Joint project of the National Bank of the Republic of Belarus
and Alliance for Financial Inclusion (AFI)
«Measuring Access to Finance:
Developing Evidence-based Access Policies in Belarus»

Estimation and analysis of SME access to finance in the Republic of Belarus

Executive Summary of the National Survey

Minsk, National Bank of the Republic of Belarus

2012

Analysis of the survey data among small businesses using the methodology "Measuring financial inclusion using the Total Financial Index (TFI)"

The aim of this survey is to measure different aspects of use, demand and supply of financial services, and the frequency and intensity of the use of such services by SMEs, including in relation to the socio-economic characteristics of respondents.

As a result of this survey, the most and least included groups of SMEs have been identified, an econometric model of the TFI has been constructed for SMEs, and improvements have been suggested to the survey methodology.

The report is based on the data obtained from a questionnaire survey among 1815 small businesses of Belarus conducted by the National Bank of Belarus.

The survey presents an overview of the sample, descriptive statistics analysis for the data body. Consistent with the client-provided methodology, the calculation of the Total Financial Inclusion Index (TFI-I and TFI-II) was performed for payment, credit, savings and insurance services, and also for multiple services. In order to identify the combinations of services used, the Total Financial Inclusion Index was disaggregated by cross-tabulation. Statistical relationships were established between the calculated TFI value and the characteristics of small businesses. Econometric modeling tools were utilized to measure the dependence of the variable "Financial inclusion of firms" on the following covariates: firm type, industry, age of business, number of employees, annual turnover, location (region), markets served, owner's age, owner's educational attainment, owner's business record.

Summary of the findings and recommendations

As suggested by the frequency analysis, banking, insurance and credit are used the most extensively by firms in Belarus. Specific banking services used by the largest number of respondents included: 'current account' (97%), 'domestic bank transfers' (54.2%), 'Internet banking' (30.6%), 'debit card' (19.6%), 'bank transfers from abroad' (15.4%), and 'mobile banking' (14.0%). Car insurance services are used by 32.2% of respondents, social insurance by 20.8%, and property insurance by 13.3%. Working capital credit is used by 23.2% and auto loans by 9.5%.

The survey revealed the following regional trends in the use of financial services.

Current account is the most prevalent financial service in all seven

administrative regions - use of this service was reported by almost 100% of respondents in each region;

- Domestic bank transfers was the second most prevalent service in every administrative region except Minsk City, where it was in fourth position, after 'auto loans' and 'internet banking'.

Maximum reported number of services used by one respondent was 27. Maximum number of reported types of services (banking, credit, savings, insurance) used by one respondent was 4. On average, each respondent was using я 4.1807 services and 1.9791 types of services.

Total financial inclusion index for firms was close to 100% (99.2%). Use of 1-2 services was reported by 31.7% of respondents (basic users), and another 41.8% reported the use of 3 - 5 services (active users). Advanced users (6-8 services) number 18.7% of the firms surveyed, and users of 9 or more services numbered 7%.

Financial inclusion of firms was highest for banking services (98.7%) and lowest for savings (17.5%). Reported use of credit services among firms was 38.1% and insurance services 43.6%. Use of multiple services was reported by 63.6%.

Individual entrepreneurs typically use 1 - 2 services (42.2%) or 3 - 5 services (39.2%). Active use is the most prevalent among unitary enterprises (44.5%). The majority of producers' cooperatives (56.5%) are basic users. Active use is the most prevalent among limited liability companies (45.8%). Advanced and active users prevail among open joint-stock companies (33.3% and 31.1%, respectively). Use of 3 - 5 services was reported by 40.7 of closed joint stock companies. 38.4% of additional liability companies used 3 - 5 services, and 31.2% were advanced users.

Small businesses were typically using 3 - 5 services, including 41.1% in industry, 35.8% in agriculture, 40.6% in construction, 42.2% in trade and marketing, 49% in public catering, and 42.9% in research and development.

49.6% of small firms with less than one year in business were basic users of financial services, while those with 1 - 3 years in business were typically using 3 - 5 services (42.2%) or 1 - 2 services (38.1%). Small firms aged 4 - 5, 6 - 10, 11 - 15 and over 15 years were mostly active users (40.9%, 43.5%, 45.3% and 41%, respectively).

