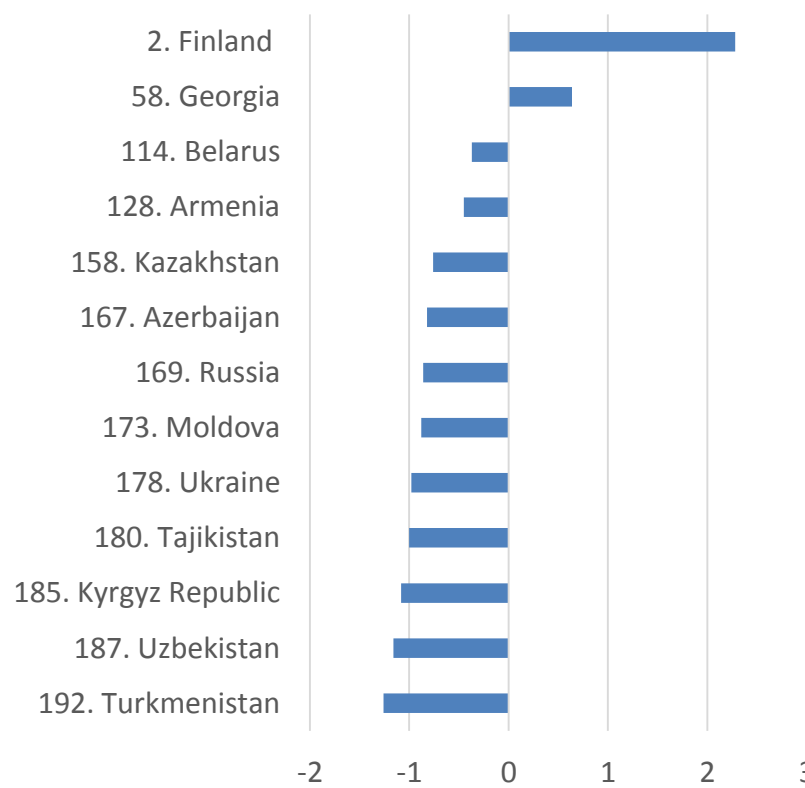# What hinders food business operation?
Firm-level evidence from CIS countries

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IAMO Forum 2017

Introduction

- Institutions matter
- Declining research interest after mid-1990s/ early 2000s
- Food business: still important sector across transition economies
- Political and economic re-orientation of FSU countries

Control of corruption across FSU (2015)

Country	
2. Finland	
58. Georgia	
114. Belarus	
128. Armenia	
158. Kazakhstan	
167. Azerbaijan	
169. Russia	
173. Moldova	
178. Ukraine	
180. Tajikistan	
185. Kyrgyz Republic	
187. Uzbekistan	
192. Turkmenistan	

-2   -1   0   1   2   3

Source: Worldwide Governance Indicators, 2016 Update

Objective and approach

- Objectives
  - Comparative analysis of recent shape of business environment in FSU-countries
  - Expected special characteristics of agribusiness
  - Exploration of differences across sectors

- Approach
  - Focus on corruption as perceived obstacle for operation
  - Focus on food manufacturing compared to other sectors and other firm characteristics

Insights from previous literature

- Major impediments in transition eonomies
  - Tax regulations and/or level of taxes (Brunetti et al., 1997)
  - State capture relevant for Russian and Ukrainian firms (Hellman et al., 2000)
  - High interest rates and lack of long-term loans (Kaufman et al., 2003)
- Trade-off between bribe payments and state intervention (Hellman and Schankerman, 2000)
- Differences in perceptions despite transfer of formal institutions (Krkoska and Robeck, 2008)

