

Progress in Business Climate Improvement in Belarus through the Prism of Surveys of Small and Medium-Sized Enterprises

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Improvement of a business climate and support of an entrepreneurship were not only declared as a national economic priority, but formulated as objectives in the Government's program documents. For example, there were targets to get to the top 30 countries for ease of doing business (World Bank Ease of Doing Business Index), to increase the share of small and medium-sized enterprises in GDP to 30%. The National Strategy for Sustainable Social and Economic Development of Belarus for the period till 2020 set an even more ambitious goal, i.e. to increase the share of SMEs in GDP to 50%.

However, despite a significant improvement in ease of doing business ranking (38th place in World Bank Doing Business 2018) and adopted legislative measures to support small and medium-sized enterprises, their role in the country's economy has practically not changed in the recent years. The share of SMEs in GDP and in value added in 2016 was 23.5% and 27.5% respectively, increasing insignificantly compared to 2010 (by 4.6 and 5.7 percentage points, respectively, Fig. 1). The share of SMEs in the average number of employees also remained practically unchanged during the period under review and did not exceed 32–32.8%. These indicators were much lower than those of Central and Eastern Europe (CEE). For example, in Poland and the Czech Republic, the contribution of small and medium-sized businesses to value

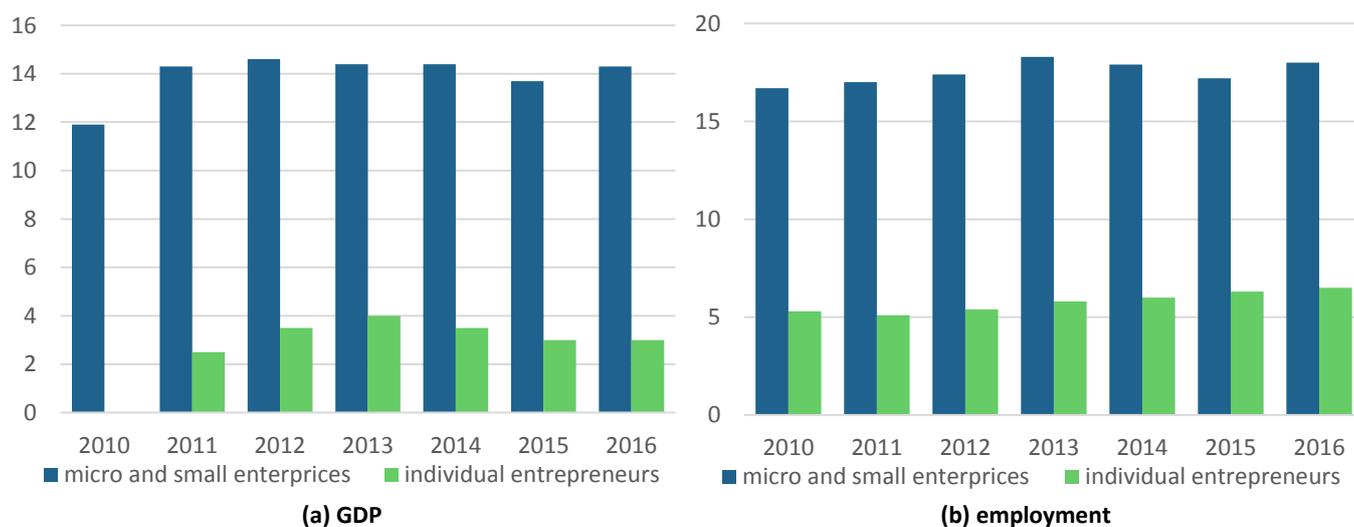
added was 53–54%, and in Latvia and Lithuania it accounted for 70%. These enterprises also capture 68–79% of total employment.

The dynamics of the number of enterprises testified to the lack of SMEs development and growth, as there was no shift from one size class (development stage) to another, i.e. from microenterprises to small ones and from them to medium. Thus, a growth of the number of microenterprises did not lead to an increase in the number of small enterprises, and the number of medium-sized enterprises declined. The shift in the stages of life-cycle is caused by a combination of internal and external factors, which include the enabling business environment.

