

# Becoming Entrepreneur in Belarus: Factors of Choice

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*This policy brief summarizes two papers by Maryia Akulava on entrepreneurship development in Belarus and outlines which factors affect the choice of becoming self-employed in Belarus. While one of the papers, “Choice of Becoming Self-Employed in Belarus: Impact of Monetary Gains”, focuses on the role of pecuniary benefits, the other paper, “Portrait of Belarusian Entrepreneur”, adopts a broader perspective by accounting for individual, sociological, and institutional factors.*

Although the Belarusian government has repeatedly declared the importance of private entrepreneurship for the national economy, its role remains rather modest. In terms of private sector development, Belarus lags severely behind other post-socialist countries. Yet, over the last decade, some positive dynamics have been recorded. In particular, the number of small and medium enterprises (SMEs) per 1,000 people increased from 2.5 in 2003 to 7.2 in 2010. Still, this ratio is rather small in comparison with other post-socialist economies (Table 1) [3; 4; 5; 6].

*Table 1. Number of Small Enterprises (SEs) per 1,000 People*

Number of SEs per 1000 people	
<b>Belarus</b>	<b>7.2</b>
Russia	11.3
Ukraine	17
Kazakhstan	41
United Kingdom	46
Germany	37
Italy	68
France	35
EU countries	45
United States	74.2
Japan	49.6

Regarding the growth rates of SEs and individual entrepreneurs (IEs), the numbers leave much to be desired. Specifically, in 2009, the number of SMEs and IEs amounted to 62,700 and 216,000 respectively, while in 2011 – to 72,200 and 232,000. Therefore, despite the efforts of the authorities to encourage the development of private initiative, the number of SEs and IEs only increased by 15.2 and 7.4%, respectively.

Next, private sector employment remains rather low. It amounts to approximately 13%, while in the developed economies this figure varies between 60 and 70%. For instance, in the U.S., it amounts to 60%, in Germany and in France - around 65-70%, and in Japan – 85%. On the other hand, transition economies have smaller shares, including Russia – 17%, Kazakhstan – 20.6%, and Ukraine – up to 28.8%, [7].

Some important indicators are provided in Table 2 [8].

*Table 2. Share of Small and Medium Business in Economic Indicators of Belarus*

Share of small sector	2003	2008	2009	2010
GDP	8.2	11.2	11.4	12.4
Volume of industrial production	8.4	8.3	9.2	9.4
Exports	18.2	31.4	34.3	38.9
Retail trade turnover	9.2	27.8	29.5	28.2
Economically active labor force	13	13	13	13.1

Table 2 reveals an increased contribution of private entrepreneurs to the national economy. At the same time, the share of labor employed in the private sector remains unchanged at the level of 13%. This fact suggests that self-employment remains relatively unattractive for salaried workers.

So, what are the drivers of people's choice? On the one hand, people might be reluctant to become entrepreneurs because of the prevailing social and cultural attitudes, or the lack of necessary experience. Post-socialist economies all share the legacy of planning and suppression of private initiative. On the other hand, government's policies and regulations might 'cool down' enthusiasm or people simply have had or heard of some bad experiences. Thus, it is important to think of the reasons behind people's choice and formulate policies to encourage entrepreneurship development in Belarus.

## Who Is a Belarusian Entrepreneur?

In Belarus, entrepreneurs are active mainly in the non-manufacturing sector, including trade (30% of all entrepreneurs), provision of different services (16.5%), construction (13%), logistics (7%), and real estate (7%). The most common reasons to start your own business include a sudden, but attractive, business opportunity (66%), and the availability of funding for project implementation (33%).

As for the gender and age profiles of Belarusian entrepreneurs, 64% are men and 36% are women, with an average age of around 40-42 years. The majority of entrepreneurs is religious (54%), married (69%), and has children (75%). Around 65% have higher education, and about one third of them were among the top 10% students of their classes. Entrepreneurs report a good health status: 64% of them consider themselves as 'healthy'. This is not surprising, given that entrepreneurship in Belarus is 'survival for the fittest'. An

entrepreneur has to be ready to take risks, be energetic, active and to continuously search for new business opportunities. Moreover, entrepreneurs are optimists, who evaluate themselves as successful (77%) and happy (81%) people.

