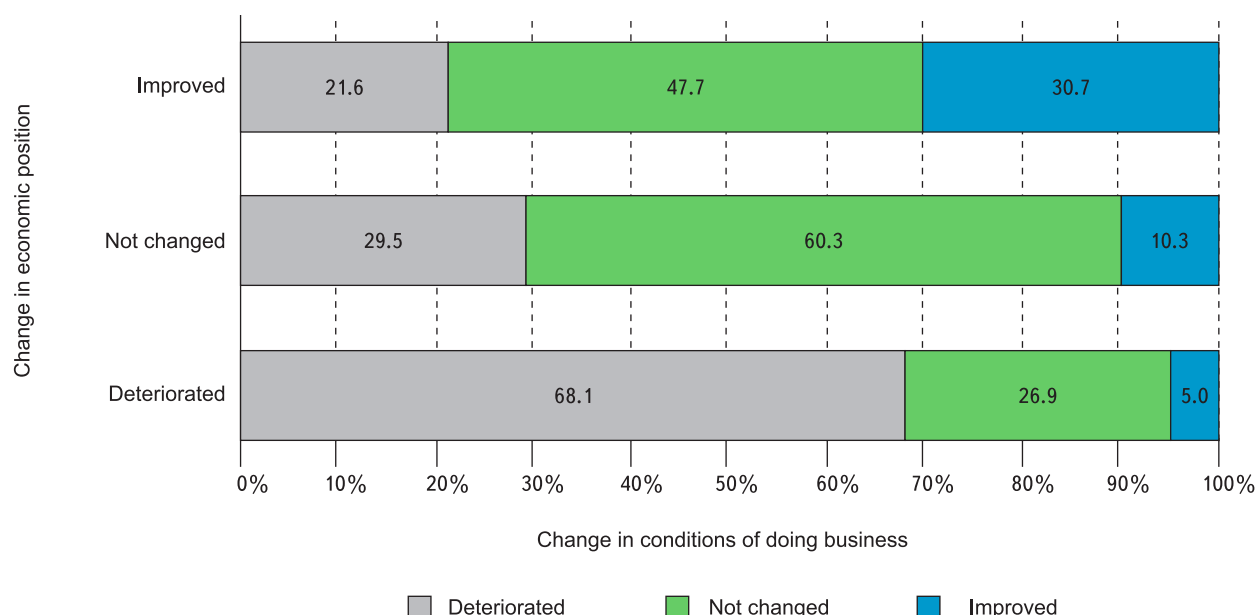
The Pearson correlation coefficient for responses given to the relevant questions on a scale from 1 to 5 in 2017 is 0.424 ($p = 0.000$). In particular, two thirds of respondents noting a deterioration of conditions of doing business have also noted a deterioration of economic indicators of their enterprises. Half of respondents claiming that conditions of doing business have not changed have also stated that the economic position of their enterprises has not changed, either, whether for the better or for the worse. By the same token, those few enterprises which assigned positive scores to changes in their economic position (21.8%, see Figure 2.6), have stated that conditions of doing business have improved much more often than other enterprises (Figure 3.5).

Therefore, incipient economic recovery after a protracted period of stagnation may have become a significant improvement driver with respect to assessment of changes in the business environment. In addition to that, the SME sector began to exhibit growth trends earlier than other sectors (see Section 2.2),

¹¹ The χ^2 value produced by the Kruskal – Wallis test for inequality of distribution of responses with respect to the absence of differences in conditions of doing business with a breakdown by sectoral affiliation was equal to 12.342 ($p = 0.006$) in 2016, and 6.154 ($p = 0.104$) in 2017.



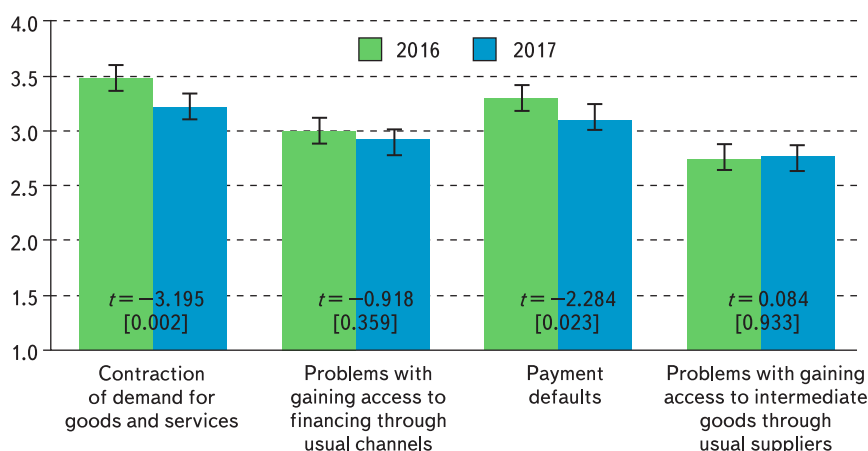
Figure 3.5. Assessment of Changes in Conditions of Doing Business Depending on Assessment of Changes in the Economic Position of the Enterprise



Note. Original responses given on a scale from 1 to 5 have been converted as if given on a scale from 1 to 3 as follows: "deteriorated" (1, 2), "did not change" (3), and "improved" (4, 5).

Source: IPM Research Center.

Figure 3.6. Assessment of Severity of Crisis Manifestations



Note. Scores are assigned on a scale from 1 to 5, where 1 is "not felt", and 5 is "very acutely felt." The segments represent the 5% confidence interval. The figures show the values of Welch t -test for equality of average scores in 2016 and 2017 for each crisis manifestation.

Source: in-house calculations based on IPM Research Center data.

which could have contributed to a more optimistic view of the business environment.

Scores assigned by respondents confirm that perception of severity of the crisis in the SME sector has somewhat weakened. This is primarily manifested through reduced relevance of the most urgent problems – the falling demand for

goods and services produced by enterprises, and payment defaults. Those problems, however, are still perceived as rather serious: their average severity score on a scale from 1 to 5 (where 1 is "no manifestations", and 5 is "extremely serious manifestations") statistically exceeds the neutral level (3 points). Besides, similarly to 2016, manifestations of such crisis consequences as dif-

ficulties with raising funds through the usual channels and difficulties with obtaining intermediate goods from the usual suppliers continue to retain their poignancy (Figure 3.6).

Relevance of the demand contraction problem diminished unevenly. In terms of sectoral affiliation, a considerable improvement was noted in Services and Construction. At the same time, representatives of the Trade and Industry sectors assessed the relevance of that problem as highly as the year before (Figure 3.7a). As a consequence, there has emerged a statistically significant difference between average severity scores assigned to the demand contraction problem in different sectors of the economy, which is confirmed by one-way analysis of variances and the non-parametric Kruskal – Wallis criterion (Table 3.3). The *post-hoc* Games – Howell test for pairwise comparison of averages conducted within the framework of one-way analysis of variances indicates that there is a difference in the scope of demand contraction in the Trade sector (which normally targets the domestic market) and the Services sector.

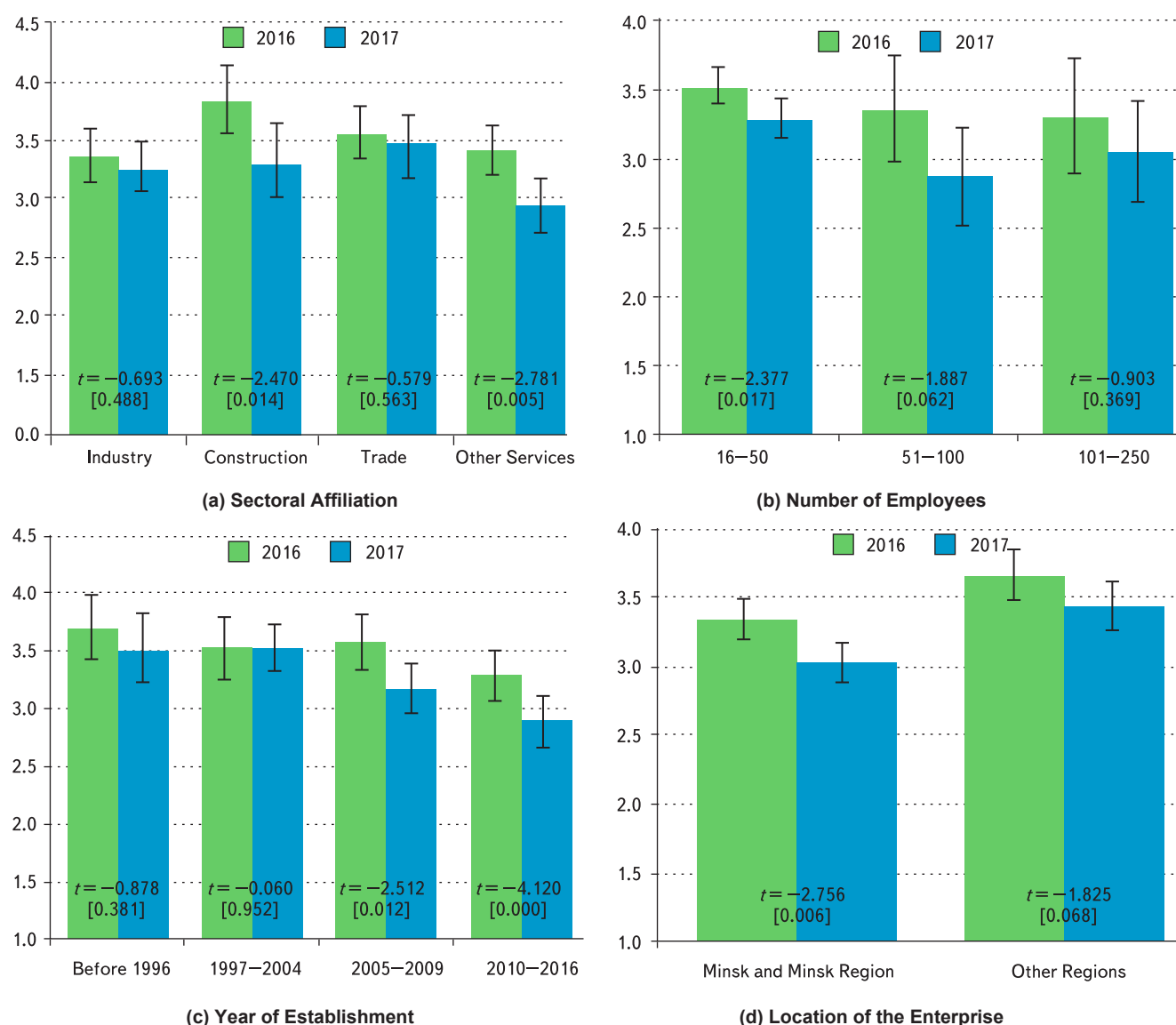
Table 3.3. Tests for Equality of Average Severity Scores Assigned to the Demand Contraction Problem Depending on Enterprise Characteristics

	Levene Test	F-Test / Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	1.630 [0.182]	3.060 [0.029]	10.732 [0.013]
Year of Establishment	5.252 [0.001]	6.714 [0.000]*	15.821 [0.001]
Size of the Enterprise	0.243 [0.784]	2.937 [0.059]	6.104 [0.047]
Location of the Enterprise	0.181 [0.671]	10.839 [0.001]	11.624 [0.001]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed in Figure 3.7. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances (grouping by year of establishment of the enterprise). In all other cases, the standard F-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the *p*-value. Grouping attributes for which average scores of perceived severity of the demand contraction problem are unequal are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

Figure 3.7. Assessment of Severity of the Demand Contraction Problem Depending on Enterprise Characteristics



Note. Scores are assigned on a scale from 1 to 5, where 1 is "not felt", and 5 is "very acutely felt." The segments represent the 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group.

Source: in-house calculations based on IPM Research Center data.

Considerable differences in perceived demand contraction are observed depending on the year of establishment of the enterprise.

Enterprises established after 2010 have the least negative perception of that problem (Figure 3.7c). Much lower severity scores were also as-

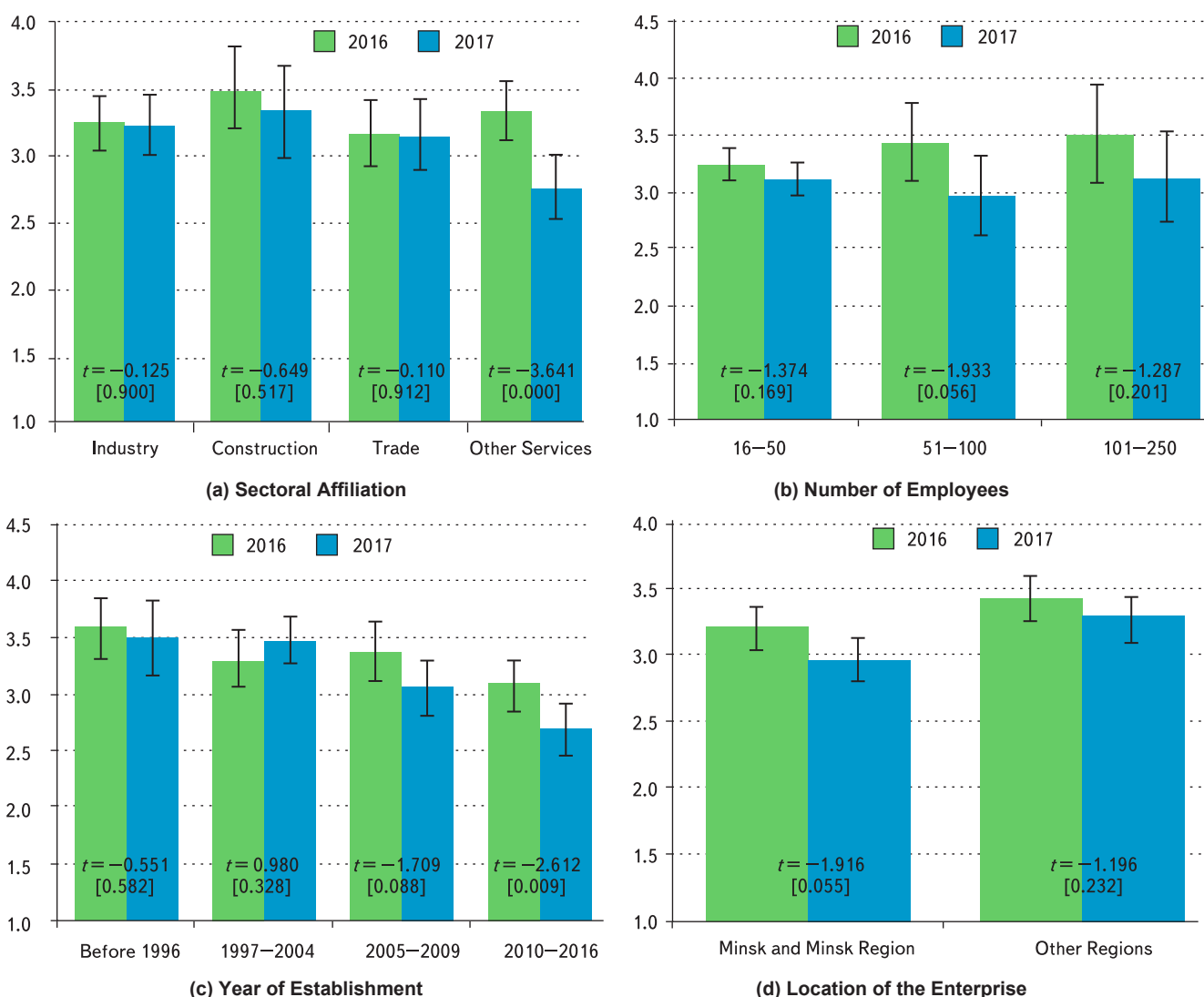
signed by enterprises established in 2005–2009. The *post-hoc* Duncan test has segregated two groups of enterprises based on perceived


Table 3.4. Tests for Equality of Average Severity Scores Assigned to the Payment Defaults Problem Depending on Enterprise Characteristics

	Levene Test	F-Test / Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	3.050 [0.029]	4.355 [0.005]*	13.789 [0.003]
Year of Establishment	2.955 [0.032]	9.519 [0.000]*	26.311 [0.000]
Size of the Enterprise	0.313 [0.731]	0.272 [0.762]	0.386 [0.824]
Location of the Enterprise	1.884 [0.171]	5.911 [0.015]	5.488 [0.019]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed in Figure 3.8. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances (grouping by sectoral affiliation and year of establishment). In all other cases, the standard F-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the *p*-value. Grouping attributes for which average scores of perceived severity of the payments default problem are unequal are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

Figure 3.8. Assessment of Severity of the Payments Default Problem Depending on Enterprise Characteristics


Note. Scores are assigned on a scale from 1 to 5, where 1 is "not felt," and 5 is "very acutely felt." The segments represent the 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group.

Source: in-house calculations based on IPM Research Center data.

severity of demand contraction, revealing the existence of a statistically significant difference between the scores assigned by enterprises established before and after 2005.

This testifies to the higher flexibility and external demand focus of new enterprises which have proven their ability to operate more efficiently in a dwindling domestic market.

It should also be noted that small enterprises with the number of employees below 50 have better adapted to the new economic environment, becoming less prone to the negative

Table 3.5. Economic Crisis Management Strategies, % of respondents

	2016	2017	Welch <i>t</i> -test	<i>p</i> -value
Curtail production	18.8	23.9	1.778	0.076
Leave prices unchanged	22.0	22.6	0.208	0.836
Reduce prices	33.8	47.6	4.045	0.000
Cut costs	82.0	56.1	-8.257	0.000
Other	6.0	2.8	-2.255	0.024

Source: in-house calculations based on IPM Research Center data.

Table 3.6. Kruskal – Wallis Test for Equality of Distribution of Responses Regarding Preferred Crisis Management Strategies Depending on Enterprise Characteristics

	Year of Establishment	Size	Sectoral Affiliation
Curtail production	11.827 [0.008]	5.738 [0.057]	2.964 [0.397]
Leave prices unchanged	14.966 [0.002]	1.283 [0.526]	3.560 [0.313]
Reduce prices	8.863 [0.031]	9.545 [0.008]	3.304 [0.347]
Cut costs	7.729 [0.052]	0.204 [0.903]	9.177 [0.027]

Note. Grouping attributes for which distributions of responses regarding application of various crisis management strategies are unequal are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

consequences of demand contraction (Figure 3.7b). Responses given by the larger enterprises give no indication of any significant increase of demand for their products.

Apparently, severity scores assigned to the demand contraction problem are also affected by the location of the enterprise. For example, enterprises operating in Minsk and Minsk Region perceive the demand contraction problem as less serious compared to their counterparts from other regions. Moreover, they claim that in 2017 the situation has improved, while for the enterprises operating in the other regions the problem has remained as severe as it was the year before (Figure 3.7d). In particular, according to the *post-hoc* Games – Howell test for equality of average scores (conducted within the framework of one-way analysis of variances with a breakdown by enterprises by seven regions), there are statistically significant differences between enterprises operating in Brest Region (where demand contraction was perceived as particularly severe) and in Minsk. These differences stem from the fact that Minsk and Minsk Region have been less affected by the crisis than the other regions.¹²

Distribution and evolution of severity scores assigned to the payment defaults problem with a breakdown by sectoral affiliation, year of establishment, and location of the enterprise replicates the results received for the demand contraction problem (Table 3.4, Figure 3.8). For example, the lowest severity scores are assigned to the payment defaults problem in the Services sector. A statistically significant decrease of perceived severity of that problem compared to 2016 was registered only by enterprises operating in that sector, which is confirmed by the Duncan test which segregated those enterprises into a separate group based on their average scores.

Besides, payment defaults have had the least effect on enterprises established after 2010; they also represent the only group designated by the year of establishment where there was a statistically significant decrease of perceived severity of the problem compared to the 2016 poll. A decrease of perceived severity of the problem may also have been experienced by enterprises established in 2005–2009. In terms of regional affiliation, it is noteworthy that severity scores assigned to the payment defaults problem by enterprises operating in Minsk and Minsk

Region are the lowest and continue to decline.

The only criterion for which there exist certain differences in the distribution of perceived severity scores assigned to the demand contraction and payments default problems is the size of the enterprise. Perception of the payments default problem by small and medium-sized enterprises is statistically identical, and the degree of its severity did not display any pronounced reduction trends in either case.

The partial resolution by the SME sector of the acute phase of the crisis was accompanied by modification of strategies used by private business to adapt to the new environment. While in 2016 the overwhelming majority of companies resorted to cost cuts, including labor cost cuts,¹³ in 2017 that strategy was employed by slightly more than half of all companies participating in the poll (56.1%, Table 3.5). Conversely, modification of sales strategies gained much wider currency. For example, there was a considerable increase in the number of companies which reduced their prices (to 47.6%). The production curtailment strategy also became relatively

¹² See Chubrik, A. (2017). Recession impact on the regions of Belarus: The role of initial conditions, economic policy, and small busi-

ness, IPM Research Center, *Working Paper* WP/17/04.

¹³ Urban, D. (2016). Labour market of the SME sector during an economic crisis, IPM Research Center, *Policy Discussion Paper* PDP/16/03.



more widespread: the increase in the number of relevant responses is statistically significant at the 10% level. Accordingly, it is possible to say that, to a certain degree, some companies have already adapted to the current conditions, and are looking for new growth strategies.

Crisis management strategies differed depending on the size and year of establishment of the enterprise (see Table 3.6). In particular, small enterprises with the number of employees below 50 more often reduced prices than larger enterprises (51.8% vs. 35.2%), which can be attributed to the higher flexibility of the former. Younger companies established after 2005 much less frequently resort to production curtailment (18.5% vs. 32.2% for companies established before 2005) and cost cuts (50.7% and 64.6%, respectively), and more frequently keep their prices stable (28.5% and 13.4%, respectively), which is a manifestation of their relatively more advantageous economic position (see Chapter 2), and is consistent with their less stressful perception of crisis manifestations in 2017.

In terms of sectoral affiliation, differences are registered only with respect to the frequency of cost cuts. For example, Construction companies much more frequently than companies operating in other sectors (especially the Services sector) reduce their costs (in 2017, that strategy was used by 65.8% of Construction companies vs. 46.1% of Services companies). This can be attributed to the difference in the economic position of those two sectors, with Services apparently doing much better than Construction.

Therefore, severity of the crisis, as perceived by the SME sector, has considerably declined, which has affected the strategies employed by enterprises. However, the scale of the impact that this improvement has had on perception of conditions of doing business in Belarus is not apparent. Those structural differences that have been identi-

fied in crisis manifestation severity scores and related business strategy modifications subject to sectoral affiliation, size, year of establishment, and location of enterprises have had no visible effect on distribution of responses regarding conditions of doing business.

