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Improving the integration of financial and non-financial SME support in Belarus

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Executive Summary

The state support for small and medium-sized enterprises (SME) in Belarus is currently composed by a catalogue of solitary programmes that work isolated from each other. As a result of such an approach, the SME support offer suffers from three major problems:

- The supply of promotional investment loan programmes exceeds the demand for it, whilst the demand for non-financial support is pretty much ignored.
- Many of the SME support programmes are underused
- There are only few synergies between the programmes.
- The support offer does not suit to SMEs' needs in the different process stages.

In order to overcome those problems and increase the efficiency of state SME support, we recommend a list of measures that are easy to implement at almost no additional costs as follows:

1. Re-structure the Belarussian SME support schemes in order to achieve a well-balanced composition of financial and non-financial support measures.
2. Expand the range and the reach of the communication about the SME state support offer.
3. Assist potential beneficiaries in choosing the appropriate programme.
4. Reduce formal barriers to the access to state support and reduce administrative costs of support programmes.
5. Tailor support programmes to SMEs' needs.
6. Integrate all SME state support programmes by reducing redundancies.
7. Integrate all SME state support programmes by standardizing administrative requirements and procedures.
8. Integrate SME support measures with other instruments of economic policy.
9. Integrate financial and non-financial support measures.
10. Use a pyramid or funnel approach with respect to access to state support.

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1 Introduction

The Belarussian national government is currently in the process of reviewing and restructuring its policy towards small and medium-sized enterprises (SME). Of special interest for the Ministry of Economy of Belarus are financial and non-financial support programmes for SMEs.

This paper is a sequel in a series concerning SME policy issues, such as the SME policy strategy¹, SME finance², SME support³, SME policy institutional organization⁴, and SME policy impact measurement⁵.

As a complement to the series of policy recommendations, the current paper concentrates on financial and non-financial SME support programmes with a special focus on the integration of different programmes.

The paper is organized as follows. Chapter 2 provides a brief, structured overview of the SME support programmes that have been working in Belarus up to now. Chapter 3 highlights some of the major problems of the current SME support offer. Chapter 4 provides some practical recommendations to tackle the problems identified in chapter 3. The recommendations are easy to implement and do not require any significant additional budget.

2 Overview of SME support programmes in Belarus

The state support measures in Belarus can be divided into two broad categories: financial support measures and non-financial support measures.

Financial support measures

The “Law on State Support of Small and Medium-sized entrepreneurship” of 1 July 2010 (N 148-3) and the Edict of the President of the Republic of Belarus № 255 “On Some Measures of State Support to Small Entrepreneurship” on 21 May 2009 create a legal basis for providing state financial support to the SME sector. It is envisaged that small entrepreneurship entities are able to receive such support within the framework of the “State Programmes of State Support to Small Entrepreneurship” via the following main channels:

- The Belarussian Fund of Financial Support to Entrepreneurs;
- The regional (oblast) executive committees and the Minsk City Executive Committee;
- The banks’ preferential credits, including micro-credits at the expense of financial resources of local budgets, stipulated in state programmes of support to small entrepreneurship and placed into deposits of these banks.

In August 2014, the Development Bank launched a new programme of financial support for small and medium-sized enterprises. Its main objective is to ensure and improve access to loans of SMEs operating in the manufacturing and the service sectors, as well as to conduct operations of financial leasing for investment projects in various stages of development of their business.

¹ Policy Paper Series [PP/03/2012]: SME Development Framework - German and International Experience and Implications for Belarus.

² Policy Paper Series [PP/01/2013]: Improving Access to SME Finance in Belarus: Analysis and Recommendations.

³ Policy Briefing Series [PB/01/2014]: SME Support System in Germany: Overview and Relevance for Belarus.

⁴ Policy Paper Series [PP/01/2014]: SME support organization in Belarus: Blueprint for a Restart.

⁵ Policy Paper Series [PP/04/2014]: Empirical Factors of SME Development in Belarus: Analysis and Recommendations; Policy Briefing Series [PB/02/2014]: SME Sector Monitoring: Conceptual Recommendations for Belarus.

Belarusian Fund of Financial Support to Entrepreneurs

State financial support is provided by the Fund to small entrepreneurship entities for implementing investment projects or business projects in order to purchase equipment, special devices and appliances, to support procurement of components and raw materials for their own production, to construct or purchase capital constructions (buildings, structures), isolated premises and/or to conduct their respective repairing and reconstruction. To obtain financing from the Fund, investments or business projects should be implemented in the following areas: the creation, development and expansion of the production of goods and services; the organization and development of the production of export-oriented or import-substitution goods; the production of goods oriented at the efficient use of resources and energy and at the adoption of new technologies.

