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June 2021

# Did the Government Help Belarusian SMEs to Survive in 2020?

Capitalizing on the dataset obtained from five waves of the Covideconomy Project business survey, we explore how pandemic-related shocks and state economic policy responses influenced the performance of Belarusian small and medium enterprises (SMEs) in 2020. We find that Belarusian SMEs were left on their own with the COVID-related economic challenges, and only a small portion of enterprises could benefit from state support measures. Only two sectors (Manufacturing and Construction) derived advantages from soft loans provided to state-owned enterprises. The implementation of new, pandemic-adjusted business models did not result in an increase of revenues of Belarusian SMEs, at least not in the short run.



## Small and Medium Enterprises During the Pandemic

According to OECD estimates (2020), the small and medium-sized enterprise (SME) sector has been more affected by the COVID-19 pandemic compared to large enterprises. Besides being highly concentrated in the most affected sectors, the main reasons for SMEs experiencing stronger COVID-related shocks are a lower level of cash cushion and limited access to external funds (Goodhart et al., 2021). Next, the stock of supplies and materials, as well as the range of suppliers, are usually lower for SMEs (WTO, 2020). This makes any price changes or abruptions more detrimental for them in comparison to large companies. Lastly, the availability of digital technologies and skills needed to implement new business formats appeared as an additional constraint for the SME sector during the pandemic. Indeed, per the World Bank's business surveys, the most frequently mentioned effects of COVID-19 on SMEs in Central and Eastern European countries were a drop in sales, liquidity problems, limited access to finance, and breakdowns in supply. In this context, only 35% of SMEs in the region were able to adapt quickly to new conditions by introducing new business models such as online sales, delivery services, and remote work. At the same time, many SMEs in the region laid off employees, reduced wages, or initiated furloughs as alternatives to closing the business altogether.

In this regard, the SME support measures became an extremely important task for national governments to conduce to faster economic recovery and job creation. As a result, a wide range of monetary and non-monetary measures was implemented in various countries to support SMEs.

Internationally, direct support was provided in the form of wage subsidies, cash grants and transfers, tax holidays, reductions, or deferrals that could prevent unemployment growth. In addition, liquidity problems of SMEs were

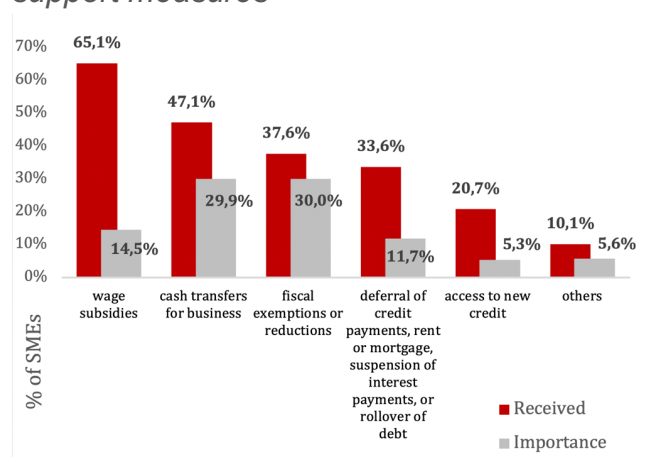
addressed by introducing rental fee deferral or reduction, repayment holidays as well as providing micro and short-term loans.

In many countries, specific measures were aimed to support the digitalization of SMEs (e.g., in China, France, Latvia, Italy, Slovenia, South Korea) by offering subsidies, financial support, training, and consulting services, developing e-commerce sales channels to respond to pandemic-related challenges (OECD, 2020).

Figure 1 demonstrates shares of SMEs in Central and Eastern European countries that benefitted from state support measures and SMEs' perceived importance of these measures. Wage subsidies (65.1%) and direct cash transfers and grants (47.1%) appeared as the most commonly used measures, while fiscal exemption and reductions were regarded as the most important and relevant ones.

Concurrently, at the macro level, some governments eased requirements on banks' emergency funds and reduced base rates to provide more and cheaper financial resources as loans for the enterprise sector.

**Figure 1: Scope and importance of SME support measures**



Source: World Bank data on Belarus, Russia, Poland, Estonia, Latvia, Lithuania, Georgia, Moldova, Slovakia, Czech Republic, Bulgaria, Romania, Hungary.