3.5. External Barriers to Development of Small and Medium-Sized Businesses

3.5.1. Changes in the Relevance of Barriers between the 2016 Poll and the 2017 Poll

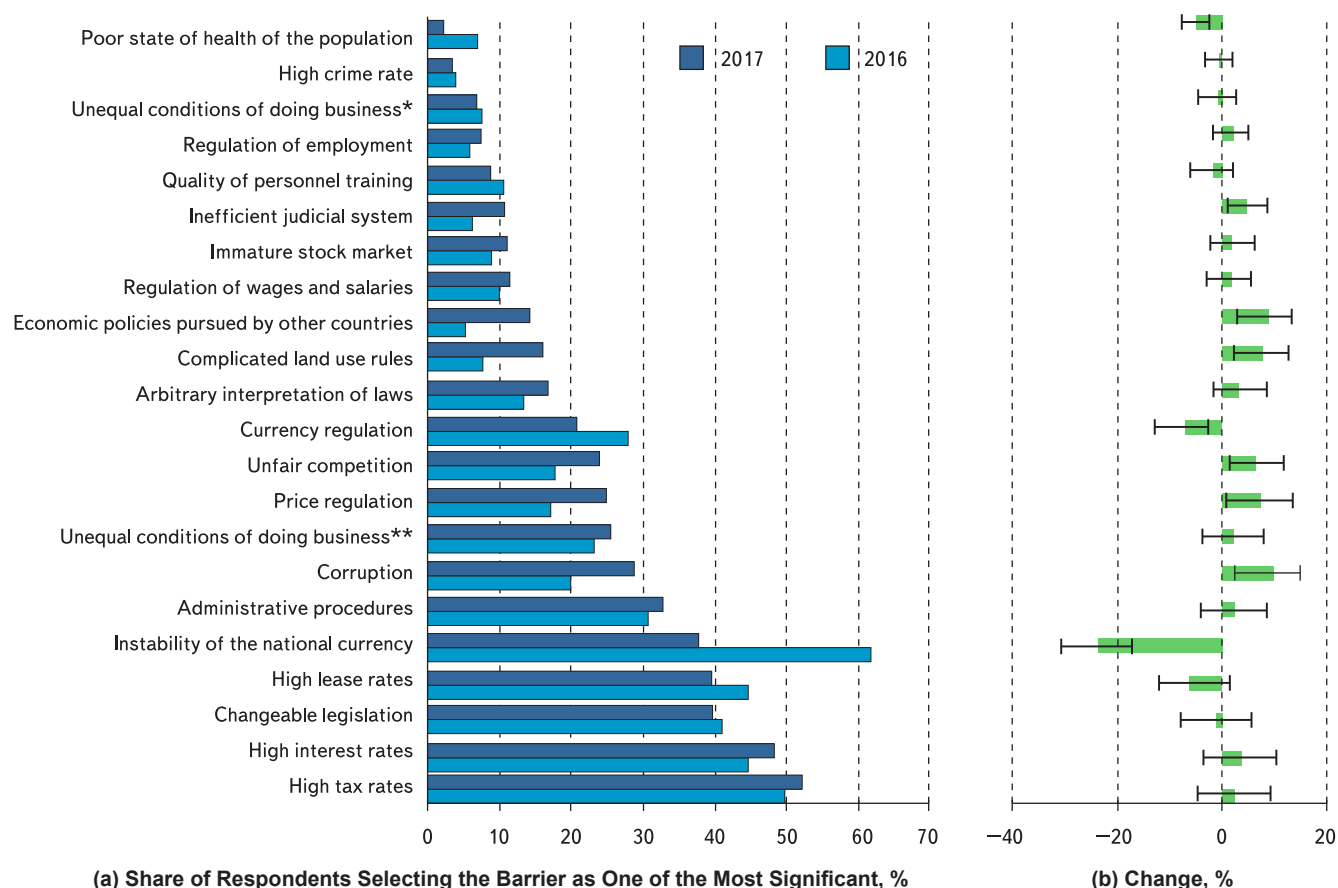
The significant impact that improvement of the macroeconomic situation has had on perception of conditions of doing business is even better illustrated by responses to the question regarding the key barriers to SME sector development. Distribution of those responses has undergone a considerable year-on-year change (Figure 3.9). In 2016, 61.7% of respondents mentioned instability of the exchange rate and inflation as one of the five main barriers to doing business in Belarus. In 2017, severity of that problem has greatly decreased. Restraints related to instability of the national currency as one of the key barriers to business development were cited only by 37.7% of respondents. In terms of severity, as perceived by the business community, the problem – previously an undisputed No. 1 – has dropped to the fifth position. Other barriers whose relevance, as perceived by representatives of small and medium-sized enterprises, has decreased in a statistically significant way include currency regulations (which is also closely linked to the issue of stability of the national currency), and poor state of health of the population. Accordingly, the tight monetary policy of the National Bank and government steps designed to curb inflation have become the key driver of improvement of business environment in Belarus.

Reduction of severity of the problem of absence of macroeconomic

stability implies that the government has created basic conditions of doing business in the country. In this situation, market efficiency, to a large extent, comes to the forefront as the main constraining factor. In particular, small and medium-sized business has begun to pay more attention to the problem of unequal conditions of doing business caused by unfair competition, corruption and inefficiency of the domestic judicial system, and by protectionist policies pursued by other countries. Other important problems that have gained significance include government-imposed price controls and restricted access to the land market. These problems are particularly relevant for enterprises which emphasize development, expansion into new markets, and performance-based competition. The share of such businesses in Belarus may have increased, but generally the SME sector is still dominated by companies whose main task is survival. For that reason, high lease rates, high tax rates, and high loan interest rates still top the list of the most relevant barriers.

Another traditional problem hampering development of small and medium-sized business in Belarus is its changeable legislation. This problem is perceived as particularly severe in the Trade sector, with more than half of Trade enterprises marking it as relevant. The sample average for the Trade sector is approximately 40%, while in the Services sector excluding Trade it stands at 31.6%. One-way analysis of variances (ANOVA, F -value = 2.84, p = 0.038) and the nonparametric Kruskal – Wallis test (χ -value = 8.282, p = 0.040) confirm statistical significance of this difference with respect to selecting changeable legislation as one of the key barriers subject to sectoral affiliation. The divergence in scores is attributable to frequent changes in retail trade rules which have an adverse effect on the indicators posted by small and medium-sized business (See Chapter 2).

Figure 3.9. Assessment by SME Representatives of Relevance of Individual External Barriers to Development of Business in Belarus, 2016–2017



Note. * Less advantageous operating conditions compared to state-owned enterprises. ** Less advantageous operating conditions compared to foreign companies.

Respondents were asked to select five most significant barriers. For detailed description of all barriers, see distribution of responses to poll questions in Annex. The segments represent the 5% confidence interval for the difference between the shares of respondents listing the barrier as one the 5 most significant barriers in 2017 and 2016.

Source: in-house calculations based on IPM Research Center data.

One more barrier whose perceived relevance may vary depending on sectoral affiliation¹⁴ is the low quality of specialists graduating from universities and technical colleges. This problem is perceived as more severe by Construction enterprises (16.9% of respondents vs. an average of 8.7%). This testifies to the shortage of qualified personnel in an industry characterized by high labor mobility, including labor migration.

In the following sections, we will dwell on the impact on development of small and medium-sized business

of barriers related to accessibility of external financing and labor resources which play the key role in expansion of business activities of enterprises.

3.5.2. Accessibility of External Financing

One of the main barriers to development of small and medium-sized business related to the state of macroeconomic environment is scarcity of external financing. It is related to low accessibility of bank loans, and low level of development of other financial instruments. Further expansion of tied lending programs for small enterprises implemented within the framework

of the state SME support program¹⁵ does not significantly facilitate access to credit. According to poll findings, only one quarter of small and medium-sized enterprises received bank credits in 2017. Another 9.8% applied for credits, but did not receive them. A similar situation was observed in previous years (Figure 3.10). According to the Mann – Whitney *U*-test, there are no differences in distribution of responses to the question regarding applications for credit in 2016 and 2017 ($Z = -0.838$, $p = 0.402$).

Lack of improvement in accessibility of bank credit relative to previous

¹⁴ The Kruskal – Wallis test value is 8.192 ($p = 0.042$), while the *F*-test value in ANOVA is 2.69 ($p = 0.046$).

¹⁵ See <http://www.economy.gov.by/uploads/files/gos-progr-2016-2020/Otchet-2016.pdf>.

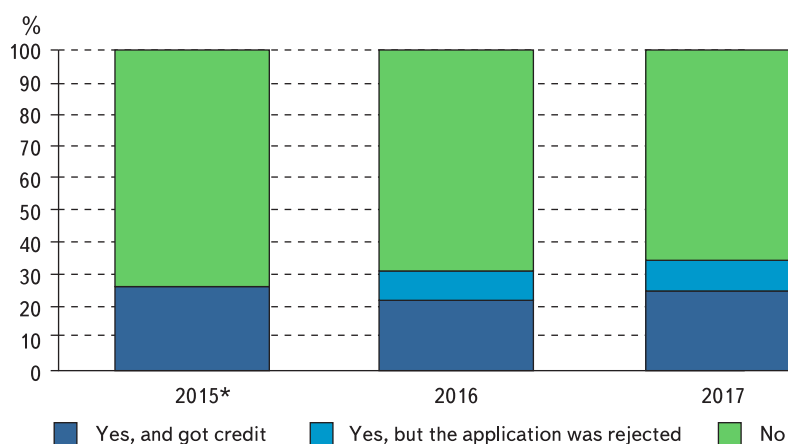


years is noted by all enterprises regardless of their size, year of establishment, sectoral affiliation, or economic position. Notably, accessibility of credit for individual enterprises may vary. According to the Kruskal-Wallis criterion, statistically significant differences in distribution of responses to the question regarding application for credit during the previous year is observed for enterprises depending on their size and year of establishment (Table 3.7).

More than half of medium-sized enterprises applied for credit, and 80% of them received it (i. e. 40% of all medium-sized enterprises, Figure 3.11a). The level of accessibility of credit to small enterprises with the number of employees above 50 is similar. Conversely, among small enterprises with the number of employees below 50, only 20% were able to receive credits, even though about 30% of such enterprises filed credit applications with their banks. Clearly, larger private companies have a better chance of obtaining credit, as they are *ab initio* seen by banks as more attractive customers than their smaller counterparts. Similarly, enterprises with a long credit history have a better chance of obtaining credit than newly created companies without any credit history which are exposed to risks typical for the initial stage of the business development cycle (Figure 3.11b).

At the same time, there is no apparent link between probability of obtaining credit and assessment of the economic position of the enterprise, impact of the crisis on such enterprise¹⁶, or changes in economic environment (see Table 3.7). In

Figure 3.10. Distribution of Responses to the Question Regarding Application for Credit



Note. * In the 2015 poll, the response options offered in the questionnaire made it possible to single out only two groups of respondents: those who received a credit, and those who did not receive a credit.

Source: IPM Research Center.

general, this testifies to the fact that anemic demand for bank credit on the part of small and medium-sized enterprises may be attributable to unfavorable credit terms, rather than the poor financial position of the sector. One of the consequences of that situation is that small and medium-sized business does not rely on bank credit, but prefers to finance its growth with funds sourced internally. Another problem which is traditionally perceived by Belarusian business as quite acute is the high interest rates charged on credits denominated in the national currency. The problem of stringent collateral requirements has also grown considerably more relevant over the last year (Table 3.8).

3.5.3. Suitability of Labor Resources for Small and Medium-Sized Business Needs

Beside restricted access to external financing, development of small and medium-sized business is constrained by limited availability of required labor resources. The 2017 poll findings indicate that enterprises have begun to perceive this problem as slightly more important. Small and medium-sized enterprises are generally satisfied with the level of qualification, education, and experi-

ence of hired workers, regardless of their sectoral affiliation, location, or size. The average labor suitability score, as defined in terms of the above criteria, on a scale from 1 to 5, where 1 is "completely unsuitable", and 5 is "completely suitable", is significantly higher than 3, i. e. lies within the positive domain (Figure 3.12).

Nevertheless, as regards assessment of the level of qualification, there has been a statistically significant reduction of the average score compared to the 2016 poll. Enterprises increasingly often note that the quality of training received by workers in the labor market is not sufficiently high to meet their business needs. In addition to that, small and medium-sized enterprises continue to note the gap between salary expectations of candidates and the actual level of remuneration paid to workers with appropriate level of qualification (the average score is statistically indistinguishable from 3).

Assessment of workforce suitability in terms of expectations and needs of small and medium-sized enterprises is linked to perceived changes in the economic position and business environment. Enterprises which had a more positive perception of changes in their economic

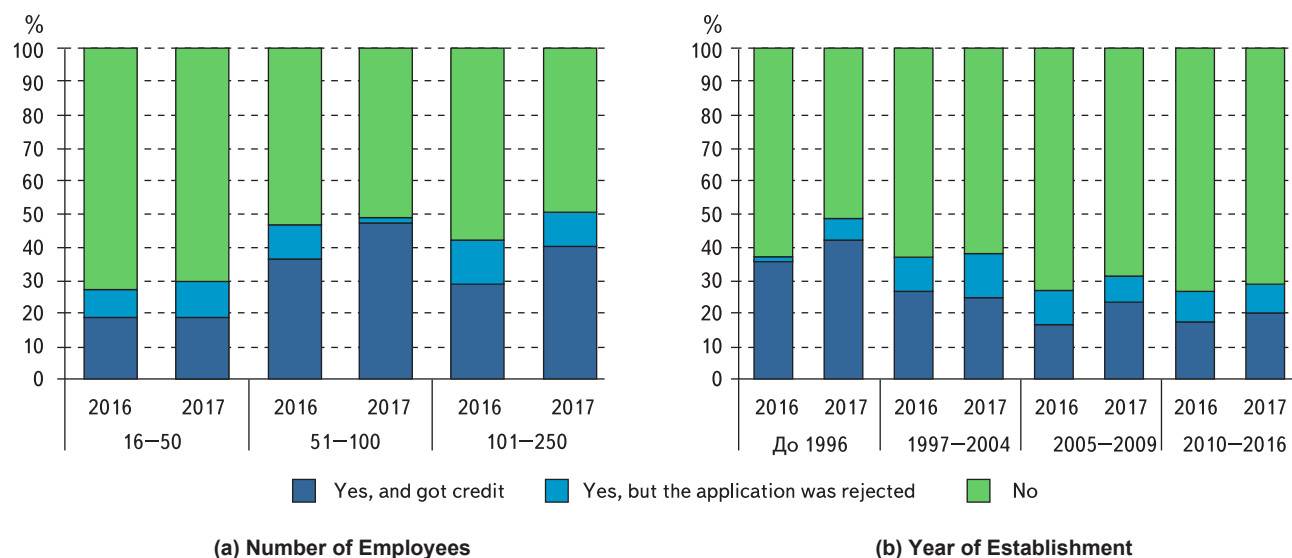
¹⁶ According to the Kruskal-Wallis test, there are differences in distribution of responses to the question as to whether enterprises obtained credit depending on their assessment of crisis impact on demand. However, these differences are difficult to interpret: a large percentage of enterprises that obtained credit is observed among enterprises which gave a neutral assessment of crisis impact on demand. Moreover, the *F*-test conducted within the framework of ANOVA, rejects existence of differences in the shares of enterprises that obtained credit depending on their assessment of crisis impact on the level demand.

Table 3.7. Results of Tests for Differences in Distribution of SME Responses to the Question Regarding Credit Applications Depending on Enterprise Characteristics

	Levene Test	F-Test/Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	2.994 [0.031]	0.737 [0.531]*	2.355 [0.502]
Year of Establishment	29.818 [0.000]	11.180 [0.000]*	8.505 [0.037]
Size of the Enterprise	6.973 [0.000]	2.589 [0.055]*	19.555 [0.000]
Location of the Enterprise	3.331 [0.069]	0.836 [0.361]	1.389 [0.239]
Assessment of Changes in Economic Position	2.098 [0.124]	0.538 [0.585]	2.102 [0.350]
Assessment of Changes in Business Environment	2.282 [0.103]	0.567 [0.568]	3.868 [0.145]
Assessment of Crisis Impact on Demand	8.648 [0.000]	2.304 [0.102]*	7.019 [0.030]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed, for example, in Figure 3.8. According to assessment of changes in economic position, business environment, and crisis impact, enterprises were divided into three groups: those which gave positive, neutral, and negative responses. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances. In all other cases, the standard *F*-test is used to determine equality of intra-group and inter-group variances. For that test, all enterprises were assigned to two groups: those that obtained credit, and those that did not obtain credit. Accordingly, the mean represented the share of enterprises which used the credit. The Kruskal – Wallis *H*-test examined equality of response distributions for all three options: enterprises that obtained credit, enterprises that applied for credit but did not obtain it, and enterprises that did not apply for credit. The figure in square brackets is the *p*-value. Grouping attributes for which average scores are unequal, or distributions are different, are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

Figure 3.11. Distribution of Responses to the Question Regarding Credit Applications Depending on Size (a) and Year of Establishment (b) of the Enterprise


Source: IPM Research Center.

Table 3.8. Reasons for Lack of Interest in Bank Credit among SMEs, % of respondents that did not apply for credit

	2016	2017	Welch <i>t</i> -test	<i>p</i> -value
High interest rates on credits denominated in the national currency	26.6	22.7	-1.068	0.286
High interest rates on credits denominated in foreign currencies	16.9	14.3	-0.851	0.395
Problems with meeting collateral requirements	7.6	15.1	2.789	0.006
No need for the credit	65.1	62.0	-0.759	0.448

Source: in-house calculations based on IPM Research Center data.

position and business environment, and assigned moderate scores to significance of demand contraction caused by the economic crisis, had a more pessimistic view of the quality of available labor resources (Table 3.9). There was no such link the year before, when perceived

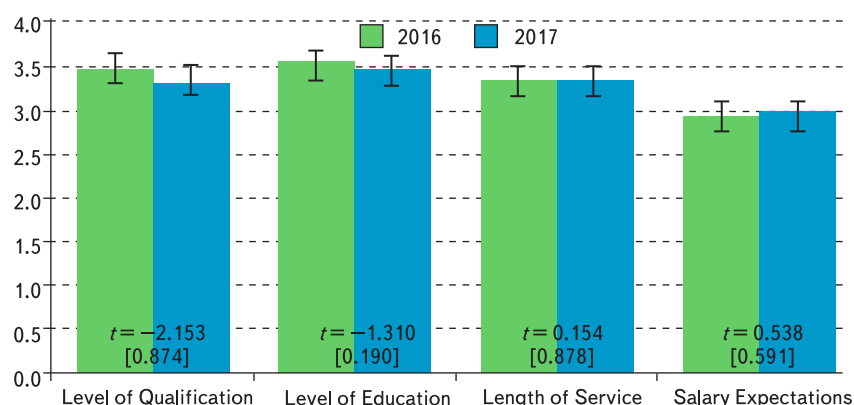
severity of the crisis was at its highest. This testifies to changes in the labor market, and in the role played by human capital in business development.

During the acute phase of the crisis, labor resources were largely perceived as current costs which had to

be curtailed, rather than as long-term assets. With the commencement of SME sector recovery, availability of qualified workers has yet again become an important development factor which contributes to corporate growth acceleration in the existing business environment.



Figure 3.12. Average Score of Workforce Suitability Requirements



Note. Scores are assigned on a scale from 1 to 5, where 1 is "completely unsuitable", and 5 is "completely suitable." The segments represent the 5% confidence interval. The figures show the values of the Welch *t*-test for equality of average scores in 2016 and 2017 for each sub-group.

Source: in-house calculations based on IPM Research Center data.

Table 3.9. Pearson Correlation Coefficients for the Relationship between Assessment of Workforce Suitability to Business Requirements and Perception by Businesses of Their Economic Position and Quality of the Business Environment

		Assessment of Demand Contraction		Assessment of Changes in Business Environment		Assessment of Changes in Economic Position	
Level of Qualification	2017	-0.170	[0.001]	0.239	[0.000]	0.240	[0.000]
	2016	0.080	[0.112]	0.007	[0.893]	-0.050	[0.319]
Level of Education	2017	-0.224	[0.000]	0.281	[0.000]	0.312	[0.000]
	2016	0.080	[0.111]	0.046	[0.364]	-0.019	[0.702]
Length of Service	2017	-0.150	[0.003]	0.160	[0.001]	0.150	[0.003]
	2016	-0.021	[0.673]	0.012	[0.813]	0.055	[0.276]
Salary Expectations	2017	-0.292	[0.000]	0.199	[0.000]	0.314	[0.000]
	2016	0.087	[0.081]	0.102	[0.041]	-0.038	[0.450]

Note. Statistically significant correlation coefficients are marked with gray shading. Workforce suitability to business requirements was assessed on a scale from 1 to 5, where 1 is "completely unsuitable", and 5 is "completely suitable." Changes in business environment and economic position of the enterprise were assessed on a scale from 1 to 5, where 1 is "significantly deteriorated", and 5 is "significantly improved." Demand contraction was assessed on a scale from 1 to 5, where 1 is "imperceptible demand contraction", and 5 is "significant demand contraction."

Source: in-house calculations based on IPM Research Center data.

3.5.4. Surmountability of Barriers

Improvement of the macroeconomic environment and mitigation of the adverse impact of government regulation have strongly affected perception by the SME sector of the barriers it faces. Despite the persistence of the problems related to low availability of external financing and declining market supply of qualified labor, the share of enterprises which believe external barriers to be insurmountable has decreased from 39.2% to 31.5%. This reduction is statistically sig-

nificant¹⁷, but not large enough to restore perception of external environmental impact on conditions of doing business to the levels registered in 2015 (Figure 3.13a).

A slight increase in the scores dealing with the influence of external barriers on business development was registered for all enterprises regardless of their size, location, or year of establishment. Some

¹⁷ One-way analysis of variances (Welch *F*-value = 27.490, *p* = 0.000) and *post-hoc* tests reveal differences in the shares of enterprises asserting surmountability of barriers in each poll.

differences in barriers surmountability perception emerge only due to sectoral affiliation. According to the results of one-way analysis of variances and the subsequent *post-hoc* Duncan test, in 2016 the only sector standing out was Construction, where external barriers were perceived as less critical compared to other sectors. In 2017, that distinction disappeared. While Construction and Trade enterprises which were among those that the crisis hit the hardest took a more positive stance on surmountability of barriers, Industry and Services enterprises did not improve their scores (Figure 3.13b).

