

The Role of Belarusian Private Sector

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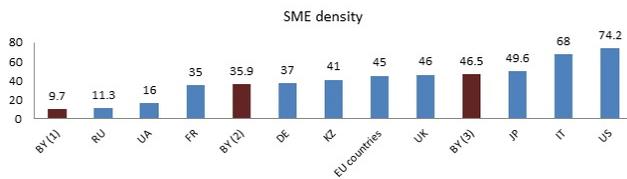
The development of a private sector and the expansion of its role in the economy is one of the key goals repeatedly announced by the Belarusian authorities. The reforms carried out in Belarus in 2006-2014 moved the country from 106th to 57th position in the World Bank Doing Business ranking. The official statement is that reforms boosted the rapid development of business initiatives and its impact on economic development. Unfortunately, there is no clear confirmation of this statement. The absence of a transparent and clear methodology in Belarusian statistics on how to evaluate the role of the private sector makes it difficult to evaluate the exact input of the Belarusian business in the economy and compare its role to other countries.

In the last 5 years, the Belarusian authorities have repeatedly highlighted the need to develop the private sector, perceiving it as the main source for sustainable economic growth and competitiveness of Belarus in the future.

However, it may be difficult to assess the real role of the private sector in the Belarusian economy. First, existing data do not allow a clear identification of the boundaries between the private and state-owned sectors in Belarus. Furthermore, there are certain methodological differences in identifying and evaluating the private sector between Belarusian official statistics, the World Bank approach and alternative methodologies. These methodological variations combined with data limitations result in significantly different estimates of the role of the private sector for the Belarusian economy. The problem concerns both the evaluation of the role of small and medium enterprises (SMEs) and the private sector in general.

Small and Medium Enterprises

One good example of the abovementioned data issue is the statistics for SMEs sector. Unlike the EU, Belarus does not include individual entrepreneurs to the micro organizations in the SME sector. This results in highly different estimates for the number of SMEs per 1000 inhabitants (Figure 1). If we follow the methodology of the National Statistical Committee of the Republic of Belarus (Belstat), the number is 9.7 firms per 1000 people. However, switching to the EU methodology (IFC report, 2013) raises the number significantly up to 35.9. Moreover, the inclusion of unregistered self-employed individuals involved in the shadow economy (which according to estimations of the authorities amount to at least 100,000 inhabitants) increases the number to 46.5 firms per 1000 people, which is above the level of many European countries.

Figure 1. SME density

Source: own estimations from Belstat data, Eurostat.

Private Sector

As for the private sector in general, the problem here is that the official statistics counts enterprises with mixed form of ownership and state presence to the private sector. This makes it difficult, if at all possible, to obtain the exact input of the private sector to the economy and see the dynamics of its change.

More specifically, there are three potential ways to assess the contribution of the private sector. Unfortunately none of them provides reliable estimates of the role of business. The first method is to use official data. The main problem here is that the private sector according to official statistics includes enterprises with state presence as well as large private companies that are under state control and not totally independent. Thus, the contribution of the private sector calculated based on these figures is likely overestimated.

The second method is to look at enterprises that do not report to the Belarusian ministries, following the methodology of the World Bank used in their evaluation of Belarus machinery industry (Cuaresma et al., 2012). Here, non-ministry reporting enterprises work as a proxy for a private firm, as in this case it doesn't have to report directly to Belarusian ministries and is independent from the state.

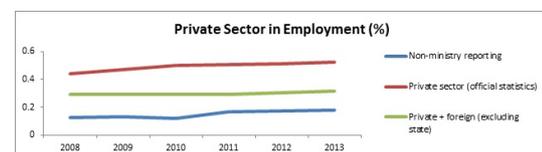
The problem is that the majority of large private enterprises, even though there is no state share in them, are not in this list. In Belarus these enterprises often form a part of state concerns on the one hand and are

independent on the other. The example here is JSC "Milavitsa", one of the largest lingerie producers in EE, which is a part of the Bellegprom concern. Therefore, this methodology likely underestimates the role of the private sector.

The third way is to try to exclude state presence from the official data of the private sector. According to official statistics, the private sector includes several groups of enterprises, such as individual entrepreneurs, legal entities with/without state/foreign presence, etc. However, the absence of a clear distinction between these sub-groups allows for only rough estimates, through the extraction of the state presence.

As a result, all obtained numbers are qualitatively different from each other and there is no clear answer if any of them reflects the real picture.

For example, the contribution of the private sector in total employment according to the three different methods (Figure 2) provides the following results. Officially, in 2013 around 53% of the active labor force worked in the private sector. However, the exclusion of state presence in private property changes the results significantly and the share of the active labor force involved in the private sector drops to a level of 31%, while the non-ministry reporting enterprises employ around 18% of the active labor force.

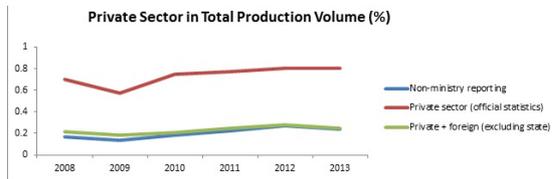
Figure 2. Private sector in employment (%)

Source: own estimations from Belstat data.

The input of the private sector in the total production volume (Figure 3) is also very diverse depending on the method of evaluation. Official data show that the private sector is responsible for 80% of total

production volume. However, the exclusion of state presence decreases the value to a level of just 26%, which is similar to the result demonstrated by the non-ministry reporting enterprises (25%).

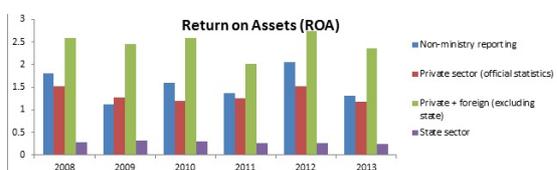
Figure 3. Private sector in total production volume (%)



Source: own estimations from Belstat data.

At the same time, the absence of a clear definition of the private sector does not allow for obtaining reliable information about its effectiveness. If we take the rate of return on assets (ROA), again, there is a significant gap in the results of the different methods of estimation (Figure 4). ROA of the private sector according to official statistics is significantly lower than similar indicators based on the data obtained by the other two methods (in 2013: 1.17 vs. 2.4 and 1.3 respectively). Thus, the lower the “measured” state presence, the higher is the productivity of the private sector, especially in comparison with the effectiveness of the state sector (0.25).

Figure 4. Return on Assets (BYR/BYR)



Source: own estimations from Belstat data.

Conclusion

The above discussion has illustrated that diffuseness of data and the definition of the private sector is likely to create troubles for understanding the importance of the private

sector in Belarus. This, in turn, may undermine the effectiveness of economic and political measures targeted towards this sector.

The implementation of a clear, unified and transparent methodology of how to estimate the role of business and what exactly can be treated as a private sector in statistics would allow for a better understanding of the obstacles and barriers that the private sector is dealing with, as well as to help developing effective measures of business support. Until then, the official statistics should not stick to just one definition of the private sector. Instead, it can use all three abovementioned gradations, as a better reflection of the realities of Belarusian business.

References

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