The Fund support is provided on a competitive basis in order to make the procedure for selecting investment projects open and transparent. The interest rate is set in a way that it does not exceed the refinancing rate of the National Bank.⁶ The loans are granted for a period up to 5 years, property on lease is provided for a period up to 5 years.

In 2010-2014, the Fund supported the implementation of 217 investment projects of small businesses for the total amount of BYR 32.8 bn⁷ (the average size of a project was BYR 167.5 m).

Table 1: Activity of the Fund in 2011-2015

	2011	2012	2013	2014	2015*
Number of financed projects	43	37	41	47	65-70
Financial support provided by Fund, BYR bn	3.2	6.5	8.7	12	30-37
Average project size, BYR m	64.7	175.4	212.8	270	500

**expected*

Source: Belarusian Fund of Financial Support of Entrepreneurs

Development Bank

The programme of the Development Bank has two tiers:

- on the first level, the Bank provides financial resources to partner banks (11 commercial banks) and the leasing company (JSC "Promagroleasing"), selected according to established criteria;
- on the second level, according to the criteria agreed with the Development Bank, the partner banks and the leasing company are selecting eligible SMEs for lending; then proposed projects will be assessed and decisions concerning provision of loans at a specified interest rate limit will be made.

Financial support is provided to SMEs, individual entrepreneurs, and micro organizations operating in the manufacturing and the service sectors for the introduction of new technologies, expansion of export potential, production of import-substituting goods, improvement and expansion of material and technical base, acquisition, reconstruction, modernization, construction, and capital repairs of fixed assets. The interest rate is set at the amount of the refinancing rate of the National Bank plus 4.5 percentage points (for the loans

⁶ When an investment project has a high social and economic importance, the amount of the interest rate can be set below the refinancing rate of the National Bank, but not less than half of that rate.

⁷ 60-70% of submitted applications were approved.

in USD this mark-up is determined by the partner bank).⁸ The loans are granted to partner banks for a period up to 5 years; while for SMEs, individual entrepreneurs, and micro organizations there is no any limitation period in relation to loan agreement. The share of own funds of an end-use borrower in the financing of a credited project should be 10% (20% for start-ups).

As of 1 January 2016, 442 investment projects have been financed under the Development Bank programme. Loan agreements were signed for the amount of BYR 588.75 bn. For 47% of borrowers the size of loan does not exceed BYR 500 m, 22% obtained loan at the amount of BYR 500 -1000 m, and 17% - BYR 1-2 bn.

Local budgets

Upon decisions of regional executive committees or the Minsk City Executive Committee, state financial support may be granted by city, district executive committees and/or local administrations and also by institutions for financial support to entrepreneurs created in these regions (city of Minsk).

Table 2: Planned financing of State Programmes of Support to Small Entrepreneurship (BYR m)

Sources of financial support	2013	2014	2015
Republican budget	3,500.1	4,200.1	5,040.1
Working capital of Belarusian Fund of Financial Support to Entrepreneurs	5,176.0	8,176.0	11,176.0
Regional budgets	104,650.5	144,341.6	153,290.8

Source: State Programmes of State Support to Small and Medium-Sized Entrepreneurship 2013-2015

The financing that was planned to be allocated through the local budgets amounted to 90% of the total state funds that were directed to the development of SMEs. However, these funds were persistently under-expended as they were unclaimed. According to the Ministry of Economy in 2013, the actual utilization of funds provided through the budgets of regions (oblast) and Minsk city to support SMEs was on average 54.2% while in 2014 it even decreased to 49.4%.⁹ This can be explained by the fact that the current procedure for obtaining financial support from the regional budgets is complex and time consuming. The average time between the moment of applying for support to its provision has been 4 - 6 months. This fact, as well as the low level of the maximum amount of financing, which is not corresponding with the requirements imposed on funded projects (scale, the presence of the multiplier effect, the introduction of new technologies, import substitution, and others), resulted in little interest of SMEs in such programmes.¹⁰

Belarusian Innovation Fund

One of the sources of SME finance is venture capital, which is especially important for setting up new innovative businesses. However, legislation related to venture capital is undeveloped in Belarus. The relevant legislation on venture capital financing was passed in January 2007 when the Edict of the President of the Republic of Belarus № 1 "On approval of the Regulation on the Creation of Innovative Infrastructure Entities" was adopted. This Edict opened up the possibility of establishing venture capital organizations. However, the system of venture capital financing was not put into place. Therefore, in May 2010 the Presidential Edict № 252

⁸ For start-ups the interest rate is half of the refinancing rate of the National Bank plus 4.5 percentage points, but it is not less than half of that rate.