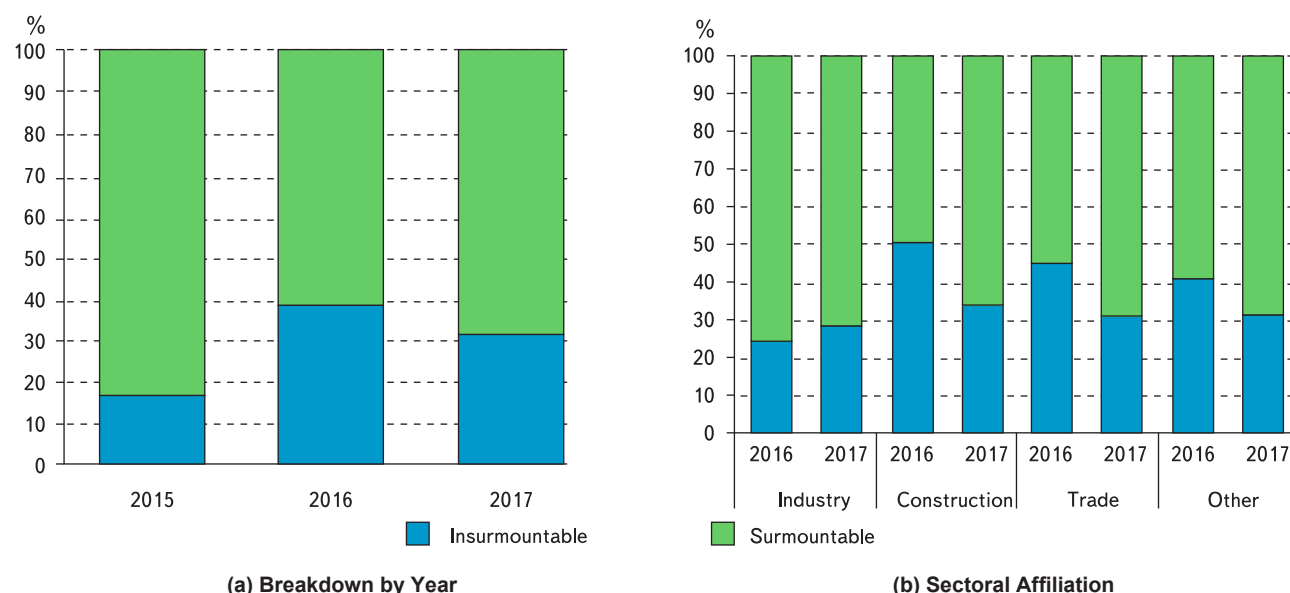
Still, barrier surmountability scores are linked to the way enterprises assess changes in their economic position and changes in conditions of doing business. Enterprises which believed external barriers to be surmountable had a much more positive view of changes in their economic position (average score: 2.91 vs. 2.46 for enterprises seeing such barriers as insurmountable), and were less negative in their perception of changes in the economic environment (2.71 vs. 2.38¹⁸).

3.6. Conclusion

Over the last year, there have been no significant changes in the legislation governing the operation of the SME sector. Still, the 2017 poll findings indicate that assessment of conditions of doing business has improved relative to previous years. Fewer enterprises believe that the external environment hampers their entrepreneurial activities, and more enterprises perceive its impact as neutral. Moreover, representatives of small and medium-sized businesses have begun to express more favorable views regarding the steps taken by the government to improve the business environment. Combined with the absence of significant

¹⁸ For both questions, we used a scale from 1 to 5, where 1 is "significantly deteriorated", and 5 is "significantly improved."

Figure 3.13. Distribution of Responses Regarding Surmountability of Barriers Depending on Poll Year (a) and Sectoral Affiliation (b)



Source: IPM Research Center.

legislative changes, this amounts to a change in regulatory enforcement, making it more business-friendly and focused on supporting economic activity of the private sector.

The only area where poll participants see no progress is the creation of equal conditions for doing business and promotion of fair competition among all business entities regardless of their form of ownership. The private sector continues to emphasize persistent urgency of the problem of unfair competition between large state-owned enterprises and small and medium-sized businesses, particularly due to the biased position of control bodies.

Improvement of the macroeconomic situation has become a major contributor to the more optimistic perception of conditions of doing business. Severity of the crisis in the SME sector has perceptibly declined, which has also affected enterprise strategies, where the focus is gradually shifted from cutting costs to streamlining sales. The importance of the role played by macroeconomic stabilization in improvement of the

business environment is evidenced by distribution of responses given by small and medium-sized enterprises to the question regarding the key external barriers. Over the last year, problems related to instability of the currency exchange rate and inflation have become considerably less relevant, giving way to problems constraining market efficiency. Accordingly, the tighter monetary policy of the National Bank and government steps designed to curb inflation have ensured availability of basic conditions of doing business. However, the problem of limited availability of external financing to small and medium-sized enterprises continues to persist. Even enterprises whose economic position has improved over the last year have not noted any improvements in the area of availability of bank credit.

Labor market changes have become another manifestation of improvement of the economic environment and economic position of small and medium-sized enterprises. During the recession, labor resources were largely perceived as an element of current costs which had to be curtailed. With the commencement of

the SME sector recovery, availability of qualified workers has once again become an important development factor, which has resulted in the use of more stringent hired workers eligibility criteria and dissatisfaction of the sector with available workforce supply.

On the back of positive changes in macroeconomic policy and abatement of the negative impact that the existing government regulation had on the small and medium-sized business sector, enterprises have taken a more relaxed stance towards external barriers. Those barriers are now much more seldom assessed as insurmountable and capable of closing businesses down. However, these trends do not extend to all enterprises. The most optimistic views of the external environment are expressed by young and relatively small enterprises operating in sectors least focused on domestic demand. Continued successful development of the small and medium-sized business sector depends both on the government simplifying and equalizing conditions of doing business, and on recovery of the domestic market.



4. OPERATING EFFICIENCY OF BUSINESS UNIONS AND BELARUS NATIONAL BUSINESS PLATFORM

4.1. Introduction

Small and medium-sized businesses play an important role in the national economy. Their growth translates into higher real income of the population, creates new jobs, and may be instrumental to redistribution of labor resources in favor of the more productive economic sectors. Over the last year, the economic position of Belarusian small and medium-sized enterprises has significantly improved relative to the economy as a whole, which underscores their flexibility in responding to a changing external environment, and their higher competitiveness vis-à-vis large state-owned enterprises. Some of the key contributors to that improvement are Industry and Services businesses targeting external markets (see Chapter 2). In turn, enterprises working in the domestic market continued to complain about continued deterioration of their economic position against the backdrop of the crisis.

Despite the active discussion of reforms designed to simplify conditions of doing business in Belarus, there have been no significant legislative changes in the second half of 2016 and in the beginning of 2017. It should be noted, however, that representatives of small and medium-sized businesses have begun to express more favorable views regarding the steps taken by the government to improve the business environment. Businessmen have taken a more positive stance with respect to government efforts to improve operating conditions and achieve a macroeconomic stabilization of the economy (see Chapter 3).

Success of the steps taken to improve the business environment

largely depends on business unions acting as mouthpieces of the business community accurately communicating its opinions and interests. On the one hand, they are involved in definition and promotion of the reform agenda, on the other hand, they shape the overall perception of government activities and maintain a dialog with the authorities, thereby providing the government with crucial feedback. A very important contribution to that process is made by the Belarus National Business Platform (BNBP). Its development has been under way since 2006 with direct involvement of the expert community, stakeholders, and representatives of the business community seeking to improve the business climate 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, determine the level of their cooperation with SMEs, measure the extent of SME awareness and assess their perception of the Belarus National Business Platform.

In our analysis of efficiency of business unions, we have relied on the findings of private business polls conducted by the IPM Research Center on an annual basis. The key approach employed to examine poll findings is the comparison of means.¹

¹ For detailed information about poll and methodology applied to analyze its results, see Section 2.1. Distinctive feature of this chapter is application of confidence intervals and statistics for binomial distribution.

The chapter has the following structure: The second section provides a summary of business union activities as they are perceived by Belarusian SMEs. The third section features an assessment of SME awareness of the Belarus National Business Platform, and its perception by small and medium-sized businesses.

4.2. Involvement of Small and Medium-Sized Businesses in Business Union Activities

The sector of small and medium-sized enterprises (SME) was one of the first to begin recovering after the 2015–2016 recession. This resulted in a sizeable increase of its contribution to many macroeconomic indicators, in particular, industrial production, employment, and volume of exports. In addition to that, the level of development of SMEs largely predetermines the volume of tax revenues received by local and republican budgets, and changes in real income of the population. This demonstrates the importance of supporting further development of small and medium-sized business.

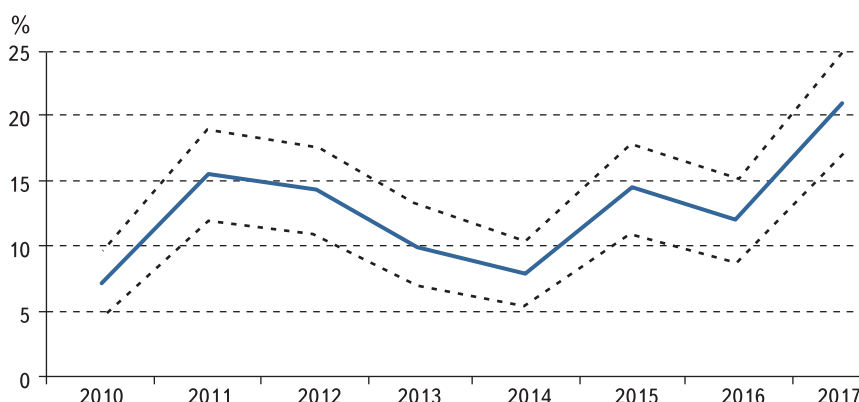
The findings of the poll indicate that enterprises operating in the SME sector have grown more optimistic in their assessment of their economic position, the impact of the external environment, and the aftermath of the economic crisis. In particular, representatives of small and medium-sized businesses have begun to express more favorable views regarding the steps taken by the government to improve conditions of doing business. Businessmen are quite enthusiastic about the latest government activities, primarily, due to the achievement of macroeconomic stability. The steps

taken by the National Bank and the government to curb inflation and stabilize currency exchange rates have prompted a shift of business environment scores from the negative to the neutral domain. Certain improvement has also been noted in the perception of other government efforts, including those related to creating equal operating conditions for enterprises of all forms of ownership (see Chapter 3).

Incidentally, in the second half of 2016 and in the beginning of 2017, there have been no significant legislative changes that could affect conditions of doing business in Belarus. The fundamental document dealing with government regulation of the SME sector is the government program *Small and Medium-Sized Businesses in Belarus in 2016-2020* approved by Decree of the Council of Ministers dated February 23, 2016. One of the key tasks stipulated by the program is simplification of conditions of doing business in Belarus. However, adoption of the relevant implementing legislative acts started only at the end of 2017. That said, to improve perception of government efforts by the business community, it may be necessary to upgrade regulatory enforcement practices, and galvanize the dialog between government and business. Such dialog may be considerably facilitated by entities acting as mouthpieces of the business community and accurately communicating its opinions and interests: business unions and the Belarus National Business Platform.

Over the last year, creation of business unions by private businesses to protect and promote their interests has gained additional relevance. Such entities enable the country's business community to be efficiently involved in economic policy-making through a more productive dialog between government and business. Existence of respected entrepreneurial unions, and of a ramified business support infrastructure, is as important for business as existence

Figure 4.1. Share of Enterprises Involved in Business Unions, by year



Note. The dotted lines represent the 5% confidence interval.

Source: in-house calculations based on IPM Research Center data.

of a favorable macroeconomic and institutional environment.

Polls taken among small and medium-sized enterprises have shown that only a small fraction of such enterprises have acceded to business unions. Over the last seven years, the share of enterprises involved in business unions has been widely fluctuating, but generally has never exceeded 20% of the total number of respondents. That level was attained only in 2017, when the share of union members reached an all-time high at 20.9% (Figure 4.1).

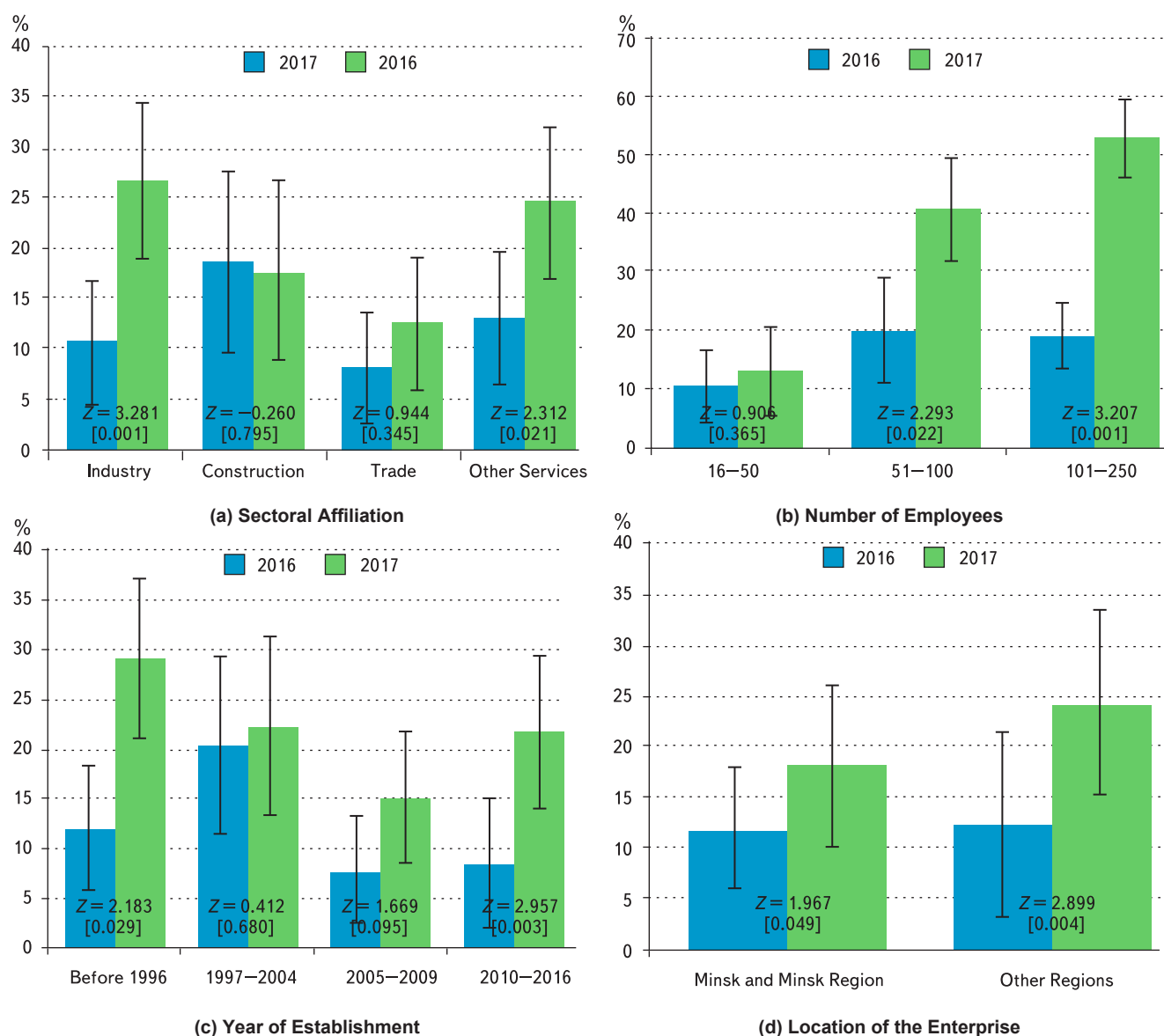
The increase in the number of business union members testifies to the fact that entrepreneurs are becoming convinced of the expedience of joining such unions, and show increasingly more interest in striking a dialog with the government. This is happening despite the fact that, due to the crisis, survival has become the key priority for most small and medium-sized enterprises, implying a shift of focus towards short-term objectives, and limited interest in discussing long-term economic policy challenges.

The rate of increase of involvement of small and medium-sized enterprises in business unions has not been the same throughout the sector, as confirmed by the tests presented in Table 4.1. We have identified statistically significant differences between business union

membership percentages depending on sectoral affiliation of enterprises.

Over the last year, there has been a considerable increase in the number of business union members in the Industry and Services sectors, while in Construction and Trade it has remained virtually unchanged (Figure 4.2a). As a consequence, in 2017 there have emerged statistically significant year-on-year differences in the scope of business union participation between Industry and Services enterprises on the one hand and Trade enterprises on the other hand. These trends are consistent with economic position change scores. Accordingly, small and medium-sized enterprises from those sectors which have relatively quickly recovered from the crisis are more interested in protecting their interests and initiating a dialog with the government than enterprises from the sectors still suffering from contraction of domestic demand.

Pursuant to poll findings, medium-sized enterprises (defined as enterprises which employ 101–250 people) accede to business unions more frequently, and the level of their activity is growing (Figure 4.2b). Business union membership has also increased due to the inflow of small enterprises with the number of employees above 50. These results may be attributable to the


Figure 4.2. Shares of Business Union Members Depending on Enterprise Characteristics


Note. The segments represent the 5% confidence interval automatically computed in SPSS for normal distribution. It almost coincides with the Welch confidence interval for binomial variables. The figures show the values of the Z-test for equality of shares of business union members in 2016 and 2017 for each sub-group.

Source: in-house calculations based on IPM Research Center data.

Table 4.1. Tests for Equality of Shares of Business Union Members in Groups Based on Enterprise Characteristics

	Levene Test	F-Test/Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	12.099 [0.000]	2.976 [0.033]*	7.885 [0.048]
Size of the Enterprise	57.248 [0.000]	20.247 [0.000]*	53.661 [0.000]
Year of Establishment	5.604 [0.001]	1.406 [0.243]*	3.993 [0.262]
Location of the Enterprise	9.150 [0.003]	2.261 [0.134]*	2.116 [0.146]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed in Figure 4.2. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances. In all other cases, the standard F-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the p-value. Grouping attributes for which shares of business union members are unequal are marked with gray shading.

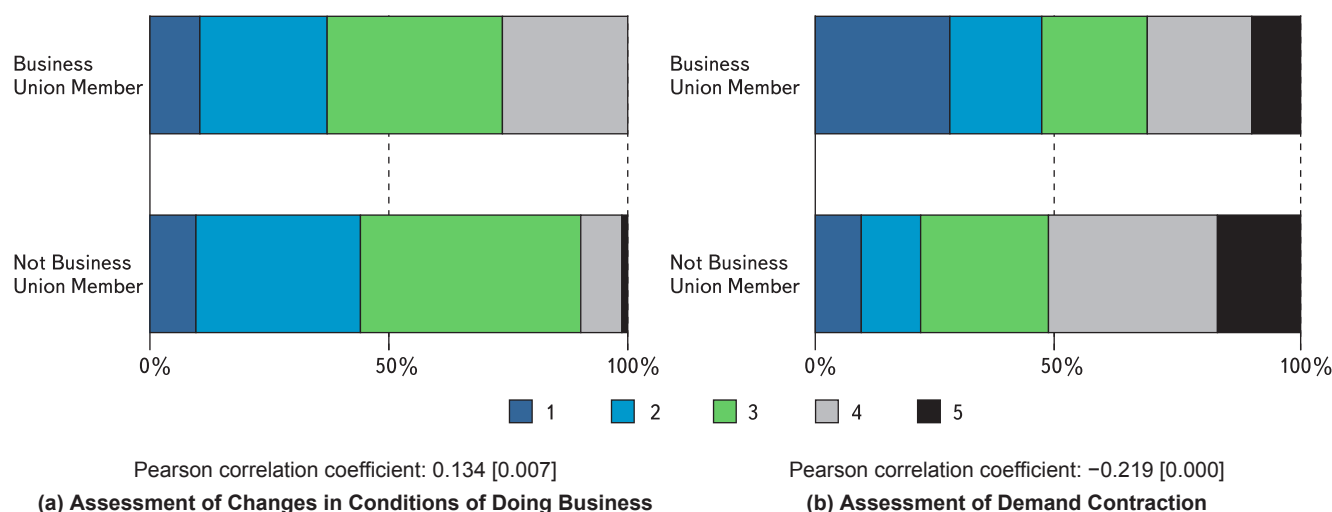
Source: in-house calculations based on IPM Research Center data.

fact that larger enterprises are generally more assertive, transparency-oriented, and interested in having

a dialog with the government to improve the business environment. They are also less mobile, and

more dependent on the business environment. Such businesses are usually making long-term plans and

Figure 4.3. Assessment of Changes in Conditions of Doing Business (a) and Crisis-Driven Demand Contraction (b) Depending on Business Union Membership



Note. Scores are assigned on a scale from 1 to 5, where 1 is "significantly deteriorated" and 5 is "significantly improved" for Figure (a), and 1 is "not felt" and 5 is "very acutely felt" for Figure (b).

Source: in-house calculations based on IPM Research Center data.