In general, the scope and target groups of the support programs depended on financial resources at the disposal of governments, access to capital markets, macroeconomic conditions



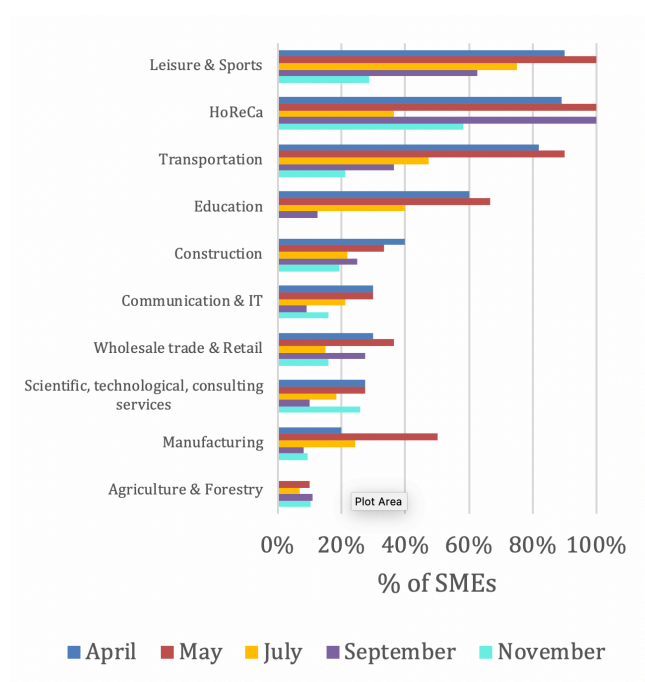
(public debt, exchange rates, unemployment rates), as well as the structure of the economy.

In this brief, we discuss how the macroeconomic environment and the Belarusian government's policy reaction to the pandemic affected revenues of Belarusian SMEs in 2020.

## The Belarusian Economy in 2020

The official statistics reported outstanding results of the Belarusian economy, despite it being expected to be hit harder than other countries in the region. The COVID-19 pandemic-related shocks were aggravated in Belarus by endemic ones: the early-2020 oil-supply dispute with Russia, the sociopolitical crisis that broke out after the presidential elections in August (Bornukova et al., 2021), and the concomitant sharp devaluation of the Belarusian ruble (22.59% to US dollar in 2020) in March and August. Against this backdrop, the 0.9% decrease in GDP, 4.6% increase in real disposable incomes, and stable unemployment rate (at 4.0%) together look like an economic miracle. Some of the rationales behind these figures include the absence of lockdowns and substantial mobility restrictions throughout the year, as well as easy access to bank loans for state-owned enterprises (SOEs) that faced an export shock. At the same time, ad-hoc sampled population and business surveys documented income reductions of Belarusians and a substantial decrease in business revenues in many sectors (Covideconomy project, 2021). Figure 2 displays the shares of SMEs in different sectors whose revenues dropped by more than 20% in the month before being surveyed.

**Figure 2.** Share of SMEs with loss of revenue >20%



Source: Own elaboration based on five ways of business surveys

The Belarusian government was substantially restricted in terms of financial resources as well as fiscal and external loan opportunities to extensively support businesses suffering from the COVID-related economic crisis. According to experts' estimations, Belarus lags behind other Eurasian Economic Union members (Russia, Armenia, Kazakhstan, Kyrgyzstan) in terms of the estimated share of GDP spent on crisis response measures – 1.5% (Russian Academy of Foreign Trade & Research Institute of VEB, 2020). While the most suffering sectors (trade, transportation, hotels, restaurants, tourism, education, leisure, sport, etc.) could benefit from the deferral of profit, real estate and land taxes, as well as rental fees till the end of 2020, obtaining any type of support appeared bureaucratically challenging and imposed exigent obligations for the future. Overall, the support was perceived as negligible and far below expectations both in terms of financial resources saved by businesses and coverage. Thus, in May-October 2020, about 50 thousand businesses (incl. sole proprietors) received cumulative support for a total amount of



\$26 Million or \$536 per business (National Center of Legal Information of the Republic of Belarus, 2020). According to the Covideconomy project, in May-July, less than 5% of SMEs reported getting support from the state.

## What Affected Belarusian SMEs?

Motivated by the specific reaction of the Belarusian government and its very limited support to SMEs, we explore what enterprise- and country-level factors affected SME revenues across industries during the pandemic. In pursuit of this objective, we use data obtained from five waves of the business survey conducted within the Covideconomy project (2020) on 359 SMEs amounting to 947 observations, and perform a regression analysis with a set of ordered logistic models. Particularly, we test whether the (i) self-isolation of population, (ii) currency devaluation, (iii) volume of loans provided to SOEs, and (iv) new business models implemented by Belarusian SMEs impacted their revenues.