⁹ <http://ced.by/ru/publication/~shownews/sost-razv-predrin-v-1-kv-2015>

¹⁰ <http://ced.by/ru/publication/~shownews/sost-razv-predrin-v-1-kv-2015>

authorized the Belarusian Innovation Fund (Belinfond - BIF) to step in, who funds innovative projects on a repayment basis.

Only state customers of the venture projects can apply to the Fund; in other words, SMEs that want to obtain support from BIF should find a state organisation that expresses interest in the particular innovation or venture project. In addition, the profitability of the venture project shall be not less than 40% in the period of its implementation (for some projects, this figure could be reduced by decision of the expert council); the volume of investment in the venture project shall not exceed BYR 5 bn. The Belarusian Innovation Fund and some technology parks in Belarus also provide direct financing for scientific research and innovative projects. But funds are usually provided for state owned enterprises.

Reimbursement of exhibitions and fair costs

The Edict of the President of the Republic of Belarus on 17 March 2014 №126 introduced amendments into the Edict of the President of the Republic of Belarus on 21 May 2009 № 255 "On Some Measures of State Support to Small Entrepreneurship", which now permits a reimbursement of the 50% actually incurred costs of SMEs participation in exhibitions and fairs (payment of rent of exhibition space and equipment, publication of printed materials about the participants of exhibitions and fairs, production and placement (distribution) of advertisement about organised exhibitions and fairs in the media).

SMEs should apply to oblast Executive Committee and Minsk City Executive Committee in order to obtain state financial support in the form of reimbursement of the costs from the participation in exhibitions and fairs. If the applicant incurred costs in a foreign currency, compensation of a part of these costs is made in Belarusian rubles, exchanged at the official rate of the National Bank on the date the decision to grant this type of state financial support was made.

Non-financial support measures

SME support infrastructure

The legal framework for the activity of the SME support infrastructure is created by the Law of the Republic of Belarus on 1 July 2010 "Support for Small and Medium-Sized Enterprises", Edict of the President on 21 May 2009 № 255 "On Some Measures of State Support of Small Entrepreneurship" and on 29 March 2012 № 150 "On Some Issues of Lease and Gratuitous Use of Property," as well as the Decree of the Council of Ministers on 30 December 2010 № 1911 "On Measures to Implement the Law of the Republic of Belarus" On Support of Small and Medium-Sized Enterprises".

According to Article 4 of the Law, business support centres and small business incubators are considered as SME support infrastructure. Their main purpose is to facilitate the organisation and the implementation of SMEs' business activity. In particular, the main objectives of business support centres are to provide assistance in obtaining financial, material and technical resources, information, methodical and advisory services, training, retraining and attracting qualified personnel, market research, and other assistance in entrepreneurial activity. Businesses incubators should support SMEs by providing them with premises and equipment, information and consulting services, assisting them in finding partners and obtaining financial resources, as well as by conducting other activities not prohibited by law. As of 1 January 2015, there were 95 business support centres and 16 incubators registered in Belarus, of which 34.2% operated in rural areas.

In 2014, SME infrastructure support entities received financial support at the amount of BYR 6.2 bn. Over that year, the business support centres conducted 3,045 courses and seminars that were attended by 44,062 people. In addition, 127,748 people applied to the centres on various issues of organization and implementation of business (including first-time and existing entrepreneurs – 68,268 people; the unemployed – 4,140 people; other interested in starting

their own business – 55,340 people). In 2014, incubators provided 29,394.2 square meters of space for rent to SMEs, the number of their tenants accounted for 495, and the number of new created jobs through the assistance of incubators amounted to 49. Also, the number of people employed by incubators was 128.

Promoting entrepreneurial activity in the medium towns, small towns, and rural areas

On 7 May 2012 the Decree of the President of the Republic of Belarus №6 «On Stimulating Entrepreneurial Activity in the Medium and Small Towns, Rural Areas " was adopted in order to attract foreign investment in the medium and small urban settlements and rural areas as well as to ensure the full development of Belarus' economy.