Sociological characteristics reveal strong reliance on social networks. In general, the number of relatives or friends involved in the business activities is about two times larger than for salaried workers. Besides that, a much larger share of entrepreneurs consider their parents wealthy and successful (45% and 82%), compared with employees (34% and 37%, respectively).

Belarusian entrepreneurs stay in business because they like what they do (53%), and think that their work is important for society (29%). Profits and income remain a strong, but are not a decisive reason (25%).

Although entrepreneurs and employees do not differ substantially in terms of their attitudes towards family, friends, health, financial stability, religion, and so on, there is still a notable distinction. Specifically, entrepreneurs tend to praise work, power and influence over other people, and also like political freedom. In addition, they value their function of a service provider to other people.

Moreover, entrepreneurs have more trust to colleagues, other business people and subordinates than salaried workers. This is not surprising, given the importance of horizontal networks mentioned above. It is important to note that more than 30% of respondents expressed their trust to political authorities despite the government-induced difficulties for entrepreneurship development in Belarus.

Analysis of institutional infrastructure for doing business detects a negative relationship between a publicly-stated favorable attitude of authorities towards entrepreneurs and their decision to work in the private sector. This can be explained in following way: a priori, the government's stance on entrepreneurship

is evaluated positively, or at least considered as not harmful. Moreover, a person considers himself as being too small to attract the 'extractive attention' of the authorities. However, a posteriori, entrepreneurs revise their initial views. Their experience tells us that the government's attitude is far from welcoming.

As for corruption, the attitude is ambiguous. On the one hand, entrepreneurs generally disfavor corruption. On the other hand, those who seek to expand their businesses consider corruption a way to avoid 'unnecessary troubles' and to overcome barriers created by the excessive 'red tape' in the economy.

## What Are The Obstacles For Doing Private Business In Belarus?

Belarusian entrepreneurs consider the following factors as barriers to business development: (i) inflation and macroeconomic instability (55%), (ii) lack of financing (31%), (iii) high taxes (27%) and complexity of tax system (18%), (iv) legal vulnerability (23%), and (v) toughness of state administrative regulation inspections, licensing and certification requirements (19%). These barriers are largely of macroeconomic and regulatory nature. Moreover, authorities conduct a policy of close-to-full formal employment. This policy is aimed at securing jobs for people even at loss-making and poorly performing companies, which are kept afloat by subsidies and directed loans. As a result, employees prefer to trade risks of working in the private sector, for a stable employment in the sector of state-owned enterprises.

As for the main barriers, which impede business startups, financial constraints are the most common factor (33%), followed by high risks (25%), the lack of necessary business skills, a clear understanding what to do in the market (15% and 13% respectively), and

unwillingness to work a lot (16%). In other words, financial constraints along with the lack of business education are the two most important domestic barriers.

These findings correspond to the results of the research on the impact of pecuniary benefits on entrepreneurs. In that study, education does not appear to have a significant influence on the level of earnings by entrepreneurs. The latter are 'self-trained' by the experience of starting a business in the uncertain environment of the 1990s and matured in the course of doing their business in unfriendly conditions. However, as the economy evolves, activities and contracts become more sophisticated. To survive in the changing environment, entrepreneurs have to acquire new skills and learn new methods and concepts of doing business.

So far, it appears that the quality of education obtained by the entrepreneurs does not match the skills required in the Belarusian economy. Thus, it is important to organize seminars, to hold trainings and to run business education programs for the future and current entrepreneurs in order to upgrade their skills and thus to contribute to their improved performance on the market.

## Conclusion

An efficient development of the private sector in Belarus requires a drastic improvement of the domestic business environment. In order to encourage domestic entrepreneurship, the authorities should improve macroeconomic management and cut much of the 'red tape'. Entrepreneurship possesses a great potential to contribute to growth and development. Surveys reveal that government policies constrain the development of the domestic private sector. Moreover, the high tax burden should be reduced, and some fiscal 'sweeteners' could be offered for business startups. In addition, a somewhat higher priority should be given to the improvement of the quality of business education, and

make it more accessible for the current and future business people. If implemented, all these measures would supposedly have a fostering impact on the development of a dynamic private sector in Belarus.

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