Table 4.2. Tests for Equality of Scores Assigned to Impact of Government Actions on Business Depending on Business Union Membership

	2016			2017		
	Levene Test	<i>t</i> -test/Welch	<i>t</i> -test*	Levene Test	<i>t</i> -test/Welch	<i>t</i> -test*
Creation of equal conditions of doing business and promotion of fair competition among all business entities regardless of their form of ownership	0.125 [0.724]	-2.690 [0.007]		3.464 [0.063]	-0.052 [0.958]	
Development of private ownership and enhanced protection of the right to own and use property	0.528 [0.468]	-2.313 [0.021]		2.172 [0.141]	-0.518 [0.604]	
Liquidation of excessive administrative barriers	0.361 [0.548]	-2.131 [0.034]		0.461 [0.498]	0.663 [0.507]	
Extended use of tax legislation to encourage good-faith discharge of tax liabilities and business initiative	0.271 [0.603]	-2.414 [0.016]		0.377 [0.540]	0.422 [0.673]	
Increasingly preemptive nature of control (supervisory) activities, transition to predominant use of preventive measures	1.790 [0.182]	-1.882 [0.061]		0.467 [0.495]	-0.389 [0.698]	
Elimination of legislative ambiguity, improvement of quality of newly-adopted normative acts governing entrepreneurial activities	1.766 [0.185]	-1.148 [0.252]		0.108 [0.742]	-0.534 [0.594]	

Note. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for pairwise comparison of means. In all other cases, the standard *t*-statistic is used. The figure in square brackets is the *p*-value. Government actions for which average scores assigned by enterprises depending on their business union membership are unequal are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

looking for channels of influence to promote their interests. Besides, their size is generally perceived as an advantage for the purposes of their involvement in the dialog, as it gives them more clout and boosts their bargaining power. It should be noted, however, that the rate of growth (approximately from 20% to 50%) of business union membership of medium-sized enterprises may be exaggerated. The sample for the poll was designed based on regional and sectoral affiliation of enterprises, and

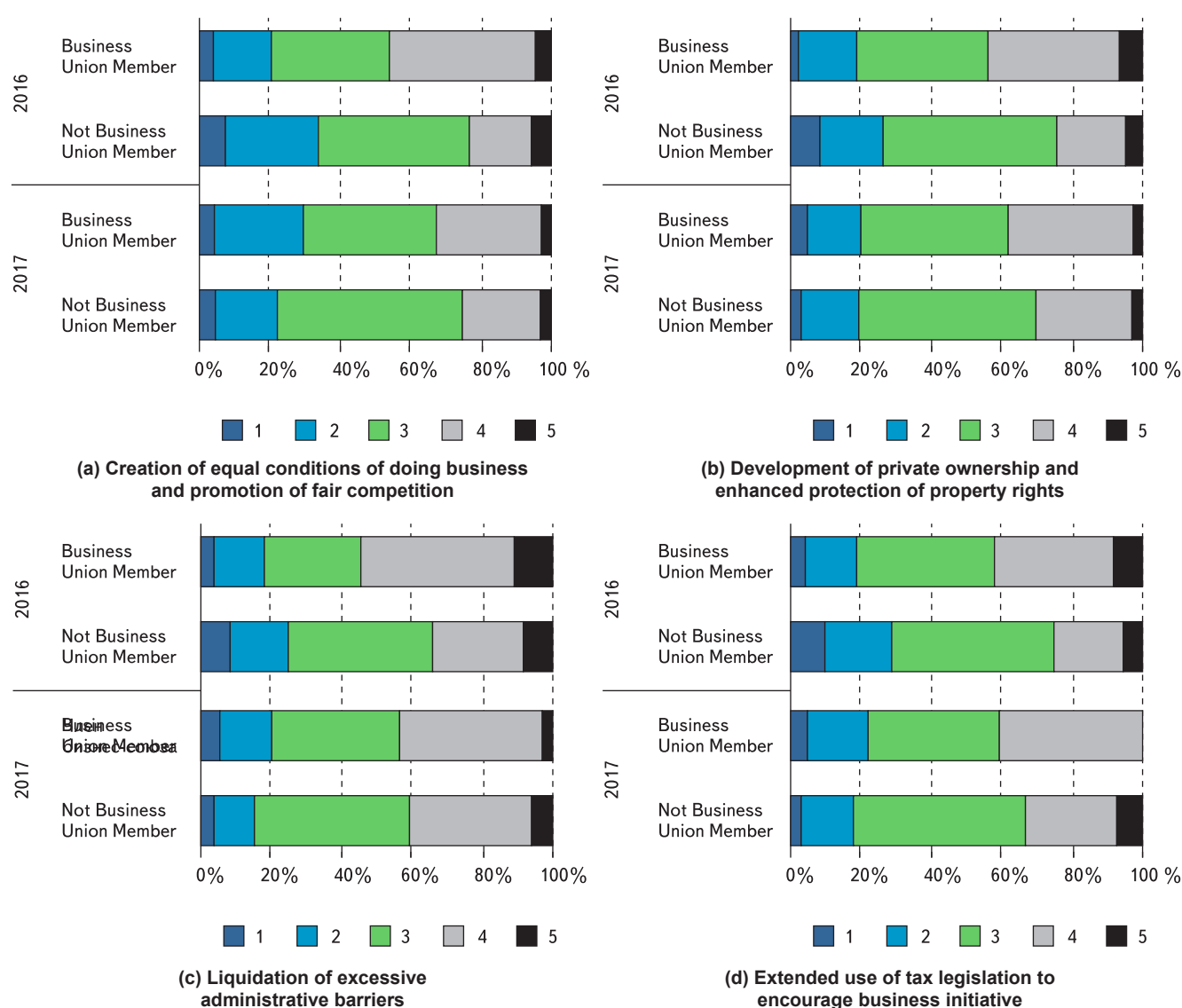
its representativeness in terms of the size of enterprises cannot be assured. Be that as it may, the general trend (where larger enterprises tend to be more active) is evident.

A considerable increase in the number of business union members has been registered for enterprises established before 2004 on the one hand, and enterprises established after 2010 on the other hand. Companies which have been around for more than 10 years are more

experienced and confident in their market behavior. Besides, they often face complex strategic tasks. As a consequence, they demonstrate a higher-than-average willingness to make their contribution to the efforts designed to promote business and improve the economic and legal environment in the country on a longer-term basis. New enterprises (those established after 2010) often target foreign markets. That is why they are less sensitive to unstable domestic demand, and feel less pressured by



Figure 4.4. Distribution of Scores Assigned to Impact of Government Actions on Business Depending on Business Union Membership



Note. Scores are assigned on a scale from 1 to 5, where 1 represents a negative assessment of government actions suggesting that they strongly hampered doing business, and 5 represents a positive assessment of government actions suggesting that they strongly assisted doing business.

Source: in-house calculations based on IPM Research Center data.

the government. As a consequence, they express more optimism with respect to the opportunities created by a dialog with government bodies (Figure 4.2c).

Our research shows that the increase in the number of business union members is generally not linked to the location of enterprises. That said, regional enterprises are apparently joining business unions faster than their Minsk-based counterparts (Figure 4.2d). This upsurge of local activity may be attributable

to the growing openness of local government bodies and their direct interest in promoting flourishing regional businesses, and the operation of public consultative councils on development of entrepreneurial activities created under regional executive committees.

Increased membership of small and medium-sized enterprises in business unions signals a possible improvement of operating efficiency of such unions. Unfortunately, the poll does not provide direct answers

to the question regarding the level of efficiency of business associations. However, we can consider indirect indicators which reflect the impact that business union membership has on the operations of the enterprise. For example, business union membership apparently improves scores assigned to changes in conditions of doing business and severity of impact of the crisis on the operations of the enterprise. This link is confirmed by the existence of a statistically significant positive correlation between business union membership and

business environment scores, and a statistically significant negative correlation between business union membership and perceived impact severity scores (Figure 4.3).

Notably, the more positive assessment of the business and economic environment by business union members does not affect their perception of their own business prospects. We have observed no statistically significant differences in assessment of the current economic position of the enterprise and changes in that position depending on the business union membership criterion. Accordingly, business union membership does not generate individual benefits for any given enterprise, but rather improves its attitude towards economic devel-

opments due to its more intimate involvement in the dialog with the government and better awareness of the motives underlying decisions made by government bodies.

The impact that business union membership has on the degree of awareness and assessment of government actions is confirmed by distribution of responses to the relevant questions. Tests show that in 2016 business union members maintained a much more positive view of government actions in most areas compared to SME sector averages (Table 4.2). Moreover, business union members assessed as "rather positive" government actions designed to create equal conditions of doing business, promote development of private ownership, liquidate

administrative barriers, and reform taxation system, while other small and medium-sized enterprises were inclined to classify those government actions as business constraints.

In 2017, the average score assigned to government actions by business union members became equal to the SME sector average, but distribution of responses was still different, with respondents which are business union members assigning fewer neutral scores (Figure 4.4). This implies that due to their business union membership they have a clearly articulated opinion with respect to government actions.

Business union membership also impacts perception of corruption incidence. In particular, there are

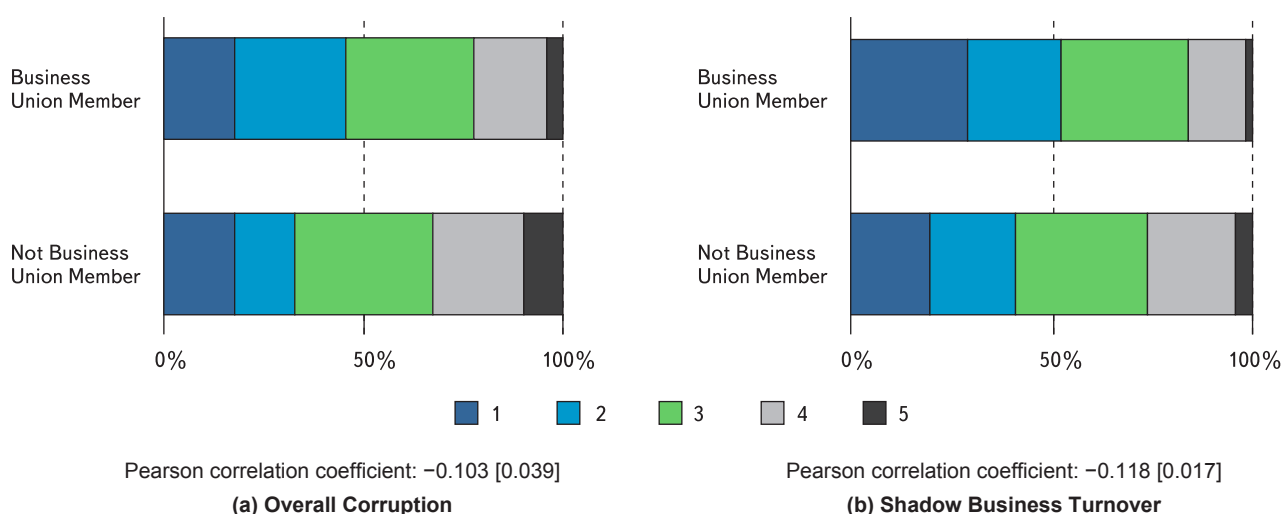
Table 4.3. Tests for Equality of Scores Assigned to Scale of Corruption and Changes in Incidence of Corruption Depending on Business Union Membership

	Levene Test	<i>t</i> -test / Welch <i>t</i> -test*	Kruskal – Wallis <i>H</i> -Test
<i>Assessment of current manifestations of corruption</i>			
Overall corruption	0.017 [0.897]	2.068 [0.039]	4.631 [0.031]
Shadow business turnover	0.033 [0.857]	2.394 [0.017]	5.278 [0.022]
Bribes	0.024 [0.878]	1.731 [0.084]	2.981 [0.084]
Kickbacks	0.459 [0.498]	0.855 [0.393]	0.527 [0.468]
Change in corruption incidence	8.043 [0.005]	0.808 [0.421]*	0.662 [0.416]
Assessment of efficiency of anti-corruption measures	0.223 [0.637]	-0.994 [0.321]	0.427 [0.514]

Note. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for pairwise comparison of means. In all other cases, the standard *t*-statistic is used. The figure in square brackets is the *p*-value. Corruption manifestations for which average scores assigned by enterprises depending on their business union membership are unequal are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

Figure 4.5. Assessment of Corruption Manifestations Depending on Business Union Membership



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: in-house calculations based on IPM Research Center data.



differences between assessment of the general level of corruption and the scope of shadow business turnover (Table 4.3). Business union members see fewer manifestations of those problems compared to SME sector averages, which is corroborated by the negative correlation between perceived incidence of those phenomena and business union membership (Figure 4.5). Concurrently, business union member scores and SME sector average scores are basically the same with respect to perceived efficiency of government-initiated anti-corruption measures and changes in the incidence of corruption over the last year. It should be noted, though, that instead of claiming higher efficiency of the steps taken by the government to combat corruption, business union members see fewer areas with high corruption incidence. Apparently, this position is reinforced by the more extensive involvement of business union members in the dialog with the government, which gives them a better understanding of the rules of the game, and fewer reasons to see corruption in the decisions made by government bodies.

Therefore, poll results indicate that small and medium-sized enterprises have become more involved in the activities of business unions. This is primarily true for relatively large and successful enterprises, either those that have worked in the market for a long time, or those that have been established only recently in the Industry and Services sectors, and are targeting foreign markets. However, to date only a small fraction of enterprises have acceded to business unions, which testifies to a relatively small extent of involvement of the business community in the dialog with the government. This can be explained by the fact that business unions are limited in their ability to promote business agenda and protect the interests of their members. Still, poll results show that business unions do make a difference, as their activities increase the level of awareness of the economic policy decision-making process among

the members of the business community. This, in turn, translates into a more positive view of changes in the business environment, efficiency of government actions, and incidence of corruption. These results can also be regarded as proof of revitalization of the dialog between government and business, and of the growing role of business unions in that dialog.

4.3. Role of the Belarus National Business Platform in the Dialog between Government and Business

A significant role in promoting the dialog between the business community and economic authorities is played by the Belarus National Business Platform (the "Platform"). Its development has been under way since 2006 with direct involvement of the expert community, stakeholders, and business representatives seeking to improve conditions of doing business in Belarus. In 2007, the list of authors of the Platform consisted of 12 associations; today the number of active participants of the Platform coalition exceeds 70. The level of interest in participation in development of the Platform peaked in 2008-2009, during discussion and adoption of Directive No. 4 *On Development of Entrepreneurial Initiative and Stimulation of Business Activity in the Republic of Belarus*.

Following a period of rapid development in 2008-2010, the Platform held its positions during implementation in Belarus of *Program for Support of Small and Medium-Sized Enterprises for 2010–2012*, as adopted by Decree of the Council of Ministers dated December 28, 2009. One of the objectives of the program was to "improve the laws governing the operation of small and medium-sized enterprises," which ensured a more active involvement of business unions in the dialog with the government, and promotion of recommendations developed by the Platform. During that period, the share of recommendations put forward by the authors of the Platform

that were fully or partially accepted was extremely high.²

Subsequently the number of Platform recommendations accepted by the government somewhat decreased. This could be attributed to a certain progress in improvement of the business environment (as certified by the position of Belarus in Doing Business ranking), which implied that the need to effect large-scale legislative changes was no longer urgent. As a consequence, the focus of government bodies on the business environment temporarily weakened, and perception of government activities by business community gradually became increasingly negative (see Chapter 3).

An assessment of implementation of Platform recommendations by Analytical Center *Strategy*³ confirms that in 2016 the rate of integration of business community recommendations in economic policy agenda decreased. In 2016, Platform recommendations implementation score reached merely 29.6% vs. 34.8% in 2015 (Table 4.4). Out of 87 recommendations formulated in the Platform, only 2 were implemented in full, while 18 were completely ignored. For another 29 items, implementation scores did not exceed 20%. Government bodies paid the most attention to business community requests related to improvement of monetary policy and operation of the financial sector, while economic debureaucratization requests were basically stonewalled. Very low implementation scores (14.4%) are also typical for business community recommendations on optimization of the regulatory environment.

However, in 2017 the situation may have changed. The *Program of Social and Economic Develop-*

² Grushetskaya, E. (2016). Business union activities as perceived by small and medium-sized enterprises, IPM Research Center, *Policy Discussion Paper PDP/16/02*.

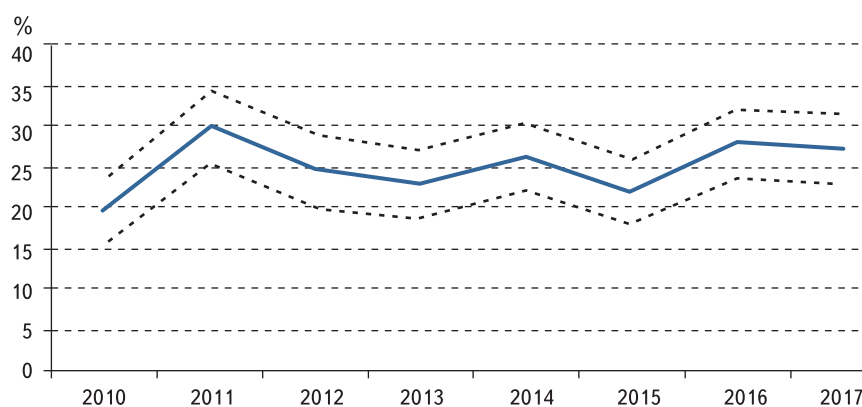
³ See AC *Strategy*, IPM Research Center (2017). Belarus National Business Platform Execution Assessment – 2016, <http://liberty-belarus.info/images/stories/book/scorecard-NBP2016FINAL.pdf>.

Table 4.4. Implementation of Platform Recommendations in 2015–2016

Average Recommendations Implementation Scores by Sections:	2015	2016
I. Good-Faith Competition	3.22	2.99
II. Efficient Debureaucratization	4.50	2.46
III. Regulatory Optimization	2.24	1.44
IV. Monetary Policy and Financing	4.85	4.57
V. Honest Privatization	3.26	3.32
VI. Responsible Partnership	2.83	2.99
Overall Platform Implementation (arithmetic mean of six section scores)	3.48	2.96
Platform Implementation Index	34.8%	29.6%

Note. Average score multiplied by 10 yields a percentage rate of Platform recommendations implementation.

Source: AC Strategy, IMP Research Center (2017). Belarus National Business Platform Execution Assessment – 2016.

Figure 4.6. Share of Enterprises Familiar with the Belarus National Business Platform, %


Note. The dotted lines represent the 5% confidence interval.

Source: in-house calculations based on IPM Research Center data.

ment of the Republic of Belarus for 2016–2020 envisages measures designed to resolve business development problems. Those measures are concentrated in the section called *Emancipation of Business Initiative and Creation of Conditions Conducive to Doing Business* of the government program *Small and Medium-Sized Businesses in Belarus in 2016–2020* approved by Decree of the Council of Ministers dated February 23, 2016. Pursuant to the program, in 2017 Belarusian experts proceeded to develop a set of documents designed to improve conditions of doing business, including Decree No. 7 *On Development of Entrepreneurship* (adopted on November 23, 2017). It is expected that those documents will, to a significant extent, incorporate both recommendations included into the new Platform in 2017, and those put forth back in 2016. Preparation of massive changes in the legislation

governing entrepreneurial activities was one of the reasons for the low Platform recommendations implementation rate over the last several years.⁴

For a whole decade, the Platform has had a significant impact on the business environment in Belarus. During this time, the number of implemented Platform proposals designed to improve the business climate has exceeded 420. Taking into consideration the critical importance of private business for sustainable economic growth in Belarus, the opportunities presented by the Platform in terms of promoting steps designed to streamline conditions of doing business will remain relevant for years to come.

⁴ See AC Strategy, IPM Research Center (2017). Belarus National Business Platform Execution Assessment – 2016, <http://liberty-belarus.info/images/stories/book/scorecard-NBP2016FINAL.pdf>.

According to poll data, over the last several years the share of small and medium-sized enterprises familiar with the Platform has changed little, if at all. In 2017, 27% of respondents stated they were familiar with the Platform (Figure 4.6). Constant Platform awareness scores are posted by all types of enterprises, regardless of the number of their employees, year of establishment, sectoral affiliation, or region where they operate. That said, tests show the existence, within those groups, of certain differences in the level of awareness of the Platform and its activities (Table 4.5).

Statistically significant differences in the level of awareness of the Platform were noted only with respect to the size of the enterprise (Figure 4.7b). Familiarity with the Platform was claimed by approximately the same share of medium-sized enterprises (defined as enterprises with the number of employees ranging from 100 to 250) and enterprises with the number of employees ranging from 51 to 100, the said share being about 40% of respondents. Conversely, only slightly more than 20% of respondents representing small companies were aware of the Platform. This distribution of responses is consistent with differences in the level of activity with which enterprises cooperate with business unions depending on the size of enterprises.

None of the other changes are confirmed statistically (Table 4.5). Still, similarly to business union membership, the share of enterprises aware of the Platform in the Industry sector is higher than in the Trade sector. Besides, the level of awareness of the Platform is probably higher among older companies than among recently established companies. This, however, cannot be affirmed with any certainty due to the small size of the sample and the poor accuracy of binomial distribution.

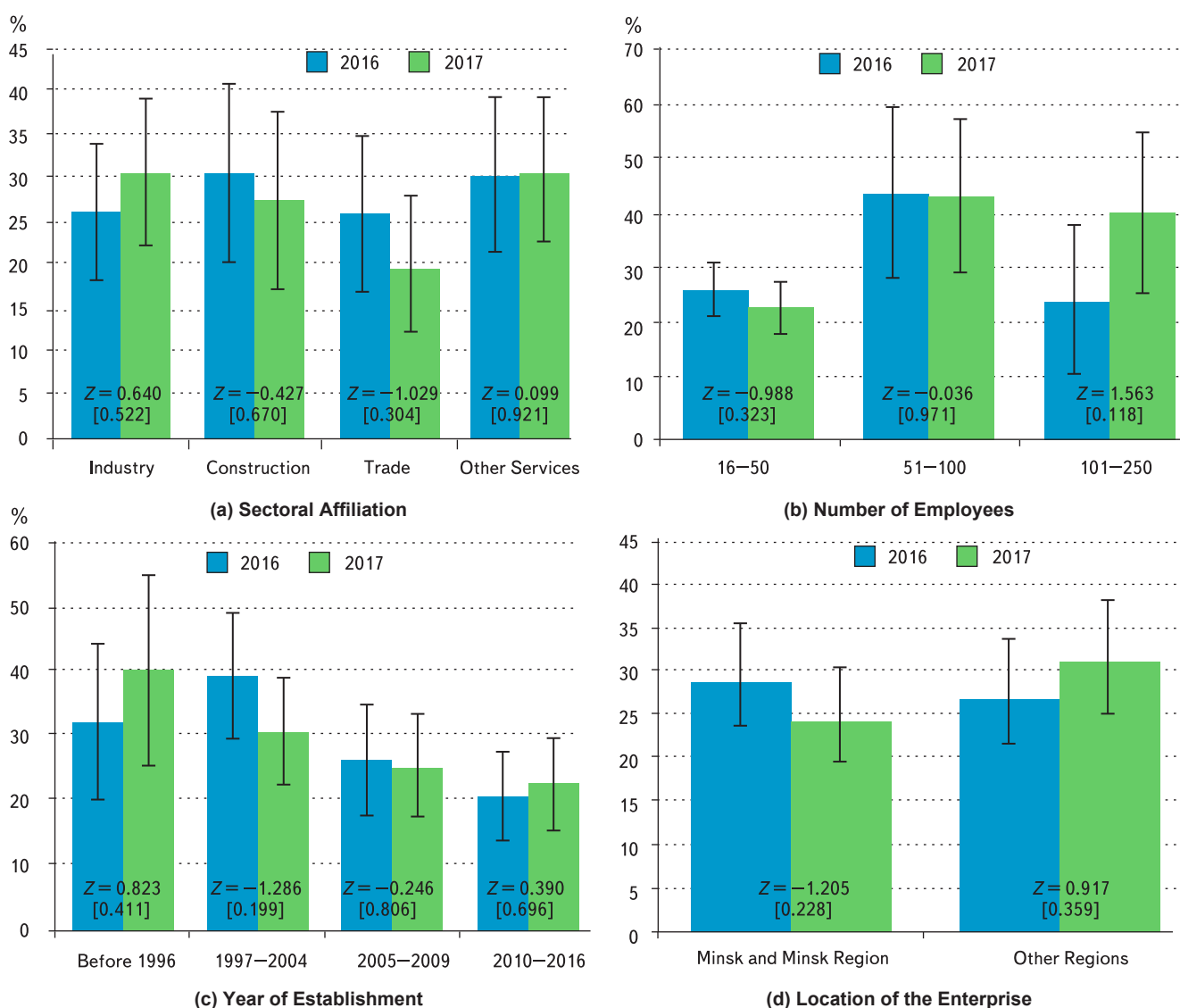
By the same token, we have found no proof of differences in the level of awareness of the Platform among enterprises operating in Minsk and Minsk Region on the one hand and


Table 4.5. Tests for Equality of Shares of Enterprises Familiar with the Belarus National Business Platform Depending on Their Characteristics

	Levene Test	F-Test/Welch F-Test*	Kruskal – Wallis H-Test
Sectoral Affiliation	6.868 [0.000]	1.585 [0.194]*	4.450 [0.217]
Size of the Enterprise	16.824 [0.000]	5.961 [0.004]*	14.004 [0.001]
Year of Establishment	5.917 [0.001]	1.794 [0.150]*	5.647 [0.130]
Location of the Enterprise	9.750 [0.002]	2.480 [0.116]*	2.445 [0.118]

Note. Groups of enterprises formed on the basis of their sectoral affiliation, year of establishment, size, and location are listed in Figure 4.7. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances. In all other cases, the standard F-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the *p*-value. Grouping attributes for which shares of enterprises familiar with the Belarus National Business Platform are unequal are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

Figure 4.7. Share of Enterprises Familiar with the Belarus National Business Platform Depending on Their Characteristics


Note. The segments represent the 5% confidence interval calculated for normal distribution. It almost coincides with the Wald confidence interval for binomial variables. The figures show the values of the Z-test for equality of shares of enterprises aware of the Belarus National Business Platform in 2016 and 2017 for each sub-group.