The Decree stipulates that the commercial entities of the Republic of Belarus and individual entrepreneurs registered in the territory of medium towns, small towns and rural areas which are involved in the production of goods or provision of services, within seven calendar years from the date of their state registration, are exempted from the payment of the following:

- the profit tax (commercial organizations) and the income tax (individual entrepreneurs), respectively, in respect of the profits and proceeds derived from the sale of goods (works, services) of own production; the real estate tax on the value of the buildings (structures), parking spaces, located in the middle, small towns, rural areas; the contributions to innovation funds;
- the state fee for the issuance of a special permit (license) to carry out certain activities, the introduction of changes into special permit (license) and (or) additions to the extension of its actions.

In addition, they are exempt from the surrender of export proceeds received from sale of goods (works, services)¹¹ of own production to non-resident legal entities and non-resident individuals. Commercial organizations located in the territory of medium and small cities and rural areas also have the right of exemption from import customs duties and VAT on certain goods imported into the territory of the Republic of Belarus as a contribution to statutory funds of commercial organizations.

However, in order to obtain the above mentioned tax benefits, commercial organization should keep separate accounting of the proceeds from the sale of goods (works, services) of own production, which is subject to benefits, and the costs in the production and sale of these goods (works, services); this also includes the provision of the latter to the tax authority in order to receive a certificate of works and services of own production. Therefore, SMEs do not consider such benefits as quite attractive as the receiving of such certificates and other similar procedures are very time consuming and require investments.

3 Problems of the system of SME support programmes in Belarus

3.1 One-sided approach

The already small number of support programmes for small and medium-sized enterprises (SMEs) in Belarus is almost solely limited to the financial support of SMEs through promotional loans. Apart from very few exceptions, there is no access to grant programmes for private SMEs.

The non-financial SME state support remains quasi non-existent.

¹¹ Including the lease of property.

By international standards, this policy therefore presents a fairly one-sided support approach. The newly introduced government programme for the SME support for 2016-2020 does not contain any significant changes to the current support structures. The government programme contains a lists of non-financial support measurements, yet there is almost no state budget assigned to the non-financial components. For 2016 the state budget considered to spend only EUR 0.44 m on all 111 incubators and SME support centres. This amount of funding equivalently translates into ca. EUR 4,000 per centre per year. Thus, this amount is insufficient to be classified as state funding of non-financial SME support and therefore, cannot be considered as serious (non-financial) SME support. Incubators and support centres are actually expected to generate surpluses in Belarus. However, this is a contradiction to the idea of SME promotion per se.

3.2 Small reach and underutilization

Many of the SME support programmes are underutilized, which means that the programmes have more resources left than were actually demanded by specific SMEs. In other words, there is a shortage of demand for SME support programmes. In general, there are four distinct reasons that explain why SMEs do not use support programmes:

- SMEs do not know about the support offer and therefore, do not apply for receiving funds or taking part in a programme, respectively;
- SMEs know about the support offer but do not understand how it could help them, which means how it creates value for them;
- SMEs know about the support offer and understand it, but though it meets their needs, the high cost for the application and the bureaucratic procedures offset the potential benefit;
- SMEs know about the support offer and understand it, but the support offer does not meet their needs.

In Belarus, there is a combination of all four reasons. The SME support programmes are widely unknown among the SMEs (a)¹² and their support mechanisms and prerequisites are difficult to understand (b)¹³. Further, the individual budgets for specific measurements are very small in relation to the administrative burden (c). Above all, some support programmes do not match the needs and problems of SMEs in Belarus (d)¹⁴.

3.3 Low integration of programmes

The SME support programmes are not integrated. In other words, it is unclear, how they can be combined. In most cases, companies need a combination of support measures, such as training, consulting and financial support. As we mentioned already, prerequisites and mechanisms of the programmes are difficult to understand. Moreover, prerequisites and mechanisms of the programmes differ very much from each other. This increases transaction costs for potential beneficiaries even further. The situation becomes even more confusing since there are overlaps between the programmes with respect to target groups, types of support etc. As a result, there are only few synergies between the programmes. There is even the danger of cannibalizing effects; in other words, a danger of unintended inefficient competition

¹² According to a recent survey, about 30.0% of all small companies are not aware of SME support programmes at all. *IPM Research Center: Business in Belarus 2015: Status, Trends, Perspectives. 2015.*

<http://eng.research.by/webroot/delivery/files/english/business/Business2015e.pdf>.

¹³ According to a recent survey, about 13% of all small companies reported weak information support of support programmes, and 6.3% of the respondents are discouraged by their complexity. *Ibid.*

¹⁴ As an example, according to a recent survey, about 47% of all small companies stated that there is no need in investment support programmes or that there are more attractive sources of external financing than the specialized programmes to support business. *Ibid.*

between the programmes. A clear division of tasks would reduce the complexity of the state support project matrix and would use potential synergies.