It is also important to note that despite the increase in the Doing Business ranking, according to surveys SMEs assessment of changes in business conditions became less positive in comparison to 2010 (Fig. 2).

The weak correspondence between the improvement in the Doing Business rating, on the one hand, and data on the role of SMEs in the economy, as well as their assessment of business environment, on the other hand, was caused by several factors. First, according to the World Bank, the main improvement in the business climate occurred in Belarus in 2008–2013, and the changes affected primarily the areas related to the procedures for

Figure 1. Contribution of micro and small enterprises and individual entrepreneurs to GDP and employment (average number of employees), %

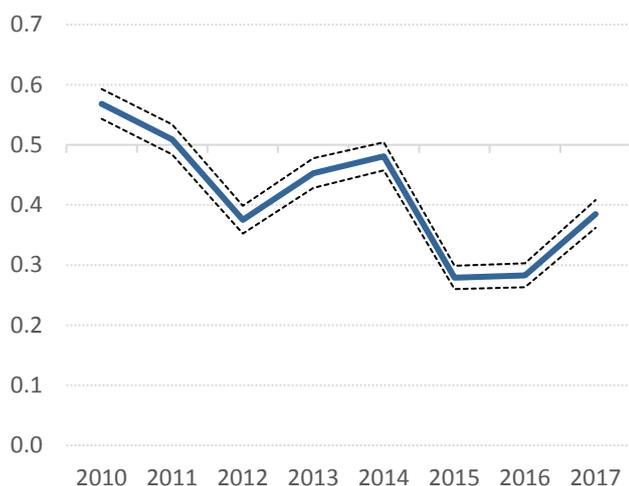


Source: Belstat.

* The Commentary is based on Tochitskaya, I., Shymanovich, G. (2018). New legal acts package on encouraging private sector development vs needs of Belarusian business: Results of the small

and medium enterprises surveys, IPM Research Centre, Policy Discussion paper PDP/18/01. The publication is prepared under the support of the British Embassy in Minsk.

Figure 2. Changes of doing business conditions, average score



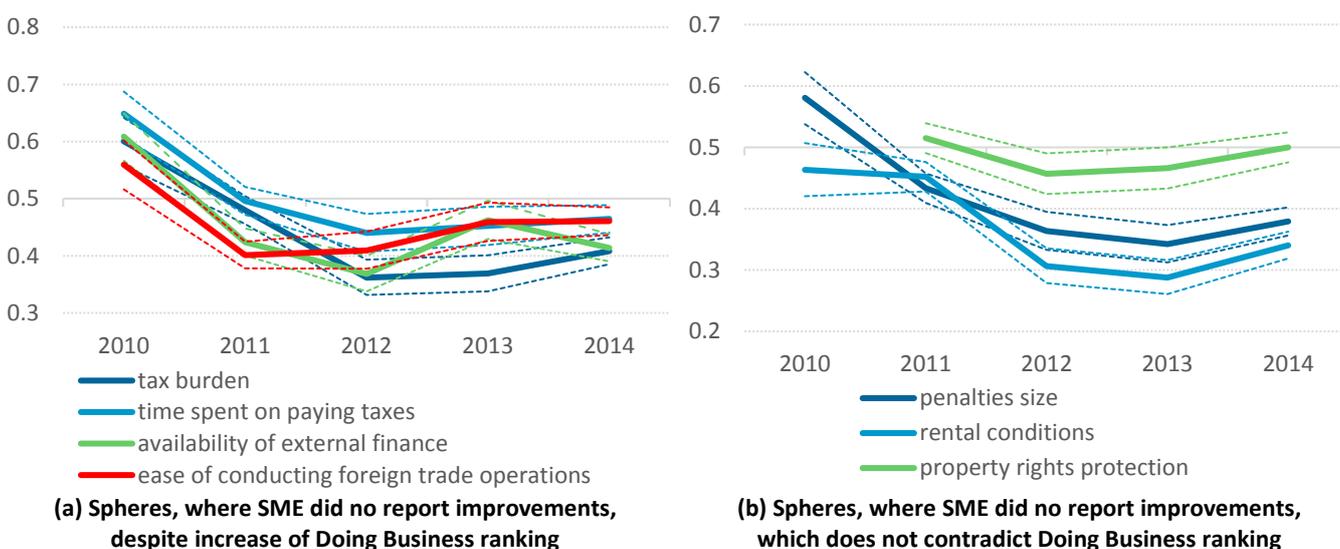
Source: own calculations based on IPM Research Center data.