Source: in-house calculations based on IPM Research Center data.

enterprises operating in other regions on the other hand. Regional enterprises are familiar with the Platform in the same, if not higher,

degree as Minsk enterprises (Figure 4.7d). This is consistent with the level of involvement of enterprises in business union activities.

There is a direct link between business union membership and awareness of the Platform. Thus, the coefficient of correlation between these

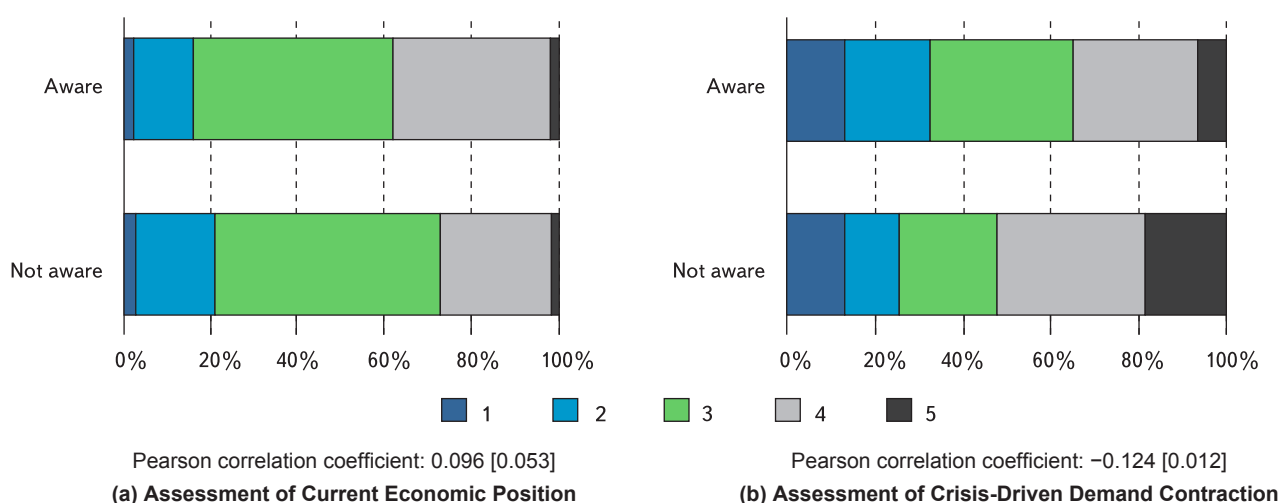
Table 4.6. Tests for Equality of Scores Assigned to Economic Position of the Enterprise and External Environment Depending on Awareness of the Belarus National Business Platform

	Levene Test	F-Test / Welch F-Test*	Kruskal-Wallis H-Test
Current Economic Position	2.158 [0.143]	3.751 [0.053]	4.577 [0.032]
Change in Economic Position	0.256 [0.613]	1.406 [0.237]	1.321 [0.250]
Change in Conditions for Doing Business	2.482 [0.116]	0.609 [0.436]	0.573 [0.449]
Impact of Crisis on Demand	7.989 [0.005]	7.155 [0.008]*	8.873 [0.003]

Note. We analyzed distribution of scores assigned on a scale from 1 to 5. The Levene test examines the equality of variances hypothesis. If it is rejected, then the robust Welch test is used for the purposes of one-way analysis of variances. In all other cases, the standard *F*-test is used to determine equality of intra-group and inter-group variances. The figure in square brackets is the *p*-value. Questions for which scores assigned by enterprises familiar and not familiar with the Belarus National Business Platform are unequal are marked with gray shading.

Source: in-house calculations based on IPM Research Center data.

Figure 4.8. Assessment of Current Economic Position and Crisis-Driven Demand Contraction Depending on Awareness of the Belarus National Business Platform



Note. Scores are assigned on a scale from 1 to 5, where 1 is "very poor" and 5 is "very good" for Figure (a), and 1 is "not felt" and 5 is "very acutely felt" for Figure (b).

Source: in-house calculations based on IPM Research Center data.

two variables is 0.449. Still, it is not unusual for business union members to be unaware of the Platform (they account for one third of all members), while of all enterprises aware of the Platform only half are members of business associations. Accordingly, the scope of interest in the Platform is generally wider than the scope of interest in business union activities, meaning that the number of members of business associations interested in promoting entrepreneurial values may well increase.

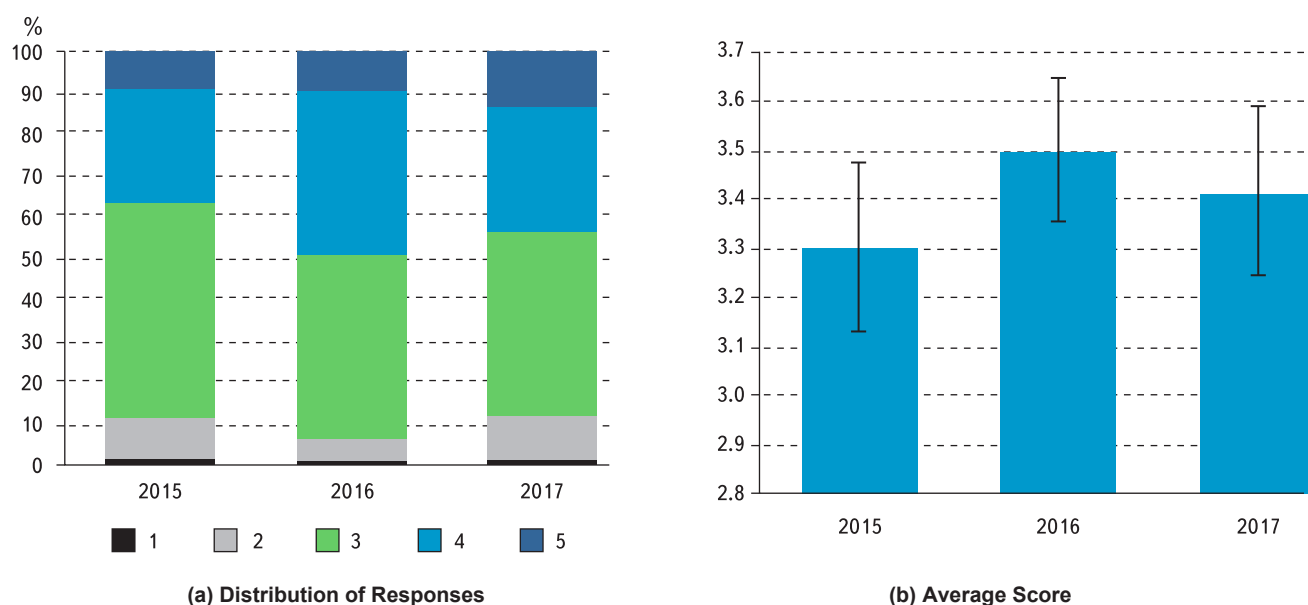
Our research has identified a statistical relationship between awareness of the Platform and perceived severity of crisis impact (Table 4.6). Scores assigned to impact of the crisis on the level of demand by enterprises which are aware of the Belarus National Business Platform are much lower than the SME sector

average (Figure 4.8a). Incidentally, the same was true for business union membership (Figure 4.3b). This confirms the assumption that having an interest in starting a dialog with the government and promoting regulatory reforms is, to a certain degree, instrumental to emergence of a relatively more balanced view of the economic situation in the country.

Similarly to business union membership, awareness of the Platform does not entail a more positive view of the economic position of the enterprise. The nonparametric Kruskal – Wallis test reveals certain differences in distribution of responses given by enterprises familiar with the Platform and by other small and medium-sized enterprises, but those differences have no pronounced direction. The coefficient of correlation between Platform awareness and

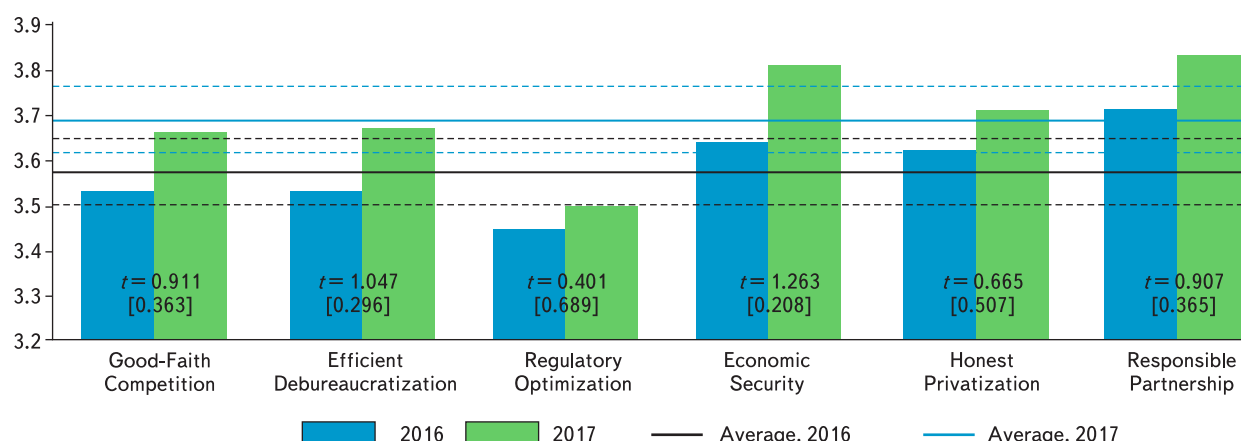
current economic position scores is not statistically significant at the 5% level (Figure 4.8b).

In addition to disclosing their Platform awareness, respondents also voiced their opinions regarding their willingness to support its fundamental ideas, and importance of the tasks formulated by the authors of the Platform. The results show that representatives of small and medium-sized businesses are generally supportive of the fundamental ideas expressed in the Platform. Only about 10% of respondents which were aware of the Platform failed to support its fundamental ideas. Conversely, the share of respondents which, to a larger or lesser degree, support those ideas exceeds 40%. Notably, the level of support of the Platform has not sustained any significant changes over the last


Figure 4.9. Extent of Support of Fundamental Ideas of the Platform


Note. Scores are assigned on a scale from 1 to 5, where 1 is "do not support", and 5 is "fully support." The segments represent the 5% confidence interval. Test for equality of average scores in 2015 and 2016, and in 2016 and 2017: t -statistic is equal to 1.692 [0.092] and 0.784 [0.434], respectively.

Source: in-house calculations based on IPM Research Center data.

Figure 4.10. Assessment of Importance of Main Platform Tasks


Note. Scores are assigned on a scale from 1 to 5, where 1 is "completely unimportant", and 5 is "very important." The dotted lines represent the 5% confidence interval for average scores assigned to all Platform tasks. Test for equality of average scores for all tasks in 2016 and 2017: t -statistic is equal to 2.143 ($p = 0.032$).

Source: in-house calculations based on IPM Research Center data.

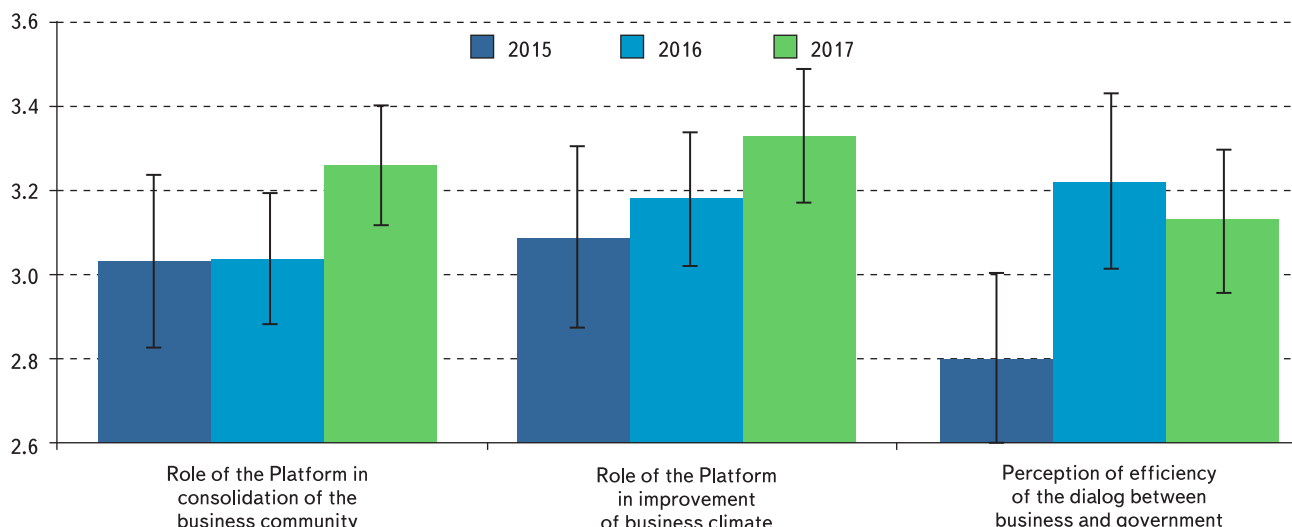
several years. The scores may have gone up in 2016, but that increase was only statistically significant at the 10% level. It may have been related to the general deterioration of the macroeconomic situation and business environment in the country, which boosted the relevance of the tasks formulated in the Platform.

Support of the fundamental ideas of the Platform by small and medium-

sized business is transformed into support of its six key tasks. Moreover, the average score of support of Platform tasks is even higher than the level of support of its ideas. This is particularly clearly seen in the findings of the 2017 poll. This gap has emerged due to an increase of the average scores assigned by the enterprises to Program tasks in 2016–2017. The increase was gradual, and is statis-

tically discernible only at the level of the aggregate average score for all six tasks. The statistical significance of differences between averages scores assigned in different years is not observed for individual tasks due the small size of the sub-sample comprising SMEs familiar with the Platform. In addition to that, one-way analysis of variances (F -test = 1.038, $p = 0.387$) and the Kruskal–Wallis information criterion

Figure 4.11. Assessment of Efficiency of the Platform and the Dialog between Business and Government



Note. Scores are assigned on a scale from 1 to 5, where 1 is "very low", and 5 is "very high." The lines represent the 5% confidence interval. Test for equality of average scores for the role of the Platform in consolidation of the business community in 2016 and 2017: t -statistic is equal to 2.060 ($p = 0.041$). Test for equality of average scores for the role of the Platform in improvement of business climate in 2015 and 2017: t -statistic is equal to 1.763 ($p = 0.080$). Test for equality of average scores of efficiency of the dialog between 2015 and 2017: t -statistic is equal to 2.437 ($p = 0.016$).

Source: in-house calculations based on IPM Research Center data.

($\chi^2 = 8.605$, $p = 0.126$) show that average scores assigned to all six tasks do not differ from each other, i.e. all Platform tasks are perceived as equally important.

An increase in the scores assigned to importance of the tasks of the Platform and relevance of its ideas is accompanied by an increase in the scale of its achievements as perceived by SME representatives. Thus, in 2017 there was a statistically significant (at the 5% level) increase in the average score assigned by respondents to the role played by the Platform in consolidation of the business community. As a consequence, it statistically exceeded 3, i.e. the number of respondents claiming that the Platform played an important role in consolidation of the business community was higher than the number of respondents maintaining that the role it played was unimportant. Over the last two years, there has also been an increase in the average score assigned to the role played by the Platform in improvement of business climate (at the 10% level of significance). For this criterion, the average score has also exceeded 3 (Figure 4.11).

The increase of Platform efficiency scores as perceived by small and medium-sized enterprises is part of a general trend which reflects improvement of the quality of dialog between the state and the business community. Scores of efficiency of such dialog have significantly increased over the last two years, and exceeded the neutral level of 3 points. However, prevalence of scores testifying to high efficiency of the dialog between government and business is typical only for respondents aware of the Platform. Enterprises which are not familiar with the Platform have a much more pessimistic view of efficiency of the dialog. For example, in 2016 the average score of the quality of dialog between government and business assigned by enterprises familiar with the Platform stood at 3.22, and the score assigned by enterprises not familiar with the Platform – at 2.45. This difference is statistically significant at the 1% level ($t = 6.504$, $p = 0.000$).

4.4. Conclusion

Poll results indicate that small and medium-sized enterprises have

become more involved in the activities of business unions. This is primarily true for relatively large and successful enterprises, either those that have worked in the market for a long time, or those that have been established only recently in the Industry and Services sectors, and are targeting foreign markets. However, to date only a small fraction of small and medium-sized enterprises have acceded to business unions, which implies a limited involvement of the business community in the dialog with the government.

Nevertheless, poll results show that business unions do make a difference, as their activities increase the level of awareness of the economic policy decision-making process among the members of the business community. This apparently improves scores assigned to changes in conditions of doing business and severity of impact that the crisis has on the economy. Notably, the more positive assessment of the business and economic environment by business union members does not affect their perception of their own business prospects. Accordingly, business union membership



does not improve the position of the enterprise, but rather improves its general view of economic developments. This translates into a more positive view of changes in efficiency of government actions and incidence of corruption. These results serve as indirect proof of revitalization of the dialog between government and business, and of the growing role of business unions in that dialog.

One of the tools of the dialog is the Belarus National Business Platform. For a decade, its recommendations have been contributing to a gradual improvement of the business environment. However, over the last several years the rate of implementation of Platform recommendations by government bodies has decreased. One of the reasons for that is preparation of massive changes in the legislation governing conditions of doing business in Belarus. It is expected that many of the previously stated Platform recommendations will be incorporated into the set of documents

designed to stimulate entrepreneurship in Belarus, currently under review (since the end of November 2017). Inasmuch as private business development remains critically important for sustainable economic growth in Belarus, the opportunities presented by the Platform in terms of promoting steps designed to streamline conditions of doing business will remain relevant for years to come.

According to poll data, over the last several years the share of small and medium-sized enterprises familiar with the Platform has changed little, if at all. Constant Platform awareness scores are posted by all types of enterprises, regardless of the number of their employees, year of establishment, sectoral affiliation, or region where they operate. That said, it should also be noted that there is a direct link between business union membership and awareness of the Platform. However, the scope of interest in the Platform is generally wider than the scope of interest in business union activities,

meaning that the number of members of business associations interested in promoting entrepreneurial values may well increase.

The results show that representatives of small and medium-sized business are generally supportive of the fundamental ideas expressed in the Platform. One of the manifestations of this support is agreement with the main tasks of the Platform which has been growing stronger and stronger over the last several years. An increase in the scores assigned to importance of the tasks of the Platform and relevance of its ideas, as perceived by small and medium-sized enterprises, is accompanied by an increase in the scale of its achievements, including achievements in the area of consolidation of the business community and improvement of the business climate. The increase of Platform efficiency scores is a manifestation of a general trend which reflects improvement of the quality of dialog between the state and the business community.

5. IMPACT OF LEGAL AND JUDICIAL SYSTEM ON DOING BUSINESS IN BELARUS

5.1. Introduction

Development of small and medium-sized business is regularly stated as one of economic policy objectives. It is implemented by way of gradual improvement of conditions of doing business. This is directly reflected in the World Bank Doing Business ranking, where Belarus has significantly improved its position over the last decade. This, however, has not been accompanied by any sizeable growth of contribution by small and medium-sized business to major macroeconomic indicators. Gradual alleviation of administrative burden has been the key business environment improvement driver, but this process could not produce an instantaneous elimination of all barriers – which are quite diverse in their nature. According to poll results, adverse macroeconomic environment and cumbersome taxation system have, for many years, been the main barriers constraining development of entrepreneurial activity. Resolution of those problems lies within the macroeconomic policy domain.

The findings of the latest poll testify to the fact that the government has scored some successes in *reducing* the severity of those problems, which brings to the forefront other barriers to doing business. Some of those barriers are related to the operation of the judicial system. For example, changeability of legislation has traditionally been one of the top five external barriers to business development, and in 2017 it climbed to the third position after such barriers as high tax rates and high interest rates. Another problem whose negative perception scores have increased over the last year is inefficiency of the judicial system and equivocal construction of the existing legislation (see Chapter 3).

Resolution of those problems requires systemic changes in the legal and judicial systems of Belarus. However, such changes have never been at the top of economic agenda. The first attempts to work out certain steps to achieve a systemic improvement of the legal environment for doing business were made in 2017. This relates primarily to the widely anticipated decree *On Development of Digital Economy* intended to reform regulation of economic relations in that area. The purpose of this paper is to assess the extent to which modification of the legal environment is necessary to secure development in other business areas.

This chapter presents the *findings* of a research project completed in March-May 2017. The main purpose of the project was to identify the main judicial obstacles encountered by Belarusian businessmen. Inasmuch as this topic is understudied, and the object of research is constantly changing, the use of exclusively quantitative analytical methods would not yield a full description of conditions of doing business as they relate to the justice system. Therefore, the following tasks were formulated to secure attainment of the purpose of the research project:

- Identify legislation-related obstacles which hamper the operation of small and medium-sized enterprises;
- Review procedural aspects of the justice system in the context of mutual relations between representatives of small and medium-sized business;
- Review procedural aspects of the justice system in the context of relations between representatives of small and medium-sized

business on the one hand, and state-owned enterprises on the other hand;

- Measure the degree of trust inspired by the judicial system in representatives of small and medium-sized business;
- Examine the history of participation of representatives of the business community in judicial proceedings;
- Identify the key pieces of legislation perceived by representatives of the business community as obstacles in the way of private small and medium-sized enterprises.

The data required to complete the above tasks were collected in two stages. At Stage 1, we conducted a series of in-depth interviews with experts in the area of jurisprudence. The main expert eligibility criteria included specialization, duration of involvement in the justice system, and track record of *judicial* resolution of conflicts. The expert team consisted of five people. Among other things, Stage 1 was dedicated to identification of the main problem issues in the area under review. The data obtained at Stage 1 were also used to design Stage 2 tools. Stage 2 involved completion of a nationwide poll among representatives of small and medium-sized business.