3.4 Not process-oriented

The current state SME support is problem-centred, but not process-oriented. The SME support programmes form a catalogue of singular measurements. In case, a SME receives a couple of support measurements, e.g. financial and non-financial support, each programme's management would work with that SME separately. Because each programme works isolated, they ignore that their beneficiary is the same SME but in different stages of their company life cycle. SME policy in Belarus is currently cross sectional. However, SME policy should be longitudinal: you do not want to support the "average SME", you want to support the development of SME. To provide a metaphor: in the school education system, you have a curriculum for pupils from first class to tenth class instead of having many different schools for different ages and different subjects.

4 Recommendations

4.1 Balance financial and non-financial state SME support

Recommendation 1: Re-structure the Belarussian SME support schemes in order to achieve a well-balanced composition of financial and non-financial support measures.

The SMEs' access to investment loan facilities can be considered quite satisfactory. Currently, the SME lending facilities of the Development Bank and the EBRD appear to fully cover the SMEs' demand for financial state support.

On the other hand, the loan programmes of the Oblast administrations and of the BFFSE are underutilized. This is due not only to inefficiencies of the programmes themselves, but also due to a lack of demand. According to several experts and market indicators, there is no indication for a credit crunch in Belarus, neither has been in the recent years. Not the access to investment credit is the major problem, but the lack of investment opportunities for SME in Belarus. The latter results from macroeconomic instability and unfavourable framework condition. The lack of non-financial SME support contributes to the negative perception of the SME development framework.

It is therefore recommended to gradually transform the (not fully utilised) funds of the Oblast administrations and the government, both financed from the state budget, into non-financial SME support measures. In this manner, it would be possible to achieve a well-balanced composition of support and funding measures in line with international best practice.

However, it should certainly be positively acknowledged that the new governmental SME programme already takes into account non-financial support measures, although without sufficient funding. The following recommendations address the current situation as well as the desirable future situation when the non-financial support measurements are funded and implemented. In other words, our recommendations aim at contributing to successfully co-ordinate existing and planned support programmes.

4.2 Overcome underutilization

Recommendation 2: Expand the range and the reach of the communication about the SME state support offer.

This recommendation addresses the problem that many SMEs do not know about the support offer and therefore, do not apply for receiving funds or taking part in a programme.

Therefore, the solution to that problem is to communicate the SME support offer more clearly and widely. With respect to maximizing the efficiency of communication measures, it would be recommendable to use established communication channels for spreading the information

about SME state support programmes. For that reason, it would be wise to cooperate with existing communities, associations, newsletters, blogs etc.

When cooperating with existing communities, it is important to keep in mind that communities work not only as a booster for one-way information but also as a booster for feedback. This means that positive experience of a particular SME with any of the state support programmes spreads easily, but bad experience spreads easy, too.

A typical, but avoidable pitfall of state support marketing is the attempt to create new information channels or formats such as road-shows, information events, flyers etc. One would reach only a fraction of the target group, and it is almost impossible to control the selection and perception of the audience with such artificial information channels.

Another typical, but avoidable pitfall is to carry out a "marketing" in a sense of making things up. Shiny brochures and colourful flyers do not impress professional SME managers.

The best marketing tool is the mouth-to-mouth communication from a beneficiary to a potential beneficiary. Satisfied beneficiaries will help to promote the SME state support offer at no additional costs. And in doing so within existing communities, the effect of that marketing tool will potentiate.

Recommendation 3: Assist potential beneficiaries with choosing the appropriate programme.

This recommendation addresses the problem, that many SMEs know about the support offer but do not understand how it could help them, meaning how it creates value for them.

A *Scouting Service* is a best practice tool in international SME policy programmes. *Programme Scouts* are state employed people who offer advice and help to the SMEs in understanding the state support offer, in selecting a state support programme and in applying for it. The scouting service is free of charge and scouts should be independent in order to avoid conflicts of interest.

Recommendation 4: Reduce formal barriers to the access to state support and reduce administrative costs of support programmes.

This recommendation addresses the problem, that there are some SMEs who know about the support offer and understand it, but the high costs for the application and the bureaucratic procedures offset their potential benefit.

The solution to that problem is the simplification of prerequisites, of eligibility criteria, of administrative procedures, of application processes, of selection processes and of reporting requirements.

Of course, there is a limit with respect to simplification. A certain amount of documentation is necessary to prevent the misuse of state support measures.