Introduction of data used

- Business Environment and Enterprise Performance Survey (BEEPS) of manufacturing enterprises
  - Coverage: 8 FSU-countries
  - Date of surveys: 2012/2013
  - Sample size: 7652 (of it: 504 in food manufacturing)
- Agricistrade Survey of traders in grain, dairy and meat markets
  - Coverage: 6 FSU-countries
  - Date of surveys: 2016
  - Sample size: 60
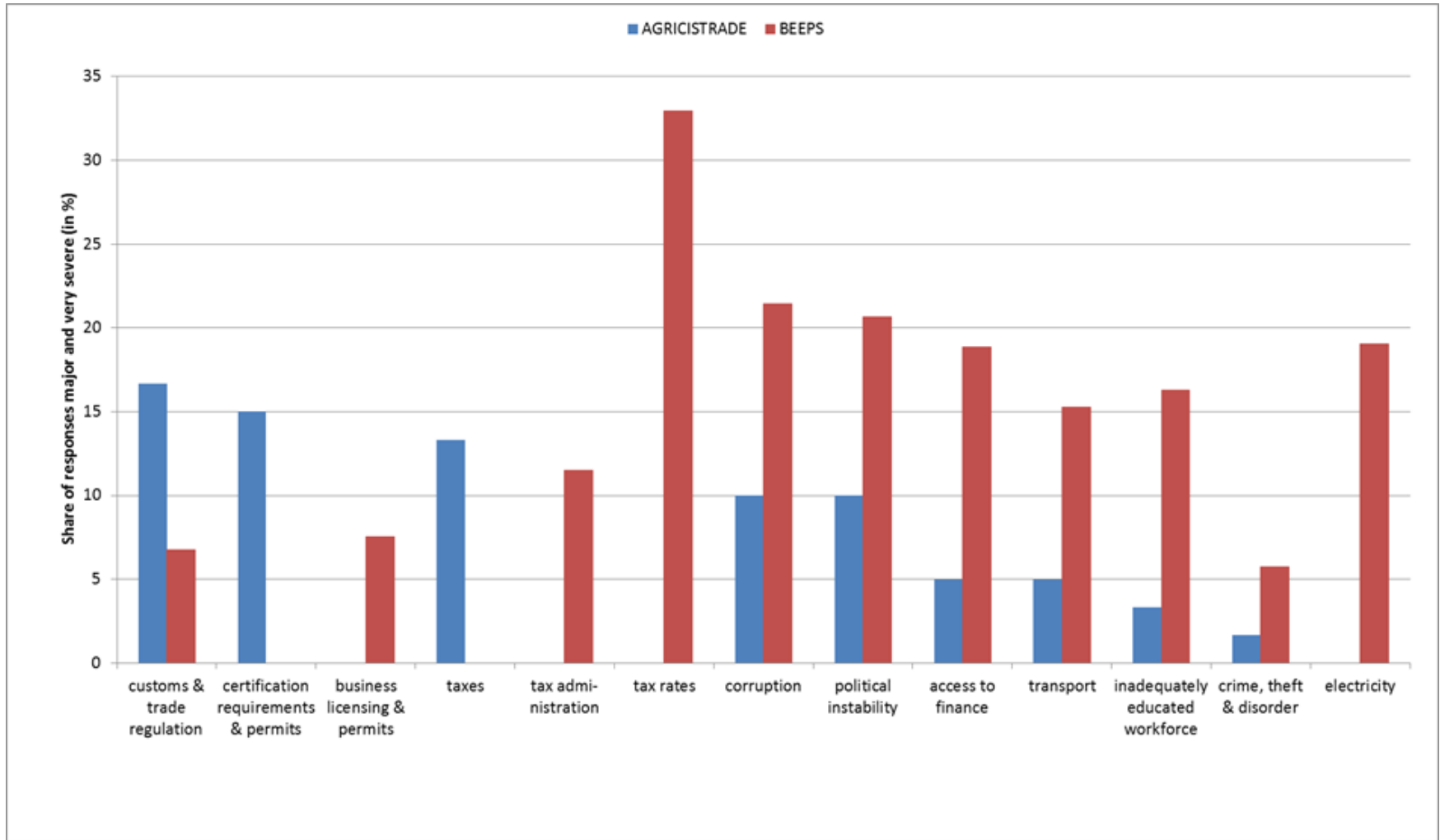- Qualitative insights from grain traders' interviews 2013/14