Research findings are presented in the order of completion of research stages. The second section presents the results of qualitative analysis of the results of in-depth expert interviews which have yielded a list of the most critical business development obstacles and threats. The third part presents the results of quantitative analysis of national poll data. Interpretation of quantitative data is reinforced by the comments



based on the results of qualitative analysis of in-depth interviews. The main findings are recapitulated in the conclusion.

5.2. Main Justice System-Related Obstacles and Risks Affecting Small and Medium-Sized Enterprises

To identify justice system-related risks and obstacles which hamper business development, we conducted a qualitative research which envisaged the holding of five in-depth interviews with experts who have ample practical experience of resolution of conflicts with the participation of representatives of the business community. The main objective of the stage was to come up with a list of legislative and procedural aspects of the justice system, taken as a whole, which could transform into business risk exposures. One of the side tasks at this stage was to obtain information required to develop a set of tools that can be used to generate quantitative data for subsequent comparison with the results of qualitative analysis.

Generally speaking, the problems noted by all experts can be divided into two groups. The first group includes legislative and procedural aspects of the Belarusian justice system which directly affect businessmen. The second group includes difficulties encountered by practicing lawyers which ultimately complicate resolution of business-related conflicts. The first group of problems, in turn, is divided into legislative and procedural aspects which give rise to certain consequences instantaneously or in the short run, and aspects which produce consequences in the long run.

5.2.1. Legal Risks (Legislative Acts and Certain Regulatory Enforcement Aspects)

The first subgroup includes, first and foremost, problems related to the oftentimes unpredictable legislative

Table 5.1. Obstacles Precluding Normal Development of Enterprises

	Number	Share, %
Decree No. 488 (<i>On Certain Measures to Prevent Unlawful Minimization of Tax Liabilities</i>)	54	13.4
Subsidiary liability	42	10.4
Deferred VAT refunds	78	19.2
Existence of significant liability for errors in formal documents (consignment notes)	94	23.2
Inability to appeal decisions made by fiscal agencies (customs, tax inspections)	97	23.9
I do not see these as obstacles	205	50.8

Note. Choice of several options was possible.

Source: IPM Research Center.

changes. Several experts believe that difficulties are created not by enactment of legislative innovations as such, but rather by the fact that businessmen learn about such innovations only after they have come into effect. This predictably increases risks faced by the business. Experts note that those risks are greatly reduced as awareness of the business community increases. On the other hand, changeability of the legislation is one of the key characteristics of the business environment. Taking into consideration the number of amendments (several hundreds of Presidential Decrees, more than one thousand of Council of Minister Decrees, and numerous agency-specific legislative acts are adopted every year), even constant monitoring of legislative changes and continued legal research and consultation fail to guarantee adequate coverage of risks arising from excessive changeability of the legislation.

Both businessmen and experts list, as a major obstacle, existence of significant liability for errors in formal documents, including consignment notes. The poll has shown that this problem is perceived as relevant by 23.2% of respondents (Table 5.1). Alongside with it, there is also liability for failure to comply with standardization requirements. There is a list of information that must be placed on packaging. Failure to comply with these requirements is classified as an administrative offense, and may entail, among other things, confiscation of the goods. Such offenses are detected in the course of field audits.

Despite the fact that the article directly dealing with improper execution of consignment notes was deleted from the Code of Administrative Offenses of the Republic of Belarus, it still contains paragraph 4 of Article 12.17 which imposes liability for "acquisition, storage, utilization for production purposes, transportation, disposal of goods in violation of procedures established by the existing legislation (in the absence, in situations stipulated by the existing legislation, of supporting documents or documents which confirm acquisition (receipt) or release of goods for disposal, or in the presence of false or misleading documents), as well as disposal of goods (performance of works, provision of services) in violation of a ban imposed by the State Control Committee of the Republic of Belarus." The penalty used in such cases is imposition on an individual entrepreneur or legal entity of a fine of up to fifty base values, with or without confiscation of goods or revenues received from disposal of goods, performance of works, provision of services. The government has acknowledged severity of the problem: the legislature is currently reviewing a draft law designed to amend the Code of Administrative Offenses and the Code of Executive Procedures so as to minimize confiscation of goods and reduce fines imposed for the offenses described above.¹

Representatives of small and medium-sized enterprises engaged

¹ See <http://www.belta.by/economics/view/v-belarusi-izmenjat-podhody-k-konfiskatsii-tovarov-i-snizjat-shtrafy-dlja-predprini-matelej-267306-2017/>.

in importation of goods frequently encounter various problems related to adjustment of customs value. In other words, if a company is importing goods at a price which is not consistent with the information contained in the customs database, it risks being accused of understating the customs value with a view to avoid payment of customs duties. According to our experts, prices included in the database may change in ways which cannot be foreseen or predicted by importers. But the worst thing in such situations is that it is impossible to appeal decisions made by fiscal bodies. Inability to appeal decisions made by fiscal bodies (customs, tax inspections) are perceived as an obstacle to business development by 23.9% of respondents (Table 5.1). This obstacle was judged as the most critical by the businessmen who participated in the poll. Appeals against such decisions are filed very rarely (in 2015, businessmen appealed 116 decisions of customs bodies, and 78 decisions of tax bodies), *inter alia*, because courts satisfy a very small proportion of such appeals (7.7% of claims filed against tax bodies, and 5.3% of claims filed against customs bodies).²

Many importers complain about deferred refunds of value added tax. 19.2% of respondents perceive this as an obstacle to business development (see Table 5.1). Deferred VAT refunds result in immobilization of working capital, which may entail serious adverse consequences for the business (especially when it has to deal with recession and massive payment arrears).

The problems listed above are perceived as more critical compared to those described below largely due to the fact that many businessmen or their colleagues encounter them on a more or less regular basis. These events produce negative impact over a more or less short period of time. That impact is measured in very

tangible things – excessive costs, loss of profit, even bankruptcy and liquidation. However, legislative and procedural aspects of doing business in Belarus whose effect is less evident often expose enterprises to much higher risk. That said, many representatives of small business are completely unaware of those aspects.

Subsidiary liability comes at the top of the list. Subsidiary liability may arise when individuals responsible for management decision-making are found guilty of causing the company to become bankrupt. In such cases, owners (founders) and managers of the company are deemed responsible for its outstanding liabilities. The problem lies in the fact that subsidiary liability may arise regardless of the legal status of the enterprise. There are precedents when subsidiary liability was applied to individuals who had been among the founders of the company at the initial period of its existence, but had officially withdrawn long before the bankruptcy. In such cases, people who have nothing to do with the bankruptcy are forced to pay with their own property and cash. In some cases of erroneous registration of changes in constitutive documents of a company, liability may be imposed not only on founders and managers, but also on persons responsible for environmental compliance, maintenance of accounting records, etc.

Experts note that one of the critical aspects of that problem is the low level of awareness. In most cases, business representatives do not even think that something like that can happen to them. As a result, many of them do not understand what to do, how to protect their private assets, and how to avoid incurrence of liability in principle. Notably, the very fact of existence of subsidiary liability in Belarus is perceived as an obstacle to doing business by 10.4% of respondents (see Table 5.1). This is the least significant of the barriers under review according to representatives of the

business community, but one of the most complex and dangerous barriers in the opinion of our experts.

Businessmen may face similarly unpredictable consequences if their counterparties are classified as "pseudo-entrepreneurial entities" (spurious businesses). These situations are regulated by Decree No. 488, and entail, first and foremost, adverse tax consequences for the counterparties of "pseudo-entrepreneurs." The problem is that many good faith companies enter into contractual relations with entities which are later included into the list of "pseudo-entrepreneurial entities", i.e. the risk of incurring liability is unpredictable. In the past, this has resulted in recovery of additional taxes or penalties from good faith companies, or even in confiscation of goods.

A standard situation involves the sale of a good faith company to a new owner who later engages in activities classified as "pseudo-entrepreneurial." In such case, all activities of the company since the time of its establishment (including the period preceding the sale) are also classified as "pseudo-entrepreneurial", and all companies which acted as its counterparties throughout the duration of its existence are deemed to have broken the law.

The problem is further exacerbated by the fact that additional tax assessments and fines are not the only sanctions. Even after they have been paid, the "offenses" committed by the counterparties fall under Article 12.17 of the Code of Administrative Offenses of the Republic of Belarus which, among other things, envisages the possibility of confiscation of goods and assets of the enterprise. This legislative aspect was perceived as an obstacle to business development by 13.4% of respondents (see Table 5.1). Against, in the opinion of our experts, many businessmen are not aware of this legislative trap, do not realize the extent of their "proximity" to the judicial system or the possibility of being subjected to sanctions, and do not fully understand the operating

² Rudy, K. (2016). Why we do not need economists, IPM Research Center, *Commentary* DP/16/06.



mechanism of Decree No. 488, which makes them extremely vulnerable to associated risks.

Despite everything, half of all respondents (50.8%) do not perceive these legislative aspects as obstacles to business development. As noted above, the experts attribute this to the fact that managers of small enterprises are not aware of the risks, and do not realize that the probability of their becoming entangled in judicial proceedings in the capacity of defendants is extremely high.

5.2.2. Certain Aspects of the Judicial System

A number of aspects of the judicial system do not have a direct bearing on conditions of doing business, but shape an environment where it becomes difficult to protect the interests of businessmen who have been forced into resolving conflict situations in courts. First, the judicial system provides little, if any, "feedback." Inasmuch as the legislative lacunas discussed above may have serious adverse impact on business development, courts of the higher instances could have initiated legislative changes with a view to remove contradictory provisions or, at the very least, establish clear criteria governing imposition of particular penalties. When that does not happen, efficiency of the judicial system is severely undermined.

The second problem (which is closely related to the first one) is unpredictability of case law stemming from opacity of the judicial system. Court rulings are published only for selected cases, and only in specialized journals, while there is no full database that would be accessible to all professional lawyers. This leads to uncertainty, and makes it impossible to formulate the correct defense position. A lawyer protecting his or her client in court on the basis of legal precedents available for the given type of cases may unexpectedly run into modified positions or interpretations which have never

been published in open sources. Accordingly, all experts noted the urgent need to increase accessibility of the entire body of case law so as to raise efficiency of legal work, and thus improve the business environment.

The next problem is related to the excessive workload borne by judges and court marshals. This leads to diminished efficiency, errors in execution and execution of certain legal acts without warning or prior to completion of preliminary due diligence, which in turn necessitates judicial reviews and further increases court marshal workloads, thereby protracting already long-drawn-out trials and impairing execution of judgments.

Another very important problem is that courts are, in fact, biased in favor of state-owned companies when adjudicating their disputes with private companies. Our experts note that priority in such conflicts is usually given to state-owned companies. In most cases, disputes between state-owned and private enterprises are caused by accrual of outstanding debts. If the debtor is a private enterprise, the court may resolve to collect the entire amount of the debt instantaneously, without taking into consideration the deleterious effect it may have on the business of such enterprise. If the debtor is a state-owned enterprise, courts are willing to grant extensions and minimize penalties, if any, without applying any objective criteria to substantiate those actions. If the private enterprise is not certain that any possible payment default by the state-owned enterprise will be efficiently remedied by the court, it incorporates the resultant elevated risks into the price it charges for its goods or services which, accordingly, has an adverse effect on competitiveness and financial position of the state-owned enterprise.

The problems described above create a vicious circle which is very difficult to break without changing regulatory enforcement practices. Our experts maintain that there is

no need to completely overhaul the existing legislation – it will be sufficient to assure transparency, consistency and unambiguity of enforcement, and strictly observe the principle of equality before the law of all entities regardless of their form of ownership.

5.3. Legal Barriers and History of Participation of SME Representatives in Judicial Proceedings

5.3.1. Trends Shaping Perception of Legal Barriers

Based on the information provided by the experts, we designed and conducted a poll using a representative nationwide sample. The poll was conducted within the framework of the annual examination of small and medium-sized business. During the poll, business representatives were traditionally asked to assess several aspects of operation of the justice system, including changeability of the existing legislation (including tax legislation), arbitrary interpretation of laws by government bodies, and inefficiencies of the judicial system (courts are not independent, there are problems with contract performance, exercise of investor rights, etc.). The list may be supplemented with a variable we define as "unequal operating conditions compared to state-owned enterprises." It was added based on the results of expert interviews, where experts, among other things, noted that courts applied different approaches, and rendered different decisions, depending on the form of ownership.

Changeability of the existing legislation is one of the most significant obstacles in the way of business expansion. In the latest polls, this problem is invariably included into the list of top five most relevant barriers encountered by businessmen, alongside with macroeconomic instability and excessive tax burden. This year, it ended up in the third position. Nevertheless, over the last three years, the extent of severity of

the problem has tended to decrease (Figure 5.1).

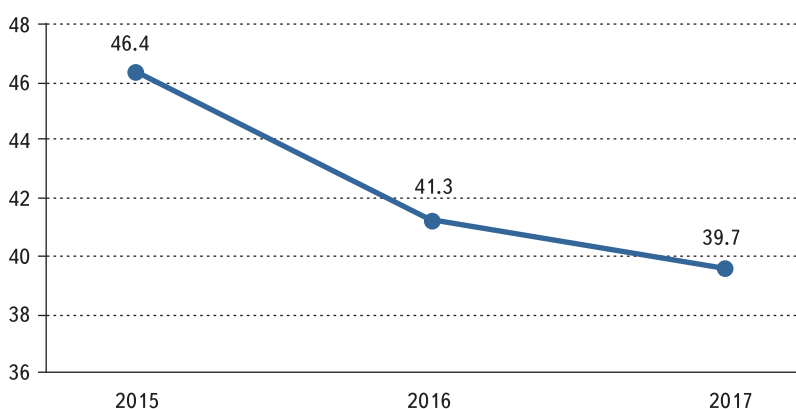
In the opinion of our experts, changeability of the existing legislation is a dual problem. On the one hand, it creates additional risks for businessmen, on the other hand, it introduces a factor uncertainty to case law, which predictably makes it more difficult to protect the interests of businessmen. This, in turn, increases risks faced by small and medium-sized enterprises, and gives rise to economic inefficiencies.

The second most significant barrier related to the existing legislation is arbitrary interpretation of laws by government bodies. In this case, we also witness a considerable increase in the number of respondents perceiving this problem as an obstacle to business development. In 2015, this option was selected only by 5.2% of respondents, in 2016 it was relevant for 14% of respondents, and in 2017 – for almost 17% of respondents (Figure 5.2).

Relevant expert comments are provided above; our experts noted, in particular, that during the recession the incidence of contacts between businessmen and the government/judicial system increased (which raised the level of awareness of the problem). Secondly, during the recession, disparity of positions taken by various control bodies and courts of various instances, as well as ambiguousness of certain legislative norms, became more apparent.

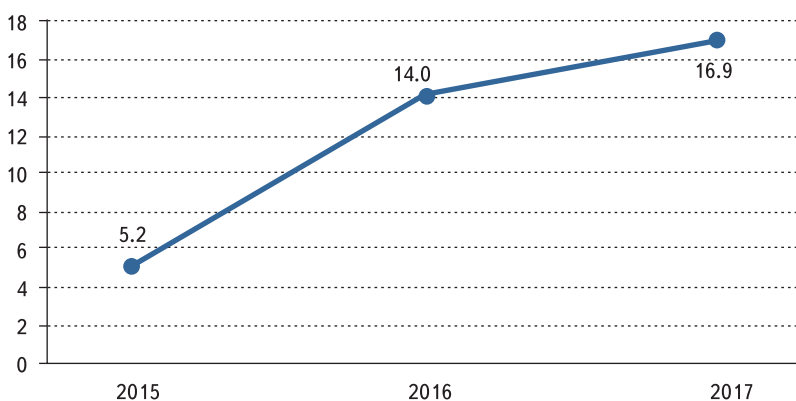
The degree of relevance of problems related to inefficiency of the judicial system and weak independence of courts proved to be somewhat lower – in 2017 this barrier was included into the list of five most relevant barriers by 10.7% of respondents. However, in this area we also observe a noticeable increase of discontent with that aspect of operation of the justice system. In 2015, this problem was perceived as relevant only by 2.2% of businessmen, in 2016 that indicator increased to 6.5%, and this year it approached 11% (Figure 5.3).

Figure 5.1. Frequency of Selection of the Variable "Changeability of the Existing Legislation (Including Tax Legislation)" as One of External Barriers to Doing Business



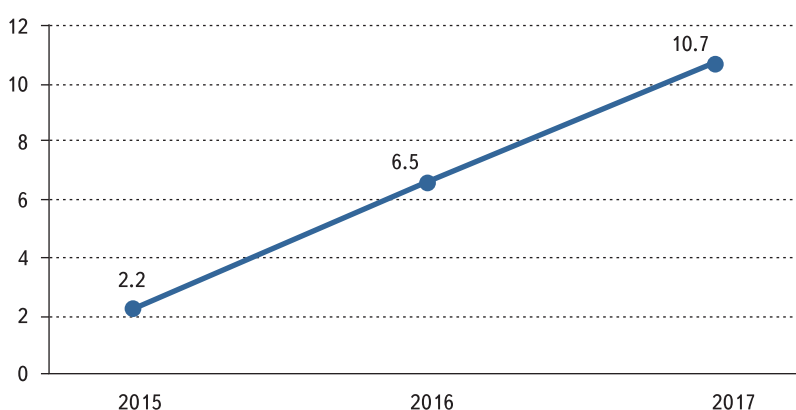
Source: IPM Research Center.

Figure 5.2. Frequency of Selection of the Variable "Arbitrary Interpretation of Laws by Government Bodies" as One of External Barriers to Doing Business



Source: IPM Research Center.

Figure 5.3. Frequency of Selection of the Variable "Inefficient Judicial System (Courts Are Not Independent, Contract Enforcement Problems, etc.)" as One of External Barriers to Doing Business



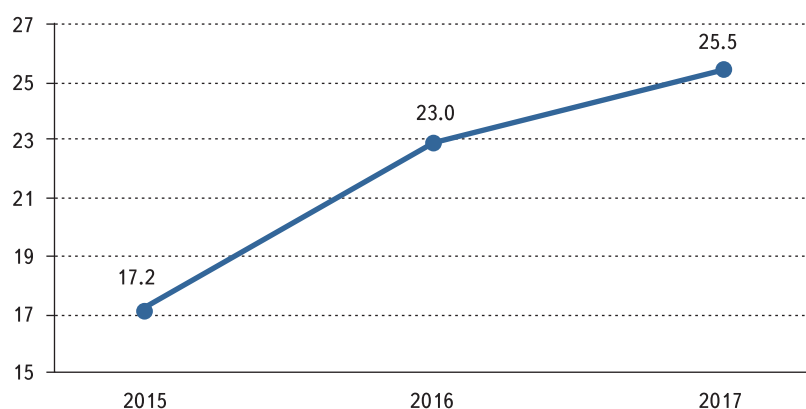
Source: IPM Research Center.

Our experts believe that the degree of severity of the problems related to independence of courts and protection of investor rights is increasing

primarily because of the deteriorating financial position and growing number of judicial proceedings where a state-owned enterprise



Figure 5.4. Frequency of Selection of the Variable "Unequal Conditions of Doing Business Relative to State-Owned Enterprises" as One of External Barriers to Doing Business



Source: IPM Research Center.

(or the state) is one of the parties. Such conflicts are often resolved in favor of the state even in very controversial situations, which fuels doubts regarding fairness of court decisions and independence of the judicial system. The second component of the problem, as perceived by the experts, is the oftentimes disproportionately high liability for economic offenses, in many cases bordering on denial of presumption of innocence, which impairs investment and business climate and is, naturally, noticed by businessmen.

Inasmuch as virtually every problem related to the existing legislation is, in one way or another, linked to relations between state-owned and private enterprises, it was resolved to use, as an additional criterion for examination of judicial barriers, the variable defined as "unequal conditions of doing business compared to state-owned enterprises". In 2017, this obstacle was perceived as significant by 25.5% of respondents; this is much higher than in 2015 (17.2% of respondents), and slightly higher than in 2016 (23% of respondents) (Figure 5.4).

5.3.2. History of Participation in Judicial Proceedings

A considerable number of Belarusian businessmen have had to participate in judicial proceedings – 25%

of respondents have admitted that they have been exposed to such experience. Distribution by years when companies participated in judicial proceedings³ is presented in Table 5.2.

During the recession period, frequency of participation of companies in judicial proceedings increased: during the two-year period from 2014 to 2015 and during a period of less than 1.5 years from 2016 to April-May 2017, the number of such cases was about 30 – which is equal to the figure for the entire period before 2011, and twice as much as for the three-year period from 2011 to 2013. Moreover, in 2016–2017 there has been a statistically significant change in the average age of companies stating that they participated in judicial proceedings during that period – from approximately 8 years in the two preceding periods to approximately 18 years. In other words, financial and other problems of enterprises after the recession have hit the hardest those companies that were established long before the spate of financial crises that we witnessed in 2009–2014.

Judicial proceedings involved mostly individuals, private companies resident in Belarus, and state-owned

companies (Table 5.3). All foreign companies, banks, government bodies, and "other" categories were involved, as defendants, in less than 8% of all judicial proceedings; accordingly, those cases have been left out of our analysis.

The most frequent cause of judicial proceedings is payment defaults by counterparties. Almost half (45%) of all respondents went to court seeking to recover amounts owed to them. The second most frequent cause is disputes regarding the quality of goods and services (27.4%), and the third most frequent cause is labor disputes with personnel (13.3%). Attempts to appeal government body decisions in administrative procedures were mentioned more seldom, with only 9.8% respondents selecting that option (Table 5.4).

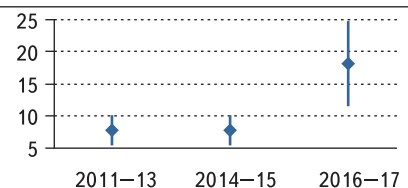
Reasons for going to court differ depending on the second side in judicial proceedings. Three types of counterparties are listed below. Other options are omitted because the sample of those who had to deal with other types of counterparties in judicial proceedings is too small. If the conflict arose between two companies (regardless of their form of ownership), its main cause was failure of one of the parties to pay its debts (65% of all judicial proceedings with the participation of state-owned companies, and 72% of all judicial proceedings with the participation of private companies, Figure 5.5). In conflicts with individuals that, naturally, was not the main problem.

At this point, there emerge certain observable differences. In situations where the other party to the conflict was a state-owned company, the second most frequent reason for going to court was the attempt to appeal government body decisions in administrative procedures (20% of all cases). In conflicts between private companies, that problems was non-existent. In 15% (20%) of all cases, the dispute was related to inferior quality of goods or ser-

³ Based on the wording of questions, responses are related to the latest experience of that kind.

Table 5.2. Year When the Company Participated in Judicial Proceedings

	Number	Share, %
2016–2017 (1 year and 5 months)	29	28.2
2014–2015 (2 years)	31	30.9
2011–2013 (3 years)	14	13.7
Before 2011	28	27.2
Total	102	100.0



Note. The chart reflects the average age of the company at the end of the period with a 5% confidence interval. The average age is defined as follows: last year of the interval under review minus year of establishment of the company.