However, in order to prevent the misuse of state support measures, it is recommendable to focus on offering support measurements that are not prone to misuse. Training and consulting services, for instance, are less prone to misuse than direct subsidies.

Recommendation 5: Tailor support programmes to SMEs' needs.

This recommendation addresses the problem, that some SME know about the support offer and understand it, but the support offer does not meet their needs.

Solving this problem is the most difficult part. It requires a thorough understanding of the SME sector, its problems, its challenges and its chances. Achieving such understanding requires sophisticated empirical research. Simply interviewing SME managers does not lead to an understanding, because a SME manager is not necessarily an expert in business and economics. To provide a metaphor: A patient is usually not able to diagnose his/her own illness; he/she needs a medical doctor to give a precise diagnosis.

Furthermore, there is a difference between the sum of the individual needs and the social needs. The aim of the SME policy is to enhance and to influence the SME sector development in total. That does not mean to help every SME individually. Policy makers must balance social costs and social benefits of state support. Therefore, tailoring state support programmes must not just rely solely on individual opinions but also on robust statistical data.

We have sketched out in a previous publication, how such a SME sector monitoring could be established in Belarus.¹⁵

4.3 Increase efficiency by better integration of support programmes

Recommendation 6: Integrate all SME state support programmes by reducing redundancies.

In order to maximize the efficiency of state programmes, one would organize the range of support programmes in a way that they are fully integrated. Primarily, full integration means that there are no overlaps with respect to any of the following variables: target group, type of support measure, prerequisites, and regional level. For each type of SME, there would be only one single matching training programme, one single matching financial support measure etc.

However, it could make sense to stimulate some competition between support programmes. When a couple of support programmes address the same target group with the same type of support, the programmes must innovate in order to differentiate from another. As a result, a bottom-up innovation process of SME support could be stimulated. In that way, the state would sacrifice some efficiency in the short run but most likely gain efficiency in the long run as support programmes become more and efficient. Prerequisites for such an innovation race are a culture of friendly competition of support agencies as well as an increase in institutional capability. For an example from the German experience, see Box 1.

Box 1: Competition and innovation in academic start-up support programmes in Germany

The German Federal Ministry of Economy and Energy has been supporting academic start-ups for the last 18 years. The yearly budget has increased over that time and has now reached EUR 80 m in 2016. Academic start-up support programmes have been on a very competitive basis. The Ministry starts a tender with a rough orientation of the budget per programme. There are not many requirements with regards to the design of the support programmes. Universities and colleges apply for funds by suggesting specific programmes. Since each application looks different, the ministry gets an overview of all ideas and the state-of-the-art tools for supporting academic start-ups. The ministry selects programmes and agents by assessing and comparing the proposals. After a period of 3 years, all programmes end and are evaluated. The results of the evaluation are spread and taken into account for the next tender round. In that way, there is transparent information about the efficiency and effectiveness of support programmes and a continuous innovation and improvement process. The support programmes get better every three years. It is a win-win-win situation: a win for the agents (in this case, the universities and colleges), a win for the beneficiaries (because the support offer improves continuously) and a win for the ministry (because the efficiency of state support increase continuously).

Recommendation 7: Integrate all SME state support programmes by standardizing administrative requirements and procedures.

Secondly, full integration means that prerequisites and mechanisms of all programmes are consistent. That means that the criteria for eligibility, the application processes, the

¹⁵ Policy Briefing Series [PB/02/2014]: SME Sector Monitoring: Conceptual Recommendations for Belarus.

administrative procedures, the selection criteria and the reporting requirements and programme controlling instruments are alike for all programmes. This reduces transaction costs for beneficiaries tremendously and increases the policy efficiency for each programme. For an example from German experience, see Box 2.

Box 2: The German programme ZIM as example for the integration of programme mechanisms

ZIM is the abbreviation for *Zentrales Innovationsprogramm Mittelstand*, which can be translated as *Central Innovation Programme for SMEs*. This programme consists of different support measures. The main component is a financial subsidy for innovation projects of SME. Other components are a loan programme for SME and non-financial support, namely consulting service. The German government spends half a billion Euro per year with ZIM. The application documents and the administrative procedures for all components are fully integrated. As a result, a company needs to fill in the application documents only once. When a company has applied for the subsidy programme and has been accepted, it is eligible for consulting services from that programme as well. The company needs to apply separately for receiving non-financial support, but it does not have to complete all documents again because the programme agency uses the documents which the company has already completed. The same goes for the reporting, controlling etc. As a consequence, the administrative costs are very low for both the SME and the programme agency. Low cost means increased efficiency, and as a matter of fact, the ZIM is one of the most efficient programmes in comparison to international benchmarks.