Comparison of samples
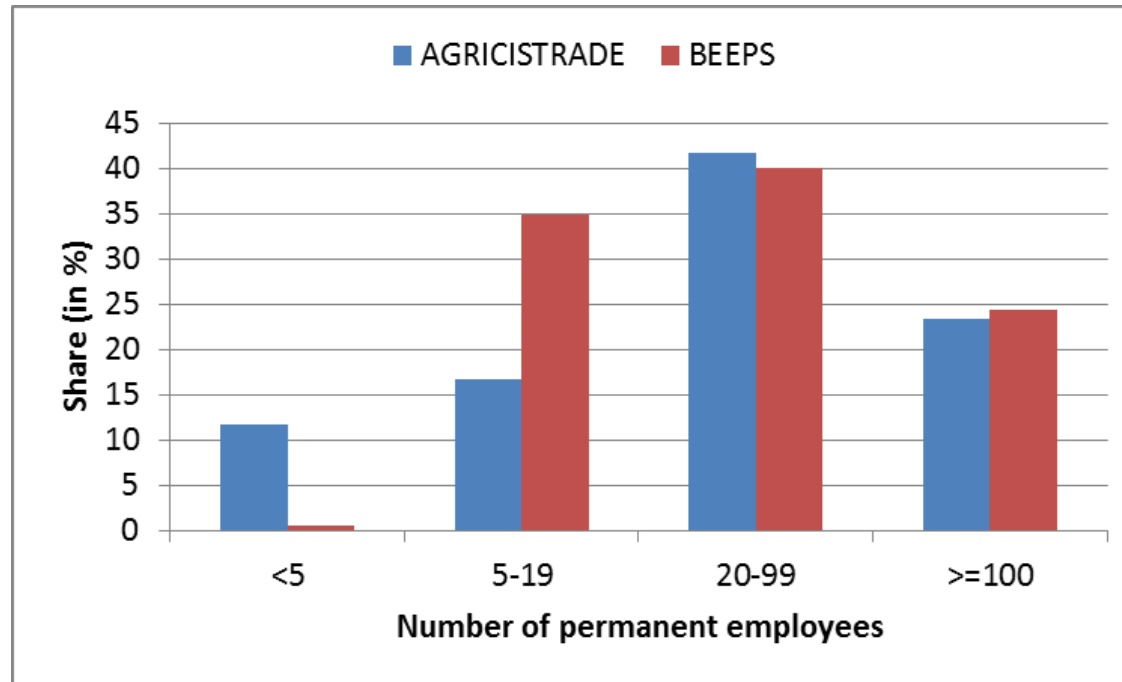
Source: Agricistrade survey (2016), www.enterprisesurveys.org (2016)

- Lack of micro-firms in BEEPS
- Majority below 100 employees

Major and severe obstacles

Source: Agricistrade survey (2016), www.enterprisesurveys.org (2016)

