

STRONGER ECONOMY

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EU4Business

Investing in SMEs in the Eastern Partnership

Belarus

COUNTRY REPORT
JUNE 2018



EaP | Eastern
Partnership



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Introduction

The EU4Business Secretariat is proud to present the third Country Report prepared under this initiative, following the first in late 2016, and second May 2017 publication. Country Reports analyse the developments and achievements of the EU4Business initiative in each of the Eastern Partnership countries (EaP). They offer a review of the SME sector in the country, as well as of the economic and business environment in which enterprises operate. In addition, the 2018 Country Reports add two major new elements, namely the results of an SME survey and the outcome of round tables of EU4Business stakeholders carried out in each EaP country.

The national round tables were held between late February and early April 2018, and involved all the EU4Business stakeholders in each country, as you will see in Section 6 of the Report. The conclusions offer a unique perspective arrived at following a detailed joint consideration of all the EU4Business pillars and initiatives.

The results of the survey of SMEs benefiting from the EU4Business finance facility are presented in Section 5. They provide an overview of the impact of EU4Business, as perceived by the beneficiary enterprises themselves, at least a year after the lending operation has been completed.

We have also conducted a thorough analysis of some 150 documents and discussed these with a multitude of stakeholders to arrive at the impact assessment of the EU4Business portfolio, as presented in Section 3.

Finally, the two opening sections provide an economic overview by country and the state of affairs of the SME sector.

The EU4Business Secretariat has received tremendous research assistance from our country teams, based in the EY offices throughout the Eastern Partnership region, while the EU Delegations provided substantial support and data for the publication. DG NEAR was closely involved in report editing and verification. To all of them we extend our sincere thanks.

We anticipate that the materials presented here will support the reform discourse in each of the six countries, contributing to further enhancement of the SME climate and regulatory framework. The Secretariat looks forward to facilitating new national-level discussions on how further to improve effectiveness and delivery of EU support to the EaP's SME development and to work on new and innovative support instruments.

Boris Divjak, SME Expert
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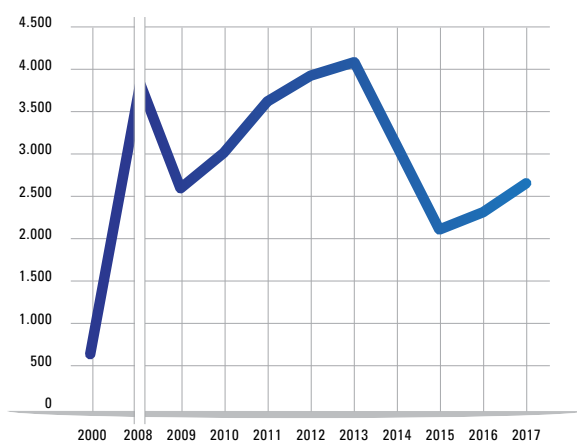
General economic overview of the country



1.1 Macroeconomic indicators

Belarus has pursued a gradual transition path, characterized by limited structural reforms and a modest expansion of the private sector. Policies have focused on upgrading state-owned enterprises (SOEs) with the help of subsidies and preferential loans through state-owned banks. Economic growth has been accompanied by an impressive fall in the number of households below the poverty line and an increase in household income among the bottom 40%. The proceeds from that growth have been redistributed through real wage growth, utility subsidies, and the maintenance of employment in SOEs and the public sector. Yet, improved living standards partly also come from higher productivity.

Figure 1.1: Republic of Belarus GDP per capita (current US\$)



Source: Macroeconomic indicators, World Bank

The economy started the year on firm footing, with GDP expanding a robust 5.1% year-on-year in the first quarter, marking the strongest increase in more than six years. The cyclical expansion continues, supported by improved external conditions and a recovery in industry. Industrial output expanded by 10.3% y-o-y in the first two months of 2018, up from 6.1% y-o-y in 2017.

Modest economic growth in Russia and a gradual increase in commodity prices contributed to a revival of production and exports of machinery and oil products.