Recommendation 8: Integrate SME support measures with other instruments of economic policy.

State SME support should not be seen as an isolated field of economic policy action. SMEs form at least one third of the Belarusian economy. The overall budget of all state support programmes dedicated to SMEs is approximately EUR 6 m per year. The budget of the Ministry of Industry of Belarus for industrial policy support is almost 10 times as high. This is counter intuitive: why should one third of the economy receive only 10 percent of state support?

As a matter of fact, there are quite a few state support programmes that do not target SMEs specifically but are available for certain types of SMEs. To provide an example: The *High Tech Park* in Minsk aims at supporting highly innovative companies in the ICT industry. As a matter of fact, many of the companies in the ICT industry have a small or a medium size.

In order to improve the efficiency of economic policy, the SME support of the Ministry of Economy and of the Development Bank of the Republic of Belarus should be integrated with all other economic support programmes. SME policy is a joint task of all line ministries. SME support is most strongly linked with industrial policy, export promotion, high-tech industry development and FDI promotion.

4.4 Increase efficiency by using a process-oriented approach

Recommendation 9: Integrate financial and non-financial support measures.

If one is applying a process-oriented approach, it becomes evident that SMEs need different types of support in different stages of their company life cycle.

Table 3: Process-oriented SME support

<i>Stage of life cycle</i>	<i>Support need</i>
Nascent Entrepreneurs, Pre-founding phase	Training
Founding Phase	Consulting
Growth	Access to loan finance
Innovation	Subsidy
Business Development	Access to information and networks

It should be clear, that the state cannot support all SMEs individually. It is unaffordable and it makes no sense either. As a consequence, the state must specifically select SMEs.

Ignoring the process-oriented approach would result in a selection process for each support programme which is for each support type.

Considering the process-oriented approach, it would be recommendable to select some SMEs which receive all types of support, depending on their stage of development. This is to say, an SME either gets all the support or nothing. This may sound unfair at first sight. However, as a matter of fact the state must base its selection process not only on the individual needs of the individual SME but also on the potential benefit for the entire economy. Put differently, it is a question of both the eligibility and the worthiness. The international best practice with respect to selection criteria is to choose those companies that are likely to contribute to a positive development of the country's economy. According to the state-of-the-art of scientific research, it is the innovative and growth-oriented companies that contribute most to the competitiveness of an economy and to job creation. Therefore, the most efficient support policy is to pick the most promising companies and help them in all stages.

With respect to the situation in Belarus, this would mean a SME gets either both financial and non-financial support, or none of them. Why should one provide finance to a beneficiary and deny non-financial support in return? When a beneficiary is worth of receiving finance, the same beneficiary should be worth of receiving non-financial support. Further, this means that the Development Bank of the Republic of Belarus, which currently provides some financial support instruments for SMEs, and the other agents of the support infrastructure would need to work closely together. Last but not least, only one selection process is needed in order to select beneficiaries from the applicants.

A division of tasks could be as follows: The Development Bank is responsible for the selection process and provides financial support, the agency¹⁶ under the Ministry of Economy accepts the beneficiaries chosen by the Development Bank and provides them with non-financial support.

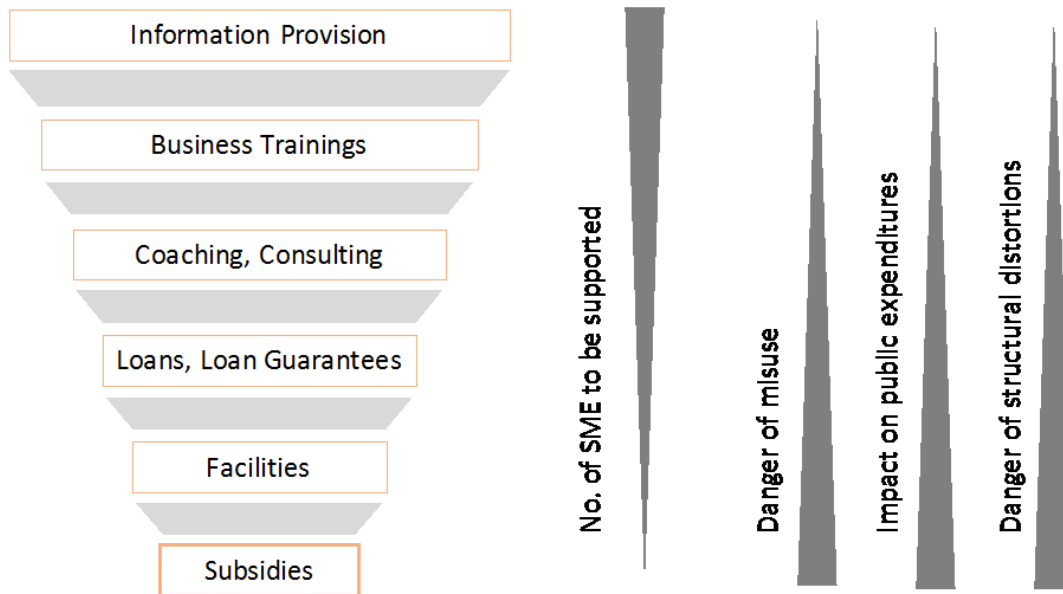
Recommendation 10: Use a pyramid or funnel approach with respect to access to state support.