Methodological approach

- Operationalisation of corruption measures
  - *Frequency*: Sum of answers frequent, very frequent & always
  - *Obstacle*: Answers major & very severe obstacle
  - *Biggest obstacle*
- Econometric approach
  - Binary probit model for all three measures
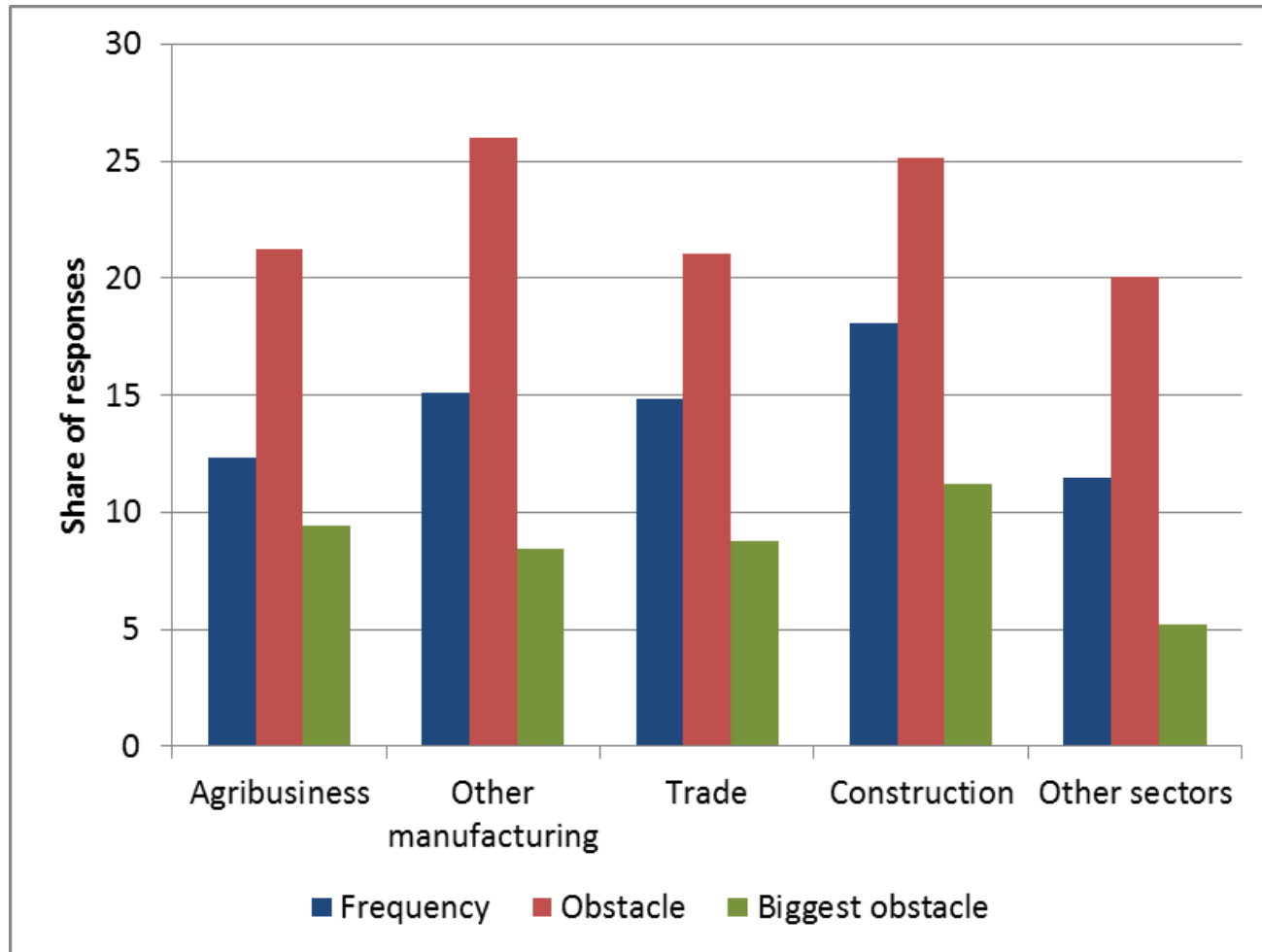 - Ordered probit model for *Obstacle* and *Frequency*

Prevalence of corruption by country
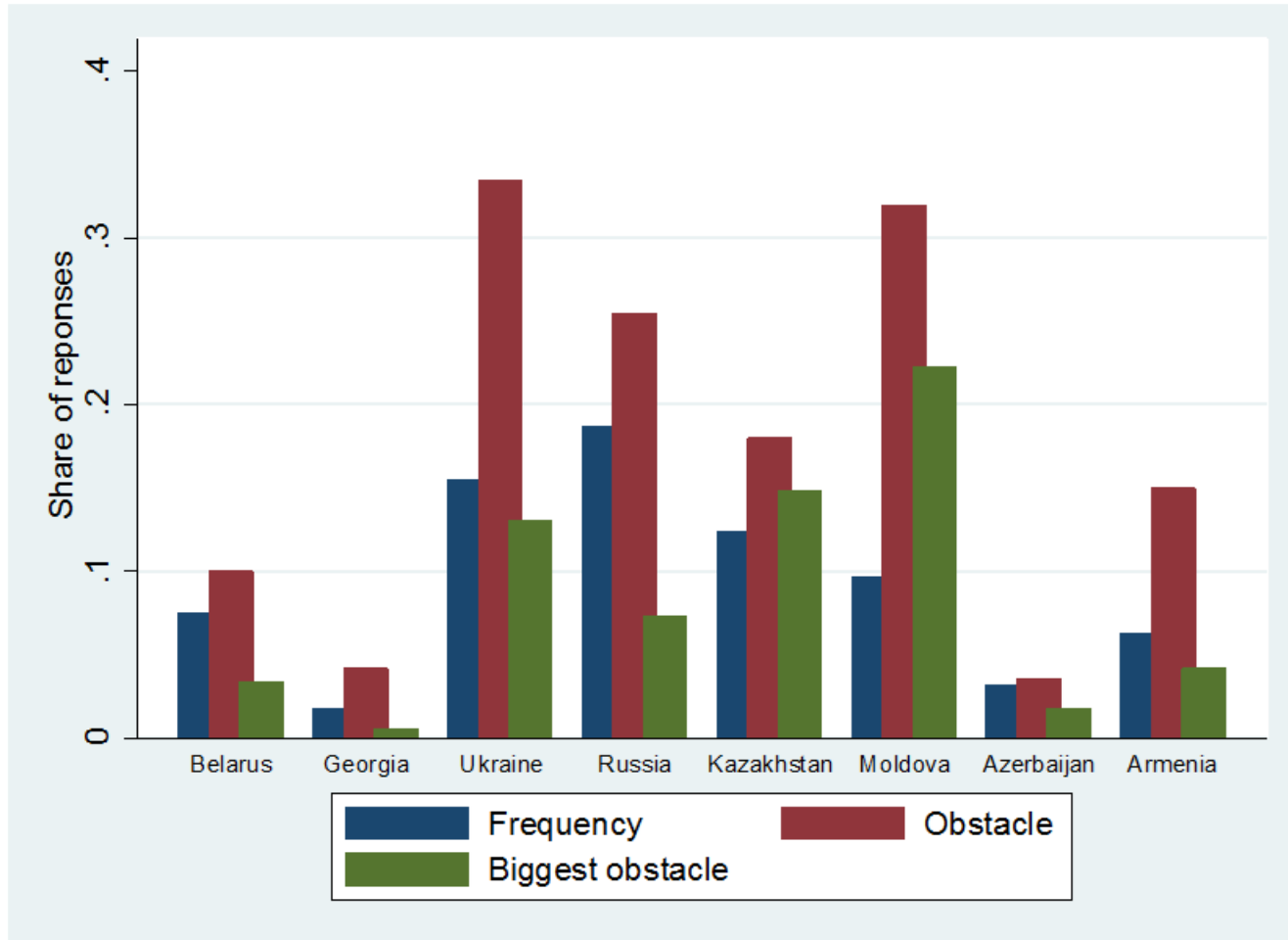
Source: Own presentation based on www.enterprisesurveys.org (2016)