Merchandise exports recovered to 21.7% y-o-y in U.S. dollar terms, while healthy domestic demand stimulated further wholesale and retail trade.¹

Although recovery is underway, the trending annual economic growth rate is unlikely to exceed 3%. Improved household consumption and investment activity, along with an increase in exports, will help the economy grow. A series of promising policy measures, introduced in 2017 to stimulate private sector development and job creation, as well as new economic activities in information and communications technology (ICT), are expected to provide support for an economic recovery in the medium term.²

Inflation has slowed to historically low levels, helped by better anchored inflation expectations, and moderation in administrative price adjustments. Annual average inflation slowed to 6.0% in 2017, and to 5.4% y-o-y in March 2018. As inflation pressures stabilized, the National Bank cut its refinancing rate from 17 to 10.5% during 2017, leading to an almost twofold reduction in nominal lending rates in national currency. As a result, the supply of new credit in national currency went up by almost 43% in nominal terms in 2017. The stock of credits to the household sector grew by 26.2% y-o-y in 2017 on the back of real wage growth and interest rate reduction.³

In comparison with the other Eastern Partnership countries, Belarus has recently rebounded after a slowdown to have higher than average growth rates. In absolute terms, it has become the GDP per capita leader, coming ahead of Azerbaijan, which has faced a range of economic issues lately. The inflation rate (consumer price index), albeit slowed down, represents the exact regional average, behind Ukraine and Azerbaijan at the end of 2017⁴.

1 Extracted from the World Bank in Belarus, <http://www.worldbank.org/en/country/belarus/overview#3>

2 *ibid*

3 Extracted from the World Bank's Belarus Economic Update — April 2018, <http://www.worldbank.org/en/country/belarus/publication/economic-update-spring-2018>

4 Data from IMF, inflation: <http://www.imf.org/external/datamapper/PCPIPCH@WEO/AZE/ARM/BLR/GEO/MDA/UKR>



EU4Business

BELARUS: a strong business model for media independence



For sure, the improved earning capacity has gradually increased the editorial budget and the number of employed journalists. Our earning capacity helps us to preserve our independence.

Lyudmila Chekina is CEO at TUT.BY, the leading online news portal in Belarus. EBRD support funded by the EU under the EU4Business initiative helped TUT.BY develop its organisational structure and introduce better operational processes. As a result, earnings are up 20%, increasing the editorial budget and number of journalists employed.

Success stories:
Advice for Small Businesses

The country's export levels are the second highest among the six in absolute terms and reversing the downward trend for the first time in five years. However, as percentage of GDP, Belarus has the highest export volumes: 63% compared to the EaP's average of 46%. Crediting of the private sector has been steady the past five years but significantly below the regional average with nearly 26% of GDP in 2016, according to the IMF, partly also because the lending interest rate has been sharply dropping in the past three years to 9.65% in 2017, according to the WB, becoming the lowest in the EaP. There has been no major exchange rate and local currency fluctuation in the past couple of years, since the introduction of the third Belarusian ruble, so a Euro is worth 2.39 Belarusian Rubles (BYN) in mid-May 2018.

1.2 Trade volume with the EU – exports

Unlike the other EaP countries where the EU is the main trading partner, the EU is currently the second main trading partner for Belarus, accounting for almost 23% of its total trade, with a significant portion of the country's exports.⁵

This section of the country report will, first of all, focus on the exports from Belarus to the EU and more specifically on exports from selected trade categories which are seen as representing a high potential for growth. For this reason, large-scale production is excluded and focus is given to sectors largely populated by SMEs. Data with regard to these exports will be described in terms of size, economic impact and employment.⁶ In order to provide some context to this country data, it is important to mention that the trade flows have an average impact of 1.5% of GDP and 1.3% of total employment within all EaP countries. Belarus is impacted to a greater extent compared to the other countries, with a total impact of 1.8% on GDP and an equivalent impact of 2.3% on the total employment.