The aim of SME policy is not only to promote individual companies but also to promote a spirit and a culture of entrepreneurship in the society. The above sketched approach, that focusses very strictly on policy efficiency, might harm the objective of creating a positive entrepreneurial climate, especially in the case that people regard it as unfair that only few companies have access to state support. In order to prevent such a perception, it could be wise to grant more people and companies access to state support. For balancing the objectives of policy efficiency and a broad reach of state support, we recommend a pyramid approach as illustrated in figure 1.

The provision of basic information about legal issues, market conditions etc. can be helpful for all kind of SMEs, regardless of stage, size or industry. Further, information provision is not prone to any misuse, it is not very costly and will not cause any distortions in the economy. Similar conclusions hold for the provision of basic business training. Such training shall be free of charge; nevertheless, they are not prone to misuse. Training programmes can reach a broad audience and the cost-beneficiary-ratio is very low. In other words, one can support many beneficiaries with a small budget. Additionally, training will not cause any market distortion.

¹⁶ Currently the Belarusian Fund for Financial Support of Entrepreneurs (BFFSE)

Figure 1: The SME state support pyramid



Source: own illustration

Subsidies are at the peak of the pyramid, which means that only very few SME should get direct subsidies. Subsidies are very prone to misuse, they are likely to influence market dynamics and could cause unintended distortions. Above all, subsidies have a high negative impact on public expenditures and the cost-beneficiary-ratio is very low. In other words, one can support only a few beneficiaries with a given budget.

Applying a process-oriented approach, as sketched out above, means that the support pyramid works as a funnel. Pyramid steps are stages of an SME's life cycle. Each beneficiary needs to pass the funnel. It could be seen as a support career. In order to reach the peak of the pyramid and to receive the highly appreciated subsidy, a beneficiary must run through all steps, starting from the lowest to the peak. The selection criteria get harder with each step of the pyramid or funnel, respectively. Every person or SME can access information, low barriers to access free business training, higher barriers to accessing free consulting services and so forth.

The selection criteria should be aligned to the process approach. State support is like an investment, and each investment manager wants to have some proof of capability before he/she invests. An SME company can only get a subsidy when it can show that it has made use of the support offer from previous stages of the tunnel.

To give an example: With the help of free business training, beneficiaries should be able to develop a business plan for their start-up or business development project. Therefore, in order to access the next stage, the free consulting service, applicants must have a business plan and a good assessment of their training performance. With the help of free business consulting, beneficiaries should be able to implement their projects. Therefore, in order to access the next stage of the funnel, the state loans, applicants must show that they have started to successfully implement the business consulting results and must prove a good assessment by the business consultant. This sequence continues. In that way, each beneficiary makes a "support career". They prove themselves as being reliable partners and as providing good investment opportunities for state support. Further, since trainers and consultants of the support programmes provide their assessments of the candidates and their projects in the form of regular reports, there is much information about each beneficiary and each project,

which forms the basis for a professional risk management of state loans and state investments.

5 Concluding remarks

The state support regarding investment loans for SMEs has improved since 2014. This development should certainly be positively acknowledged. Still, the SME state support in Belarus is mainly comprised of financial SME support programmes. The non-financial SME state support remains quasi non-existent. By international standards, this policy therefore presents a fairly one-sided support approach.

In this regard, the governmental SME programme 2016-2020 surely could have been more progressive. Until a broader re-structuring has been implemented, there is sufficient leeway to increase the efficiency and the market cover-age of the existing support measures. Therefore, the recommendations provided in this paper could be applied for increasing the impact of existing SME support as well as for designing a modernised SME support approach in Belarus.

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