Source: IPM Research Center.

Table 5.3. Parties Involved as Defendants

	Number	Share, %
State-owned company	20	19.4
Private company resident in Belarus	39	38.3
Company not resident in Belarus	1	1.0
Bank(s)	1	1.0
Other government bodies	3	2.7
Individual(s)	35	34.6
Other	3	2.9
Total	102	100.0

Source: IPM Research Center.

Table 5.4. Reason for Going to Court

	Number	Share, %
Recovery of outstanding debts	46	45.0
Disputes regarding the quality of goods or services	28	27.4
Labor disputes with personnel	13	13.1
Attempts to appeal government body decisions in administrative procedures	10	9.8
Attempts to appeal liability decisions	1	1.0
Disputes between founders	4	3.7
Total	102	100.0

Source: IPM Research Center.

vices sold by a state-owned (private) company. The reasons for disputes between private companies also include attempts to appeal liability decisions and disputes between founders. In disputes where the second party is an individual, the most frequent reasons for going to court were quality of goods or services (40% of all cases) and labor disputes with personnel (34.2% of all cases).

5.3.3. Trust in the Judicial System

Inasmuch as legal barriers to doing business are mentioned more and more often, and disputes with counterparties are more and more often taken to courts, it is important to assess the degree of trust that businessmen have in the judicial system, and understand whether they consider it as a source of pro-

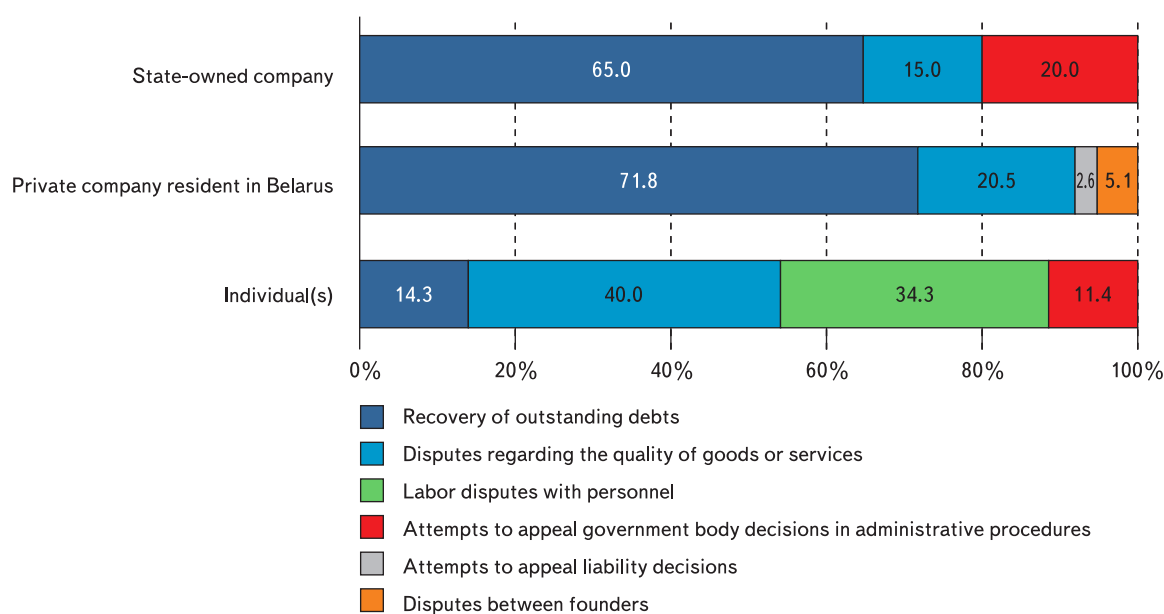
tection of their rights and interests. Distribution of responses to that question is as follows: almost 9% of respondents believe that courts do not protect their rights and interests, while about 6% of respondents, conversely, maintain that courts fully protect the rights and interests of the business community. On the whole, the shares of negatives and positives are approximately equal – 29.2% and 27.7%, respectively. At the same time, 42% of respondents have a neutral position on this matter (Figure 5.6).

If we separately consider responses given to that question by businessmen who participated in judicial proceedings and those who did not, there is a noticeable difference in the share of neutral scores. That still does not affect the general distribution of positive and negative scores.

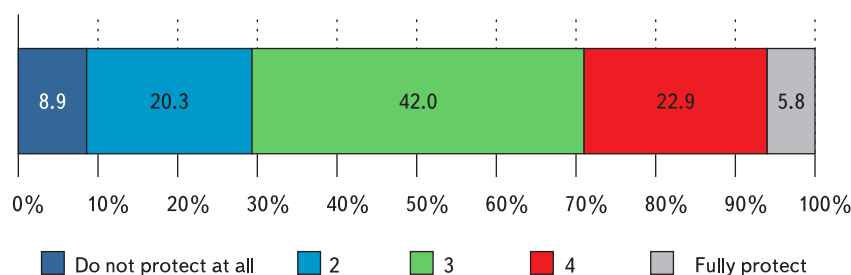
The shares of negative and positive scores for those who participated in judicial proceedings are 31.3% and 31.4%, respectively, for those who did not participate in such proceedings – 28.8% and 28.1%, respectively.

There is, however, an important difference in the shares of categorical answers given by the former and the latter. Thus, the negative extreme option (1 – "courts do not protect the rights and interests of the business community at all") was selected by 12.7% of those who participated in judicial proceedings, and by only 7.6% of those who did not. There is also some difference in the shares of positive extreme options (5 – "courts fully protect the rights and interests of the business community"). That protection efficiency score was assigned by 4.9% of respondents which participated in judicial proceedings, and by 6.3% of those who did not (Figure 5.7).

Our experts note that, on the one hand, perceived availability of protection is extremely relevant because that perception is one of the most important indicators of efficiency of the judicial system, but, on the other hand, responses to that question are often influenced by previous experiences and by the degree to which representatives of the business community are aware of those aspects of regulatory practices which may expose them to additional risks and produce negative consequences. The experts assert that the degree of awareness is not always sufficiently high, which also leads to poor understanding of the inner workings of the judicial system.


Figure 5.5. Reasons for Going to Court


Source: IPM Research Center.

Figure 5.6. Extent to Which Belarusian Courts Protect the Rights and Interests of the Business Community as Perceived by Representatives of Small and Medium-Sized Business


Source: IPM Research Center.

Figure 5.7. Extent to Which Belarusian Courts Protect the Rights and Interests of the Business Community as Perceived by Representatives of Small and Medium-Sized Business Who Did and Did Not Participate in Judicial Proceedings


Source: IPM Research Center.

While half of all respondents believe that judges treat state-owned and private companies equally, 44% of respondents said that courts are more likely to rule in favor of state-owned companies (with 6% maintaining that courts more often take the side of private companies) (Figure 5.8).

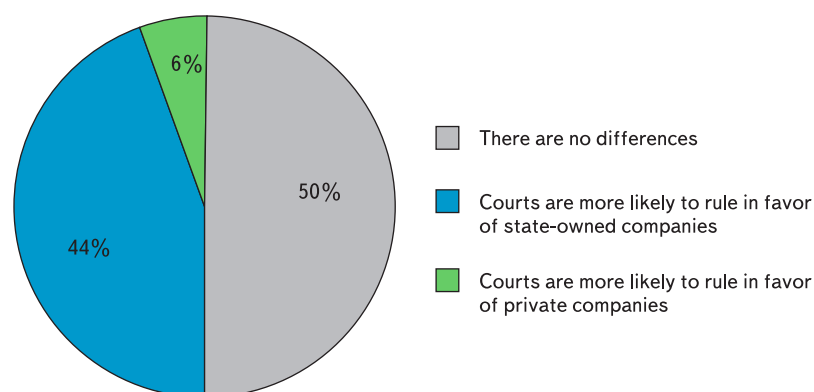
These scores are not affected by whether respondents have a history of participation in judicial proceedings. Among respondents who participated in judicial proceedings, there are fewer of those who believe that the treatment is equal – but at the expense of those who believe that courts are biased in favor of private companies (Figure 5.9), although the difference is well within the margin of error.

The picture changes if we look at responses to the same questions with a breakdown by whether the respondent was a plaintiff or a defendant (Figure 5.10). Depending on the role of respondents in court, their opinions with respect to how courts treat private and state-owned companies change. Naturally, this is true only for those who have a history of participation in judicial proceedings. In this case, it is apparent that, compared to the other categories of re-

In the opinion of the experts, one of the critical aspects of Belarusian judicial practice which undermines the trust of the business community

in the judicial system and impairs the investment climate is the lack of equality in the way courts treat private and state-owned companies.

Figure 5.8. Existing Differences in the Way Courts Treat Private and State-Owned Companies as Perceived by Representatives of the Belarusian Business Community

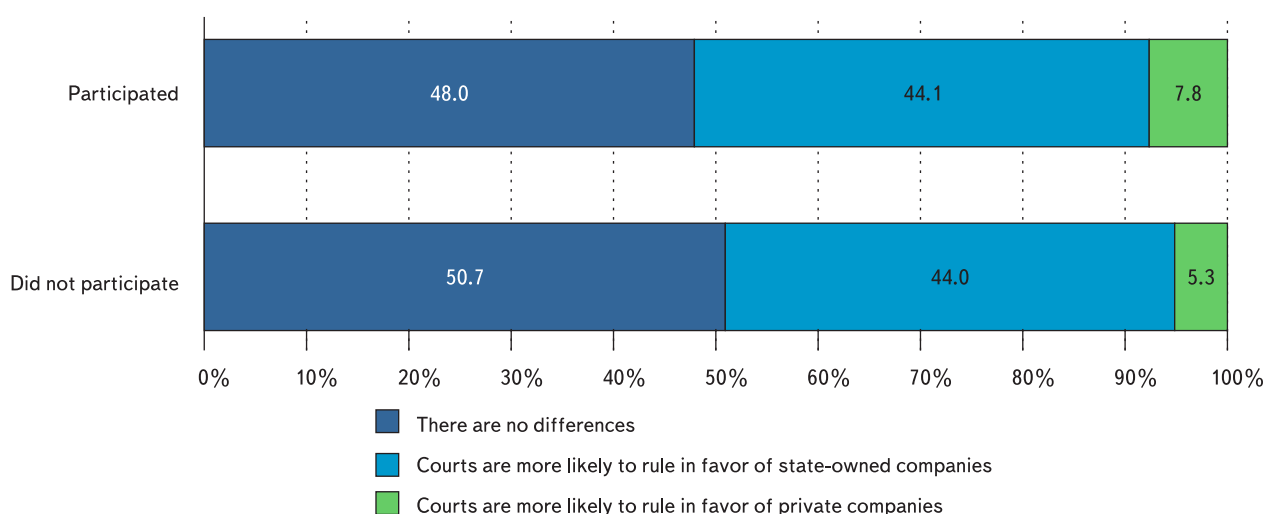


spondents, those who sued, or were sued by, state-owned companies more often note that courts tend to rule in favor of the latter (60%). The most neutral views were voiced by those who were involved in judicial proceedings with the participation of individuals.

One of the components of trust in the judicial system is the level of satisfaction with its activities, as expressed by representatives of private business. To measure that

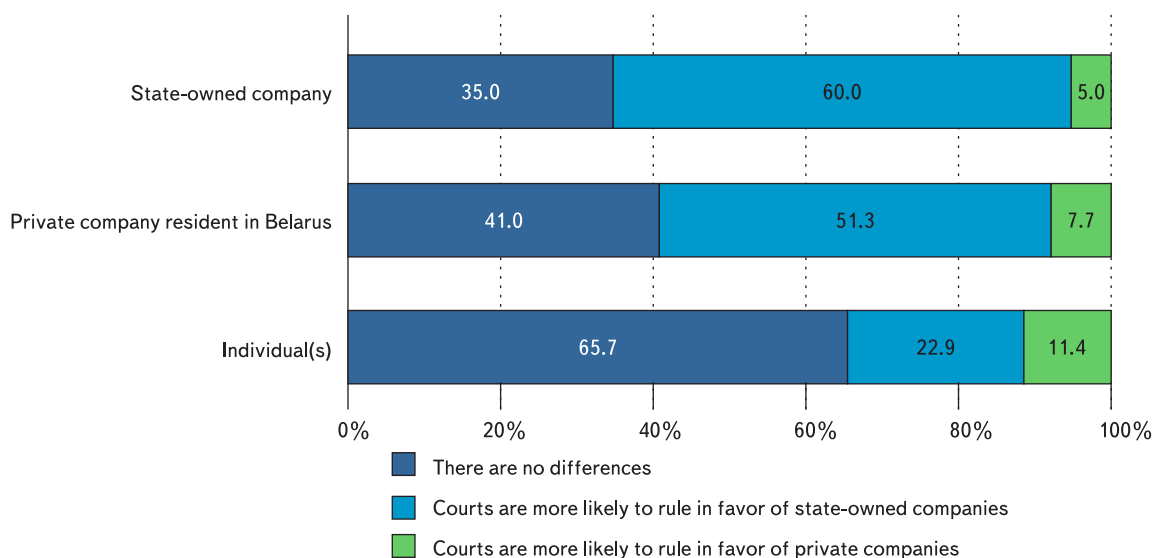
Source: IPM Research Center.

Figure 5.9. Existing Differences in the Way Courts Treat Private and State-Owned Companies as Perceived by Representatives of the Belarusian Business Community Who Did and Did Not Participate in Judicial Proceedings

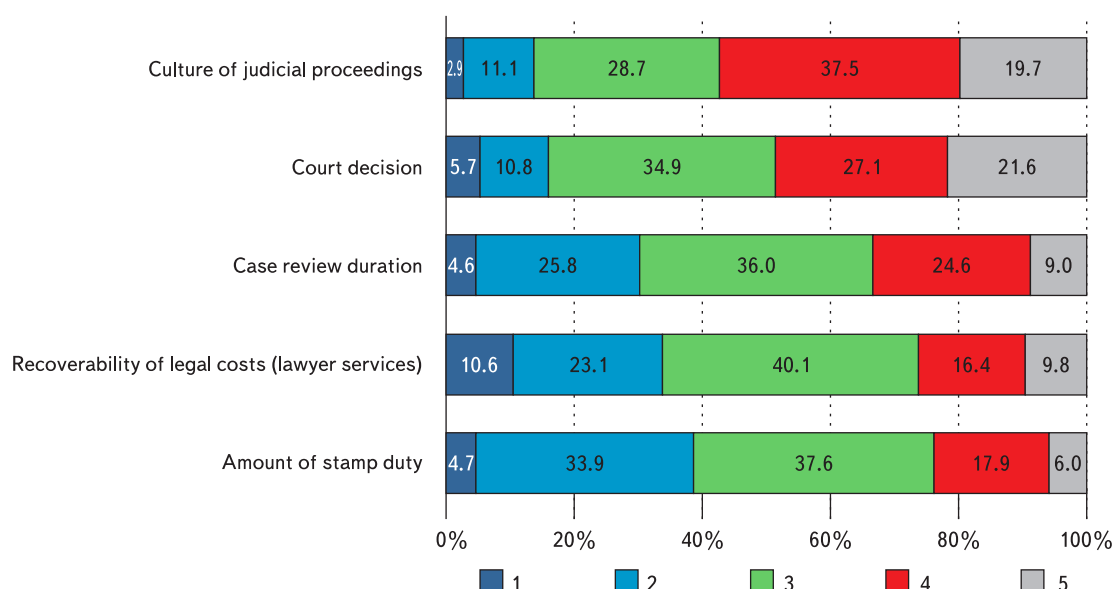


Source: IPM Research Center.

Figure 5.10. Existing Differences in the Way Courts Treat Private and State-Owned Companies as Perceived by Representatives of the Belarusian Business Community Depending on Identity of the Other Side in Judicial Proceedings



Source: IPM Research Center.


Figure 5.11. Satisfaction with Various Aspects of Judicial Proceedings


Note. Scores are assigned on a scale from 1 to 5, where 1 is "completely dissatisfied", and 5 is "completely satisfied."

Source: IPM Research Center.

sentiment, we asked a series of questions designed to assess various parameters of judicial proceedings (Figure 5.11). It was established that the highest number of integrated negative scores were assigned to the rate of stamp duty (38.6%). More importantly, there were very many extremely negative assessments of recoverability of legal costs (lawyer services), with the relative share of relevant scores standing at 10.6%.

Representatives of Belarusian private business note the rather high cultural level of judicial proceedings which earned a 52.2% positive score. It is also important that 48.7% of respondents were satisfied with the decisions rendered by courts in their cases. There is a statistically significant direct correlation⁴ between the level of satisfaction with court decisions and the opinion regarding the extent to which Belarusian courts protect the rights and interests of the business community. In other words, perceived level of protection grows in line with the level of satisfaction with court decisions.

The matter of trust in the judicial

system can also be viewed through the prism of willingness of businessmen to go to court to resolve conflicts (Table 5.5). Almost 40% of respondents were willing to go to court, while 45.5% said they preferred to continue their attempts to find a compromise without involving third parties.

There are statistically significant differences in distribution of responses to that question depending on whether the respondent has a history of participation in judicial proceedings (Figure 5.12). It should be noted that more than half of those who have a history of participation in judicial proceedings are prepared to go to court again if and when there arises a new conflict. By the same token, the level of trust in the judicial system among those who have no history of resorting to the judicial system to resolve conflicts is considerably lower – half of all respondents are willing to continue to resolve the situation without third-party involvement. This testifies to the fact that the level of trust in the judicial system among those who have a history of participation in judicial proceedings is rather high. In addition to that, unwillingness to go to court does not necessarily mean that the company

does not trust the judicial system, and may well be attributable to its business practices (for example, the use of "shady" schemes). This is indirectly corroborated by the fact that relatively larger companies are more likely to resort to courts than companies with a small number of employees.

Naturally, the extent of willingness to go to court will differ depending on whether the company was satisfied with the previous court decision (Figure 5.13). Those who were not satisfied with the decision are more likely to keep trying to find a compromise without involving third parties. Conversely, those who have a positive history of judicial proceedings are more likely to seek a judicial resolution.

The main reason for refusing to go to court to resolve a conflict (Table 5.6) is the considerable duration of judicial proceedings – this position is maintained by more than half of businessmen who participated in the poll (57.6%). Other important reasons include the amount of legal costs which may exceed the amount of the court suit (39.5%), and lack of belief that the judge will rule in favor of the plaintiff (31.2%). Lack of understand-

⁴ Pearson correlation coefficient = 0.288, level of statistical significance = 0.01.

Table 5.5. Course of Action Preferred by Businessmen in Situations Where Conflicts with Counterparties Cannot Be Resolved Through Negotiations

	Number	Share, %
Go to court	161	39.7
Go to a specialized agency	60	14.8
Continue attempts to find a compromise without involving third parties	184	45.5
Total	404	100.0

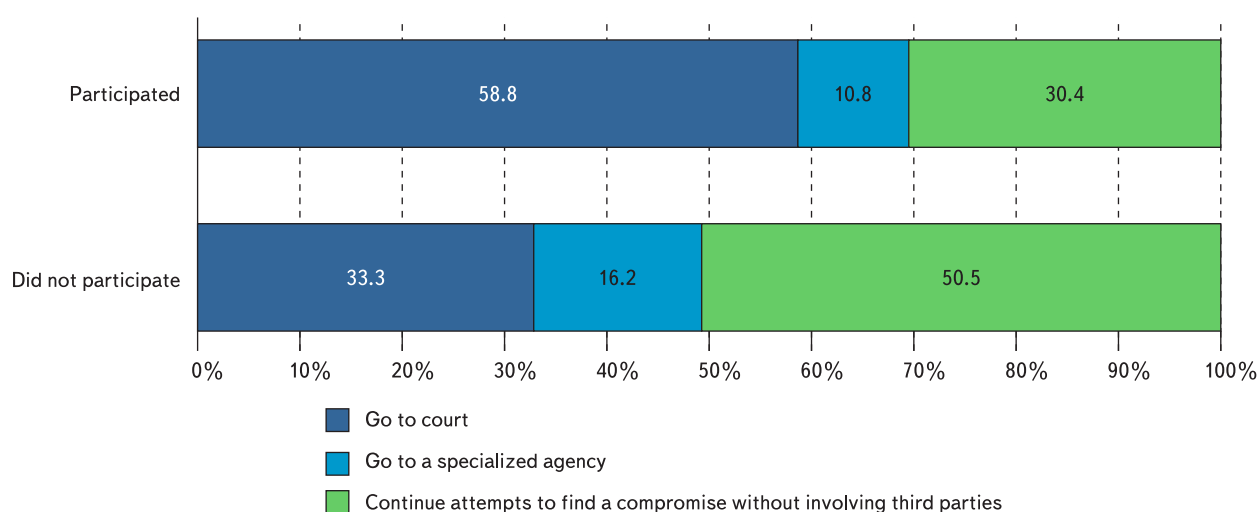
Source: IPM Research Center.

ing of case review procedures was named as an obstacle to going to court by 13.3% representatives of the business community.

Therefore, despite the existing problems, the level of trust in the judicial system among those who have a history of participation in

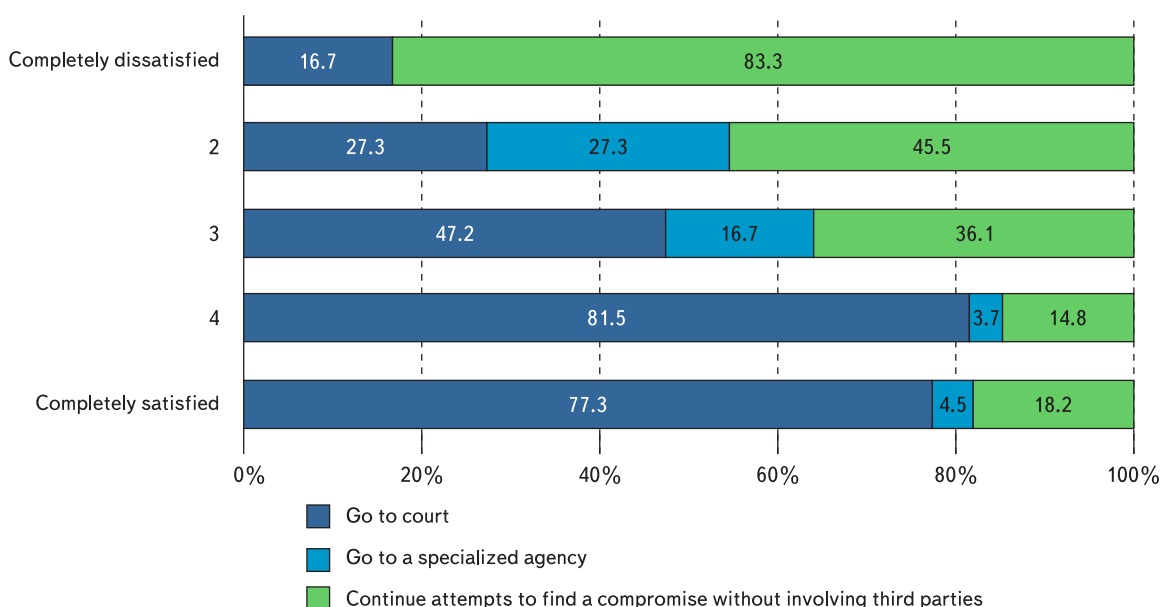
judicial proceedings is rather high. It is quite low, however, among those who have no history of participation in judicial proceedings. This may testify to the existence of stereotypic notions about the operation of the judicial system among those who have no practical experience of interacting with courts. This, in turn, means that it is necessary to increase the level of awareness and transparency of judicial proceedings among representatives of the general public.