Prevalence of corruption by sector

Source: Own presentation based on www.enterprisesurveys.org (2016)

Determinants of perceived corruption (Probit model)

Variable	Obstacle	Frequency	Biggest Obstacle	Obstacle	Frequency	Biggest Obstacle
Agribusiness	0.09 (0.08)	0.11 (0.10)	0.30*** (0.11)	0.06 (0.09)	0.22** (0.11)	0.15 (0.12)
Other manufacturing	0.21*** (0.05)	0.18*** (0.07)	0.25*** (0.08)	0.11* (0.06)	0.14** (0.07)	0.14* (0.08)
Trade	0.05 (0.05)	0.18*** (0.06)	0.28*** (0.08)	0.02 (0.06)	0.18*** (0.07)	0.23*** (0.08)
Construction	0.19** (0.07)	0.32*** (0.08)	0.40*** (0.10)	0.16** (0.08)	0.31*** (0.09)	0.34*** (0.10)
N	6487	6258	6803	6487	6258	6803
Country fixed effects	No	No	No	Yes	Yes	Yes

Additional controls: Firm size, start-up, privatised
Reference sector: Other sectors

Determinants of perceived corruption (Ordered probit model)

Variable	Obstacle	Frequency	Obstacle	Frequency
Agribusiness	0.18** (0.07)	0.23*** (0.07)	0.09 (0.08)	0.17** (0.07)
Other manufacturing	0.29*** (0.05)	0.20*** (0.05)	0.12*** (0.05)	0.08 (0.05)
Trade	0.10** (0.05)	0.12*** (0.05)	0.06 (0.05)	0.11** (0.05)
Construction	0.28*** (0.06)	0.23*** (0.06)	0.25*** (0.06)	0.23*** (0.06)
N	6487	6258	6487	6258
Country fixed effects	No	No	Yes	Yes

Additional controls: Firm size, start-up, privatised
Reference sector: Other sectors

Discussion

- Inconclusive coverage of agribusiness

- Reliability of perception-based measures in general

- Synchronisation of researcher's intention and respondent's understanding

- Discrepancy between cross-country rankings and firm-level reporting (e.g. Azerbaijan, Belarus, Uzbekistan)

Conclusions

- Limited inter-sectoral differences in corruption (except construction)

- Cross-country differences larger (especially Georgia and Azerbaijan)

- Need for method triangulation – case study research for more concrete policy recommendations

Questions and comments welcome