During 2009 to 2016, the average in exports of goods from Belarus to the EU amounted to €8 billion. Given the exclusion of large-scale production activities (mostly consisting of oil), the remaining €1.4 billion represents relevant trade. Most of it, specifically 90%, is considered as exports in potential growth categories. The categories with most registered potential are:

- Miscellaneous chemical products (categories in HS38)
- Wood and articles of wood (categories in HS44)
- Fertilisers (categories in HS31)

Export to the EU of selected categories thus gives rise to an extra gross production of €1.2 billion, especially in manufacturing of chemical products and in other manufacturing. A total amount of €297 million is associated with this, and the direct impact on employment amounts 27,000 jobs. As additional goods and services are needed as intermediate input in order to produce this, the total impact on the Belarus economy is larger. The total impact on value added is €786 million. The total impact on employment is 78,000 jobs.

1.3 Business climate

Positioned 38th globally, the Republic of Belarus scores second best among the six EaP countries in the Doing Business rankings of the WB by the ease and costs of business regulations. Georgia remains ahead, with Moldova and Armenia still behind. However, the business climate has steadily been improving over the past five years, according to the indicator – in fact one of the most impressive rates of progress, alongside Moldova. Of the various topics that Doing Business covers, Belarus is most advanced with property registration (5th position globally), while lagging behind with paying taxes and getting credit, where it is ranked 96th and 90th respectively out of the 190 countries ranked in 2018.

That corruption is a critical bottleneck for a greater investment volume is also witnessed by Transparency International's Corruption Perception Index, where Belarus has fluctuated over the past five years between ratings of 29 and 44 (100 being best and 1 worst), placing it in 68th place globally among 180 countries in 2017, with a current score of 44, trailing behind Georgia in 46th position⁷.

Belarus has a range of BSOs that actively engage in monitoring of the business environment, reporting on it and discussing progress with the public sector. Besides the official Chamber of Commerce and Industry, there are several other associations, but also industrial parks that appear to be very vocal on investment climate issues. As they represent a growing and strategic sector, their engagement in such discussions is being sought and respected. Business Support Centres and Small Business Incubators operate throughout the country (in 99 and 26 locations respectively⁸), receiving inter alia EU4Business/EBRD and state support, and most have been in operation for more than five years.

5 European Commission, DG for Trade, (2018), 'European Union, Trade in goods with Belarus 2017'.

6 Panteia, (2018), Study: Key sectors and BSOs - Step 1 selection of the sectors. Data on trade flows sourced from the International Trade Centre (ITC).

7 According to the Corruption Perception Index of Transparency International: https://www.transparency.org/news/feature/corruption_perceptions_index_2017

8 <http://www.economy.gov.by/ru/perechen-incubatorov-ru/>

These structures also play a role as a conduit for business environment improvement and propose improvements to the authorities. Even though the chambers typically work with larger companies, all of the identified associations actively support SME development and promote policies aimed at their strengthening.

Finally, in 2018-2019, the SME Policy Index assessment will be carried out again in the entire EaP region, following an initial assessment in 2012, and a follow-up assessment in 2016, which resulted in the publication of the SME Policy Index: Eastern Partner Countries 2016 – Assessing the Implementation of the Small Business Act.

The project will run within the framework of the multi-country programme EU4Business: From Policies to Action, implemented by the OECD. The main objective is to provide governments with a framework to assess policies targeting SME development. The Index identifies strengths and weaknesses in policy design and implementation, allows for comparison across countries and measures convergence towards EU SME policy standards.



Share of SMEs in the economy

In Belarus, small and medium-sized enterprises are defined in the Law of the Republic of Belarus of 1 July 2010 “On state support for small and medium business”. These SMEs comprise four different types of entities: sole proprietorships, micro-entities (15 or less employees), small entities (16 to 100 employees), and medium-sized enterprises (101 to 250 employees). In February 2016, a five-year action plan on SMEs was implemented by the Council of Ministers for 2016-2020 in Belarus, with specific targets to achieve by 2020, amended in October 2016. These targets include SMEs being responsible for 39.6% of total employment and 40% of the total economy value added, as well as the establishment of around 8,500 new SMEs every calendar year.