starting a business and registering property and to a lesser extent a process of doing business (business activity of SMEs). Second, an improvement of Belarus' position in "paying taxes" was attributed to significant number of measures taken to reduce time spent on preparation, filing and paying taxes, as well as to decrease the number of payments. However, high tax rates still are an impediment to doing business. According to Doing Business 2018, total tax rate in Belarus (% of profit) is significantly higher than those in Europe and Central Asia. Third, for small and medium-sized enterprises, access to financing remains very challenging. The measures taken in Belarus according to the World Bank study were mainly aimed at increasing the availability of credit information, the possibility of obtaining it through credit registries and credit bureaus. In general, Belarus' "getting credit" rank is still low. Fourth, the few measures spotted by the World Bank, which were adopted to simplify the receipt of construction permits and to obtain electricity

connection, could also be attributed to the creation of favorable conditions for starting a business, rather than for doing it. Fifth, a small number of adopted measures and their low efficiency in terms of bringing business conditions in Belarus closer to international standards were observed for the spheres that determine the sustainability of SMEs development. There were no significant improvements in the procedures for enforcing contracts, resolving insolvency, trading across the border. Therefore, improvements that have occurred in the conditions of doing business in Belarus, eliminated only certain types of barriers.

These findings are also confirmed by the SME surveys conducted by the IPM Research Center. The surveyed enterprises as a whole positively assessed changes in the conditions of business registration, obtaining permits, and implementation of administrative procedures. This corresponds to the results of the World Bank study, which showed a significant reduction in administrative burden for business in Belarus. However, in contrast to the World Bank, business rather negatively assessed such indicators as taxation, access to finance, trade across the border, where Doing business sported some improvement (Fig. 3). It stems from the fact that these improvements of regulatory environment did not lead to a reduction in the tax burden for SMEs and did not facilitate access to loans, which is hampered, inter alia, by high interest rates. In addition, business pointed out a significant deterioration of such components of business climate as terms of lease, an amount of fines and protection of property rights. These negative assessments largely predetermined the negative perception of changes in the business environment. Leases, fines and protection of property rights are directly related to the sustainability of SMEs, and they are much more sensitive for surveyed enterprises than the conditions for starting up a business.

Figure 3. Changes of doing business environment in Belarus in perception of small and medium enterprises



Note. The dotted lines in the figures represent the 5% confidence interval. Inasmuch as the scale applied to the question regarding changes in business environment 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."

Source: own calculation based on the IMP Research Center data.

The package of regulations elaborated by the Government in 2017 and designed to further liberalize business climate and stimulate entrepreneurial activity is aimed at removing a number of barriers that have negative impact on business. The Decree of the President of the Republic of Belarus No. 7 "On Entrepreneurship Development" and the Decree of the President of the Republic of Belarus of October 16, 2017 "On Improving Control (Supervisory) Activities" adopted in November should help to remove burdensome administrative procedures, including licensing, inspection and certification; to simplify tax administration and reduce the tax burden for business entities; to alleviate a problem of frequent tax changes and an onerousness of tax payment procedures; to minimize state interference in enterprises' performance; to shift focus of control activity from inspections to preventive work, and ensure commensuration of punishment and consequences of harm. However, it should be noted that the effectiveness of the envisaged measures will largely depend on implementation of regulatory changes and unambiguousness of normative acts' interpretation.

The SMEs surveys also showed that there was a rise in the number of respondents who noted increased negative impact on their enterprises of excessive state regu-

lation, and in addition barriers related to poorly functioning institutions and restricting competition. The last two types of barriers are not tackled by the package of normative acts on encouraging business. Therefore, ensuring equal competitive conditions for enterprises, irrespective of the form of ownership, and establishment of well-functioning legal environment should be the subject of special attention of the Government in order to improve the business climate and stimulate the development of SMEs. Otherwise, there is a risk that even broad measures to liberalize the business climate may not be effective enough due to existence of separate barriers, even if there are few, but very sensitive to business.

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