Figure 5.12. Course of Action Preferred by Businessmen in Situations Where Conflicts with Counterparties Cannot Be Resolved Through Negotiations Depending on History of Participation in Judicial Proceedings



Source: IPM Research Center.

Figure 5.13. Course of Action Preferred by Businessmen in Situations Where Conflicts with Counterparties Cannot Be Resolved Through Negotiations Depending on History of Participation in Judicial Proceedings and Satisfaction with Court Decision



Source: IPM Research Center.



Table 5.6. Reasons for Which SME Representatives Prefer Not to Go to Court to Resolve Conflict Situations

	Number	Share, %
Process takes too long	140	57.6
Legal costs exceed the amount of the court suit	96	39.5
I do not believe that the judge will rule in my favor	76	31.2
I do not understand how cases are reviewed	32	13.3

Source: IPM Research Center.

5.4. Conclusion

The purposes of the research project were to identify relevant problems related to the operation of the justice system as a whole, detect risks to which representatives of small and medium-sized enterprises operating in Belarus are exposed due to certain aspects of the legislative environment, as well as understand and describe some of those aspects, including trust in the judicial system, perception of the level of protection granted to businessmen by judicial bodies, and understanding of judicial procedures. At Stage 1, we identified risks which may present certain threats to businessmen both in short-term and long-term perspective. To do that, we conducted in-depth interviews with justice experts.

According to the experts, the *first group* of risks which may emerge over the short-term perspective includes the following aspects:

- Unpredictable changes in the existing legislation;
- Existence of significant liability for errors in formal documents, including consignment notes;
- Adjustments of customs value, as experienced by importers;

- Deferred refunds of value added tax.

The *second group* of risks which may emerge over the long-term perspective includes the following:

- Subsidiary liability;
- Problems related to "pseudo-entrepreneurial" activities.

There also exist obstacles which are encountered primarily by lawyers, but may also affect conditions of doing business in Belarus:

- Inadequate communication between the business community and the justice system;
- Unpredictability of judicial practices;
- Excessive workload of court marshals;
- Judicial bias in favor of state-owned enterprises.

There have been both improvements and noticeable changes for the worse in the scores assigned to conditions of doing business to the extent they relate to the existing legislation. Over the last three years, there has been a significant decrease in the share of those who perceive changeability of the existing legislation (including tax legislation) as an obstacle to business devel-

opment; conversely, we note an increase in the share of respondents listing, as such obstacles, arbitrary interpretation of laws by government bodies, inefficiency of the judicial system, and unequal conditions of doing business (bias in favor of state-owned enterprises).

Every fourth Belarusian businessman has a history of participation in judicial proceedings. The main reason for going to court is to collect payments in arrears (if the second side in the proceedings is a private or state-owned company) or resolve disputes regarding the quality of goods or services (if the second side is an individual). The shares of those who feel that courts protect the rights and interests of the business community and those who do not feel protected are approximately equal. Most responses are neutral. A significant portion of respondents believe that courts are more likely to rule in favor of state-owned companies. That viewpoint is particularly widespread among those who have sued, or been sued by, state-owned companies.

Most aspects of judicial proceedings do not elicit strongly negative reactions from businessmen. Most of those who have a history of judicial conflict resolution are willing, if needs be, to go to court again. The degree of loyalty to courts among those who have no history of participation in judicial proceedings is considerably lower, which may be attributable, among other things, to stereotypic notions and low level of awareness of the actual judicial practices.

ANNEX

DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN BELARUS, 2017

SECTION 1. GENERAL INFORMATION

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

	Number	%
Manufacturing	119	29.4
Agriculture, forestry and fishery	23	5.6
Construction	71	17.6
Trade, repairs	97	24.0
Hotels and restaurants	14	3.4
Transport and communications	27	6.8
Finance and real estate	39	9.7
Education	2	0.5
Health and social services	3	0.7
Public utilities, social and private services	10	2.4
Total	404	100.0

2. How many people worked in your company as of April 1, 2016?

	Number	%
16–50	304	75.2
51–100	53	13.1
101–250	48	11.8
Total	404	100.0

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

	Number	%
Before 1996	45	11.2
1997–2004	113	27.9
2005–2009	112	27.6
2010–2016	135	33.3
Total	404	100.0

4. Where is Your company registered?

	Number	%
Brest and Brest region	45	11.2
Vitebsk and Vitebsk region	34	8.5
Gomel and Gomel region	37	9.2
Grodno and Grodno region	33	8.1
Minsk region	68	16.7
Mogilev and Mogilev region	30	7.4
Minsk	157	38.8
Total	404	100.0

SECTION 2. ECONOMIC SITUATION AT THE ENTERPRISES

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

	Number	%
Very bad	9	2.3
Rather bad	71	17.6
Niether bad, nor good	203	50.1
Rather good	114	28.3
Very good	7	1.7
Total	404	100.0

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

	Number	%
Significantly worsened	27	6.7
Slightly worsened	133	32.8
Remained the same	156	38.6
Slightly improved	82	20.3
Significantly improved	6	1.5
Total	404	100.0



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

(% of respondents, n = 404)

	Significantly decreased	Slightly decreased	Remained the same	Slightly increased	Significantly increased
Turnover	11.0	37.8	28.3	21.2	1.7
Accounts payable	1.9	18.0	63.6	14.3	2.2
Accounts receivable	2.4	13.5	64.2	17.7	2.2
Employment	3.0	38.6	40.6	17.3	0.5
Investment	10.6	24.5	48.2	16.0	0.7
Profit	12.2	37.4	25.9	22.5	2.0

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

	Number	%
Business expansion	91	22.5
Maintaining the level achieved	251	62.0
Business reduction	63	15.5
Total	404	100.0

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

	Number	%
Yes and I have received it	100	24.7
Yes, but I was turned down	40	9.8
No, I haven't	265	65.5
Total	404	100.0

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

Multiple choice possible (n = 265)

	Number	%
High interest rates for loans in national currency	60	22.7
High interest rates for loans in foreign currency	38	14.3
Difficulties in fulfilling collateral requirements	40	15.1
I do not need a loan	164	62.0

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	39	9.6
Slightly worsened	134	33.2
Remained the same	180	44.5
Slightly improved	49	12.1
Significantly improved	2	0.5
Total	404	100.0

12. How would You assess the following government efforts?

(% of respondents, n = 404)

	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	4.23	19.52	49.74	24.06	2.46
Adopting measures to enhance the development of private property ownership and protection of the right to use property	3.44	15.83	49.04	29.00	2.69
Removing excessive administrative barriers	4.51	11.81	43.62	35.14	4.92
Developing the tax legislation that stimulates the conscientious fulfillment of tax obligations and business initiative	3.52	15.68	46.77	28.55	5.48
Giving control (supervisory) activities a preventive nature, moving towards preventive measures	3.21	13.51	44.77	30.80	7.70
Providing a clear legislation, improving the quality of governing business regulations	3.76	15.49	44.20	31.40	5.14

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 = 404)

	Number	%
Supervisory bodies attitude	192	47.4
Rental rates	129	32.0
Commodity prices	142	35.2
Obtaining permits and licenses conditions	142	35.1
Access the credit facilities	104	25.8
Judiciary bodies' attitude	68	16.7
Government procurements	81	20.1
Equal conditions	52	12.9

14. Please, indicate the five most important external barriers for business development in Belarus

(n = 404)

	Number	%
Currency market regulation	85	21.0
High rent	159	39.4
High crime	14	3.4
High interest rates	195	48.2
High tax rates	211	52.1
Changeable legislation (tax including)	161	39.7
Corruption	116	28.8
Land ownership impossibility, complicated land use rules	65	16.0
Unfair competition	97	23.9
Unequal business environment compared to the state-owned enterprises	103	25.5
Unequal business environment compared to the foreign enterprises	27	6.8
Poor stock market development	44	11.0
National currency instability (high inflation rate, unpredictable exchange rate fluctuations)	153	37.7
Ineffective judicial system (courts are not independent, the complexity of contract implementation, investors' rights, etc.)	43	10.7
Poor quality of higher and other education of the specialists	35	8.7
Burdensome administrative procedures (licences, certificates, control, etc.)	133	32.8
Poor health of the population	9	2.2
An arbitrary interpretation of the legislation by the authorities	68	16.9
Labor market regulation (dismissal and recruitment procedures)	31	7.7
Wage regulation	46	11.4
Price regulation	101	24.9
Economic policy of the other countries (tariff and non-tariff barriers, etc.)	58	14.3

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	127	31.5
Existing external barriers may be overcome, they force entrepreneurs to look for more efficient business models and promising markets	277	68.5
Total	404	100.0

SECTION 4. ECONOMIC CRISIS AND LABOR MARKET

16. 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 = 404)

	1	2	3	4	5	Total
Lower demand on companies' goods/services	13.2	14.5	25.2	32.1	15.0	100.0
Difficulties in getting financing through the regular channels	14.2	19.3	33.9	25.6	7.0	100.0
Defaults	14.4	18.2	27.5	22.9	17.0	100.0
Difficulties in obtaining goods intermediates from regular suppliers	17.5	19.4	38.3	19.5	5.3	100.0

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

Multiple choice possible (n = 404)

	Number	%
Reduce production	97	23.9
Keep prices unchanged	91	22.6
Reduce prices	193	47.6
Cost cutting (including those, related to human resources)	227	56.1
Other	11	2.8



18. 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 = 404)

	1	2	3	4	5	Total
Qualification level	2.7	14.5	38.0	36.5	8.4	100.0
Education level	1.7	11.8	33.5	42.6	10.5	100.0
Working experience	1.7	11.8	42.2	35.0	9.3	100.0
Salary expectations	5.5	22.3	44.7	21.9	5.6	100.0

19. Which employees have You trained over the last 12 months?

Answer each question

	We have trained them	Haven't trained	Total
Managers (top, middle and lower-level managers)	11.0	89.0	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.)	21.0	79.0	100.0
Specialists (staff, performing engineering, technical, economic and other works)	13.7	86.3	100.0
Clerks (workers, carrying out documentation, accounting and control, support service)	10.8	89.2	100.0

20. Which employees are You planning to train during the next 12 months?

Answer each question

	We are planning to train them	Not planning to train them	Total
Managers (top, middle and lower-level managers)	11.3	88.7	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	84.2	100.0
Specialists (staff, performing engineering, technical, economic and other works)	13.5	86.5	100.0
Clerks (workers, carrying out documentation, accounting and control, support service)	9.1	90.9	100.0

21. What are the main forms of middle and top personnel training?

	Number	%
Short-term programs, seminars and trainings (up to three months)	71	48.7
Long-term programs, seminars and trainings (three months and longer)	14	9.7
Inner training using companies capacities	83	57.3
Internships	41	27.9
Inner training involving external consultants	34	23.1
Participation in the conferences	15	10.4
Self-education	50	34.1

22. What education areas are Your company interested in?

Multiple choice possible (n = 145)

	Number	%
Management	50	34.5
Finance, investment	49	33.9
Personal development	37	25.2
Human resource management	47	32.5
Marketing, PR, advertisement	46	31.5
Sales	63	43.5
Coaching	6	4.1
Other	8	5.4

23. What are Your requirements for business education?

Multiple choice possible (n = 145)

	Number	%
Practice-oriented	102	69.9
International standards compliance	41	28.2
Trainers with practical experience	42	28.8
Internationally recognized diploma	16	10.9
Actual belarusian case studies use	21	14.6
Positive friends' feedback	27	18.6

24. Based on what criteria do You pick courses?

Please, choose up to three answers (n = 145)

	Number	%
Price	55	37.9
Course length	32	22.2
Teaching staff	30	20.4
Colleagues' and friends' recommendations	47	32.7
Course contents	97	66.8
Institution reputation	31	21.5
Opportunity to obtain a state recognized diploma	15	10.4
Opportunity to obtain an internationally recognized diploma/certificate	21	14.5

25. Please, name business-training organisations You are familiar with (at least with the name)

Multiple choice possible (n = 404)

	Number	%
IPM Business School	102	25.1
Here and Now	60	14.8
School of business and management of technology of BSU	152	37.5
Key solutions	48	11.9
EMAS	46	11.5
SATIO	48	11.9
XXI Century Consult	102	25.1
Other	1	0.2
None of the above	148	36.5

SECTION 5. CORRUPTION

26. 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 = 404)

	1	2	3	4	5	Total
Corruption in general	17.5	17.3	34.4	22.6	8.1	100.0
Shadow turnover	20.9	21.9	32.9	20.1	4.3	100.0
Bribes	20.4	18.8	29.3	24.8	6.7	100.0
Kickbacks for getting government contracts	22.6	17.9	28.3	21.9	9.2	100.0

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

On a one to five scale, where 1 – do not affect the price of the final product, 5 – the final product becomes significantly more expensive (% of respondents)

	1	2	3	4	5	
Do not affect the price of the final product	21.6	17.6	28.7	26.4	5.7	The final product becomes significantly more expensive

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

	Number	%
Civil servants mainly	75	18.5
Business representatives mainly	47	11.7
Civil servants and business representatives	127	31.5
N/A/Don't know	155	38.3
Total	404	100.0

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

	Number	%
Significantly worsened	10	2.4
Slightly worsened	37	9.2
Remained the same	269	66.5
Slightly improved	71	17.4
Significantly improved	18	4.4
Total	404	100.0

30. 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 = 404)

	1	2	3	4	5	Total
Economic growth	2.3	12.3	37.5	33.4	14.5	100.0
Domestic producers market development	2.5	17.7	35.5	31.3	12.9	100.0
Foreign investment promotion	4.8	17.3	36.2	25.6	16.2	100.0
Private business growth and development	3.3	14.5	26.6	34.8	20.8	100.0
Governance improvement	4.0	15.6	33.7	29.1	17.6	100.0
Public welfare increase	8.2	16.6	33.1	27.5	14.5	100.0
Resolution of the commercial disputes at court	13.9	14.2	29.5	27.3	15.1	100.0



31. 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 = 404)

	1	2	3	4	5	Total
Reducing corruption potential of the legislation	5.3	14.3	35.7	33.3	11.3	100.0
Setting higher wages for civil servants	12.9	27.9	35.4	19.4	4.4	100.0
Increasing criminal penalties for corruption offenses	1.7	7.8	25.0	26.7	38.8	100.0
Anti-corruption bodies efficiency increasing	3.0	8.4	28.7	34.1	25.8	100.0
Strengthening the administrative control over the duties of civil servants	3.9	11.5	34.4	31.3	18.9	100.0
Raising staff requirements for the public service selection	3.5	14.3	33.3	30.0	18.9	100.0
Reducing the degree of state regulation of the economy	1.7	10.1	42.9	28.4	16.9	100.0
Building social intolerance towards corruption	5.8	15.7	37.1	23.9	17.5	100.0
Strengthening the tax control over civil servants' and their families' incomes and property	3.7	16.1	26.2	26.7	27.4	100.0

32. Rate administrative causes of corruption incidents in Your sphere of activities.

On a one to five scale, where 1 – is not a cause, 5 – is a major cause of corruption (% of respondents, n = 404)

	1	2	3	4	5	Total
Low civil servants' salaries	15.1	25.9	33.4	19.1	6.5	100.0
Greed of civil servants	6.3	17.4	33.3	26.8	16.2	100.0
Lack of effective performance of anti-corruption bodies	4.1	9.8	32.5	33.3	20.3	100.0
Insufficient administrative control over the duties of civil servants	5.1	13.4	38.4	30.7	12.4	100.0
Ongoing government authorities reform, that leads to an uncertain future ahead	6.9	15.3	41.5	24.2	12.1	100.0
High degree of state regulation of the economy	4.4	10.5	40.8	30.5	13.8	100.0
Social tolerance towards corruption	9.7	13.9	37.7	25.0	13.7	100.0
Lack of tax control over civil servants' and their families' incomes and property	6.1	18.0	32.2	24.6	19.1	100.0

33. 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 = 404)

	1	2	3	4	5	Total
Price regulation	8.6	23.2	44.2	16.4	7.6	100.0
Obtaining licences	4.1	20.9	33.0	29.4	12.6	100.0
Hygienic registration and certification	5.4	18.5	38.1	24.1	13.9	100.0
Sanitary inspection	3.7	17.0	34.5	27.3	17.4	100.0
Fire inspection	3.3	19.1	33.1	26.5	18.1	100.0
Tax payments	12.3	27.7	34.4	19.5	6.0	100.0
Tax audit	7.2	27.9	29.7	21.2	14.1	100.0
Customs clearance	8.1	19.1	39.6	23.8	9.4	100.0
Getting government orders, winning tenders	4.5	15.3	28.2	27.8	24.3	100.0
Obtaining various permits with local authorities	3.9	13.9	35.2	31.3	15.6	100.0
Favourable court decision obtaining	10.2	22.0	36.4	19.4	12.0	100.0
Rent	15.7	21.8	36.1	20.9	5.4	100.0

34. 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)

	1	2	3	4	5	
Completely ineffective	7.2	20.8	43.2	26.1	2.7	Very effective

35. 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)

	1	2	3	4	5	
There is no such thing	5.9	24.5	33.9	28.0	7.7	It is widespread

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

Please, choose up to three answers (n = 404)

	Number	%
Social security contribution reduction	180	44.6
Other taxes reduction	205	50.7
Increase penalties for participation in such activities	121	29.8
Increase tax inspection control	76	18.9
Simplify business environment	275	67.9

SECTION 6. JUDICIARY

37. To what extent do you think the Belarusian courts provide protection of the rights and interests of business?

On a one to five scale, where 1 – generally do not provide, 5 – fully provide (% of respondents)

	1	2	3	4	5	
Generally do not provide	8.9	20.3	42.0	22.9	5.8	Fully provide

38. In your opinion, are there any differences in relation to courts for private and public companies?

	Number	%
Differences do not exist	202	49.9
Courts tend to make decisions in favor of state companies	178	44.0
Courts tend to make decisions in favor of private companies	24	6.0
Total	404	100.0

39. If you can not resolve the conflict situation with your counterparts by negotiation, will you go to court?

	Number	%
Go to court	161	39.7
Go to a specialized agency	60	14.8
Continue attempts to find a compromise without involving third parties	184	45.5
Total	404	100.0

40. If you prefer not to go to court to resolve conflict situations, then why?

Multiple choice possible (n = 244)

	Number	%
Process takes too long	140	57.6
Legal costs exceed the amount of the court suit	96	39.5
I do not believe that the judge will rule in my favor	76	31.2
I do now understand how cases are reviewed	32	13.3

41. Did your company participate in legal proceedings?

	Number	%
Yes	102	25.2
No	303	74.8
Total	404	100.0

42. How long ago did this happen?

	Number	%
2016–2017	29	28.2
2014–2015	31	30.9
2011–2013	14	13.7
Before 2011	28	27.2
Total	102	100.0

43. Who was the defendant in court?

	Number	%
State-owned company	20	19.4
Private company resident in Belarus	39	38.3
Company not resident in Belarus	1	1.0
Bank(s)	1	1.0
Other government bodies	3	2.7
Individual(s)	35	34.6
Other	3	2.9
Total	102	100.0

44. What is the reason for going to court?

	Number	%
Failure of one of the parties to pay its debts	46	45.0
Disputes about quality of goods or services	28	27.4
Labor disputes with personnel	13	13.1
Appealing decisions of government bodies in administrative procedures	10	9.8
Appealing decisions on liability	1	1.0
Disputes between founders	4	3.7
Total	102	100.0



45. Are you satisfied with the following aspects of the lawsuit?

On a one to five scale, where 1 – completely dissatisfied, 5 – completely satisfied (% of respondents)

	1	2	3	4	5	Total
The court's decision	5.7	10.8	34.9	27.1	21.6	100.0
Terms of consideration of the case	4.6	25.8	36.0	24.6	9.0	100.0
Recoverability of attorneys' fees	10.6	23.1	40.1	16.4	9.8	100.0
The amount of state duty	4.7	33.9	37.6	17.9	6.0	100.0
Culture of litigation	2.9	11.1	28.7	37.5	19.7	100.0

46. Do you consider the following aspects to be an obstacle to the development of your company? *Multiple choice possible* (n = 404)

	Number	%
Decree No. 488 (On Certain Measures to Prevent Unlawful Minimization of Tax Liabilities)	54	13.4
Subsidiary liability	42	10.4
Deferred VAT refunds	78	19.2
Existence of significant liability for errors in formal documents (consignment notes)	94	23.2
Inability to appeal decisions made by fiscal agencies (customs, tax inspections)	97	23.9
I do not see these as obstacles	205	50.8

SECTION 7. SOCIAL ACTIVITY, BUSINESS ASSOCIATIONS AND BELARUS NATIONAL BUSINESS PLATFORM

47. Are You a member of business associations?

	Number	%
Yes, I am	85	20.9
No, I am not	320	79.1
Total	404	100.0

48. Do You know about the National Business Platform?

	Number	%
Yes, I do	111	27.3
No, I don't	294	72.7
Total	404	100.0

49. If you know about the NPBB, 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 = 111)

	1	2	3	4	5	
Don't support at all	1.8	10.6	44.4	30.5	12.6	Support completely

50. Assess the importance of the goals of the National Business Platform in 2017

On a one to five scale, where 1 – completely unimportant, 5 – very important (% of respondents, n = 111)

	1	2	3	4	5	Total
Fair competition	0.9	12.4	29.9	33.0	23.8	100.0
Effective de-bureaucratization	0.9	7.8	32.6	40.6	18.1	100.0
Regular optimization	2.7	11.1	36.0	33.9	16.3	100.0
Economic security	0.9	8.9	28.3	31.8	30.0	100.0
Honest privatization	0.9	7.2	35.4	32.9	23.6	100.0
Responsible partnership	0.9	7.2	28.6	34.3	29.0	100.0

51. What is the role of the 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 = 111)

	1	2	3	4	5	Total
In the consolidation of the business community	1.8	8.9	54.1	31.6	3.6	100.0
In improving the business climate	1.8	12.7	42.3	37.0	6.2	100.0

52. Assess the efficiency 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 = 111)

	1	2	3	4	5	
None, not effective at all	6.4	12.6	45.5	32.8	2.8	Very effective

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