These hypotheses are based on the following arguments:

1. In the absence of restrictive measures and lockdowns, entrepreneurs and citizens made conscious decisions about self-isolation and remote work. To minimize personal contact, many people reduced the number of visits to public places as well as various group activities. Such responsible behavior could hurt business income, primarily in the areas of catering, hotels, entertainment, transport, and consumer services, in which SMEs are widely represented.
2. The sharp devaluation of the Belarusian ruble is, and has traditionally been, a significant problem for Belarusian businesses. The rise in prices of imported goods and services, inflation, and the fall in household incomes in dollar terms harm domestic demand, leading to a drop in sales in many sectors. The

exceptions could be export-oriented enterprises, which mostly use materials and supplies produced in Belarus, as well as enterprises that are suppliers and contractors of exporters.

3. To minimize the impact of the pandemic-related shocks, the Belarusian government continued its habitual practice of providing soft loans for SOEs to maintain their production volumes and pay wages. Arguably, this could bolster demand for SMEs' goods and services from the side of SOEs' employees and prevent a deeper recession. In addition, SMEs that were suppliers and contractors of SOEs could also benefit from this policy measure.
4. The pandemic significantly accelerated SMEs' processes of finding and realizing opportunities to develop. This became key in the survival of many businesses. We thus expect that the implementation of new business models could have had a positive impact on revenues of SMEs.

In our models, we use the size of SMEs, location in the capital city, and whether a firm belongs to one of the most suffering sectors (HoReCa, Transportation, Leisure & Sport) as control variables. To capture the effect of factors across different sectors, we use interaction terms between the aforementioned factors and dummies indicating different sectors.

The results of the regression analysis (summarized in a stylized way in Table 1) demonstrate that the impact of the selected factors is not consistent across sectors and that none of the factors appear significant when considering the entire sample of SMEs.



**Table 1. Impact on SMEs' revenues**

	Self-isolation	Devaluation	State Loans	New business models
Entire sample	-	-	-	-
Agriculture & Forestry	-	-	-	-
Manufacturing	-	-	positive	-
Scientific, technological, consulting services	-	-	-	negative
Wholesale Trade & Retail	-	-	-	-
Communication & IT	-	positive	-	-
Construction	-	-	positive	-
Education	-	-	-	negative
Transportation	-	-	-	-
HoReCa	negative	-	-	-
Leisure & Sports	negative	-	-	-

Source: Own estimates based on 947 observations from 359 SMEs.

Not surprisingly, self-isolation behavior negatively affects only the HoReCa and Leisure & Sports sectors. Currency devaluation does not significantly influence the revenues of SMEs. Only the ICT sector, which is export-oriented and does not depend on imported materials, easily adapted to remote work and increased demand for IT-related services and experienced a positive shock. The state policy that provided soft loans to SOEs helped SMEs in the manufacturing and construction sectors that are, supposedly, contractors and suppliers of SOEs. The implementation of new business models did not result in an increase in the revenues of Belarusian SMEs, at least not in the short run. A possible explanation for this finding could be that firms responded by adopting new business models only if they experienced a very steep fall in revenues. As for the control variables, we find that larger enterprises better adapted to the crisis and their decrease in sales appear smaller. Interestingly, SMEs located in the capital city – Minsk – suffered more from the crisis in 2020, likely, due to a higher concentration of SMEs in the most affected sectors and a quicker reaction of citizens to economic and political shocks.

## Conclusion

Based on our analysis, we can deduce that Belarusian SMEs were left on their own with the

COVID-related economic challenges. Only a small share of enterprises could benefit from the state support measures and only two sectors (Manufacturing and Construction) derived advantages from soft loans provided to SOEs.

At the same time, the absence of lockdowns and other restrictions – the laissez-faire approach (Bornukova et al., 2021) – propped up most of the sectors except those that suffered from voluntary self-isolation of customers (HoReCa, Leisure, Sport, Beauty).

The ongoing crisis substantially changes the economic landscape, management practices, and business models of SMEs. The most flexible, competitive, and proactive businesses have been capable of identifying and exploiting the emerged opportunities. From this point of view, Belarusian businesses and entrepreneurs have outstanding experience in surviving and developing during recurrent crises (Marozau et al., 2020). This must be an important pre-condition for the future economic recovery of Belarus.

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