Small firms with 1 - 9 employees were generally active (42.1%) or basic users (38.7%), and those with 10 - 20 and 21 - 50 employers were typically using 1 - 2 services (45.4% and 39.7%, respectively). Advanced and active uses were the most prevalent among small firms with 51 - 100 employees (32% each).

Active use of services was the most common among small firms with annual sales below 1 billion roubles (44.1%) and 1 - 5 billion roubles (44.1%).

The proportion of active users among small firms was 36.6% in Brest Oblast, 43.7% in Vitebsk Oblast, 42.2% in Minsk Oblast, 46.6% in Mogilev

Oblast, and 43.1% in Minsk City. In Gomel Oblast, most small firms were using 3 - 5 services (42.5%) or 1-2 services (37.6%). In Grodno Oblast, the largest proportion of small firms (42.1%) was using 1 - 2 services.

Basic and active use prevails among small firms serving local markets (41.1% and 39.7%, respectively). Active use is the most prevalent among small firms serving regional (44.8%), national (45.7%) and international (39.6%) markets.

Small firms with owners aged 16 - 25 were typically using 1 - 2 services (46.9%), while those with older owners were mostly using 3 - 5 services. The largest proportion of advanced and extensive users was recorded among small firms with owners aged 36 - 45, 46 - 65, and over 65.

The proportion of active and advanced users among small firms whose owners had secondary basic education appeared very high (33.3% in each category), but this finding is inconclusive, owing to the small number of respondents with basic secondary education (only 6) included in the sample. General secondary, incomplete higher, higher and postgraduate education of the firm owner was associated with the active use of services (active use of services was reported, respectively, by 42.3%, 46.8%, 43.7% and 40.8% of firms with these characteristics. Active use and basic use of services was typical among companies owned by holder of a vocational school diploma (43.5% and 39.6%, respectively. Firms owned by graduates from secondary special education were mostly using 1 - 2 services (43.6%).

Owners with 1 - 2 year in business mostly reported use of 1 -2 services (50.5%). Active use was most commonly reported by owners with 4 - 5 (43.2%), 6 - 10 (40.1%), 11 - 15 (43.9%) and over 15 (43.9%) years in business. Owners with 1 - 3 years in business mostly reported basic (41.1%) or active use of services (40.1%).

Thus, total financial inclusion index for firms was quite high, and approaching 100% (99.2%). Typical attributes of the least financially included firms included: individual entrepreneur, 1 - 9 employees, less than three year in business, supplying the local market. Typical owner characteristics of the least financially included firm are age 16 - 25 or over 65, and vocational education.

The most financially included firms are typically limited liability, closed or open joint-stock companies, operating in industry, public catering, or transport and communications, with over 6 years on the market and 50 - 100 employees, export oriented or serving the national market. The owners of these most included companies tend to have higher education.

This finding is confirmed by the econometric model, indicating that the probability of using financial services is significantly determined by the business type. Larger businesses with the status of an open joint-stock company are 4.44 times more likely to use services than a private entrepreneur. Simultaneously, operation in a sector other than industry decreases the probability of using financial

services, including by 2.17 times for companies operating in construction, and by 1.04 times for firms in the transport and communication sector. Location outside Minsk Oblast also decreases the probability of using financial services. Annual turnover is inversely related to use of financial services, which may reflect the fact that companies with low annual turnover may have a greater need for credit. However, despite the fairly large number of correct predictions, the models have low predictive power, owing to a large number of trivial predictions (of which the majority applies to 'financially included' respondents).

Based on the survey outcomes, the following recommendations can be made:

- **increase coverage of firms who use services at a low level;**
- **Promote more extensive use of a larger number of financial services beyond the current account;**
- **improve the level of financial literacy among small business owners in Belarus;**
- **explore in greater depth the potential reasons for not using specific types of services by respondents;**
- **improve conditions for microfinance to promote financial inclusion;**
- **modify the questionnaire for firms: divide Item 3 ("Industry") into two sub-items - "industries in which your company operates", and "principle industry".**