The last update on SMEs in Belarus includes statistics up to the year 2016, which show that the targets which Belarus adopted in the previous SME development programme for 2013-2015 were not in fact met. With regard to the total number of SMEs, Belarus saw a fall in the number of such enterprises between 2014 and 2016, with the two last years presenting quite stable numbers but not quite reaching the desired target of 112,000 for the State programme 2013-2015. The number of all types of entities fluctuated within this period, with a peak in 2014 for both micro- and small enterprises and in 2013 for medium-sized enterprises.

Both sectors of micro and small business, and medium-sized entities saw a 7% decrease in employment in 2013-2016. However, these decreases both in terms of

numbers of SMEs and employment within them, are not reflected in the sales revenue. In fact, the sales revenue of SMEs in Belarus increased by approximately 42% from 2013 to 2016. Both sole proprietorships and small business entities saw a sharp increase in sales, with small businesses reporting an almost 51% increase from 2013 to 2016. Also, micro-enterprises improved their sales revenue by 49% and medium-sized enterprises saw an increase of approximately 20%.

Finally, with regard to exports by Belarusian SMEs, the latter reached an important peak in 2014 but have since reported a significant loss too. Most exports are generated between the micro and small businesses, which saw exports fall in 2016 by more than a quarter, compared to 2014. Medium-sized enterprises exported approximately 56% less in 2016 compared to 2013.

The Belarusian Government put in place a number of financing programmes investing in the development of SMEs but an effective implementation of these strategies is still not reflected in the current statistics.

The tables below detail the results presented through all indicators, namely number of enterprises, number of employees, sales revenue and share of exports until 2016.⁹

⁹ Source: Statistical book Small and Medium-Sized Business in the Republic of Belarus, http://www.belstat.gov.by/ofitsialnaya-statistika/publications/izdania/public_compilation/index_7653/ pp. 16-19

Table 2.1: Indicator: Number of small and medium-sized business entities

	2013	2014	2015	2016
micro-, small and medium-sized business entities, units	111,112	114,208	107,441	107,382
medium-sized business entities	2,423	2,416	2,394	2,315
micro- and small business entities	108,689	111,792	105,047	105,067
<i>microbusiness entities</i>	96,858	99,368	92,684	93,288
<i>small business entities</i>	11,831	12,424	12,363	11,779
sole proprietorships, persons	248,546	248,952	240,781	235,995

Table 2.2 Indicator: Average number of employees of micro-, small and medium-sized business entities, number of sole proprietorships and employees employed by sole proprietorships, thousand persons

	2013	2014	2015	2016
Average number of employees of micro-, small and medium-sized business entities, number of sole proprietorships and employees employed by sole proprietorships	1,505.1	1,477.3	1,417.6	1,431.5
micro-, small and medium-sized business entities	1,237.9	1,200.6	1,136.1	1,148.6
medium-sized business entities	391.2	382.1	373.3	363.3
micro- and small business entities	846.7	818.5	762.8	785.3
<i>microbusiness entities</i>	385.0	348.0	319.7	362.5
<i>small business entities</i>	461.7	470.5	443.1	422.8
sole proprietorships	248.5	249.0	240.8	236.0
individuals engaged on the basis of labour agreement and civil law contractors employed by sole proprietorships	18.6	27.8	40.7	46.9

Table 2.3 Indicator: Sales of products, goods, works, services of small and medium-sized business entities, trillion roubles (2016 - billion roubles)

	2013	2014	2015	2016
Sales of products, goods, works, services of small and medium-sized business entities	694.5	770.9	888.7	98.4
micro-, small and medium-sized business entities	648.8	716.7	827.5	91.6
medium-sized business entities	171.5	179.0	194.8	20.6
micro- and small business entities	477.3	537.7	632.7	71.0
<i>microbusiness entities</i>	176.3	200.7	202.7	25.7
<i>small business entities</i>	300.9	336.9	430.0	45.3
sole proprietorships	45.7	54.2	61.1	6.8

Table 2.4 Indicator: Exports of goods by small and medium-sized business entities, billion USD

	2013	2014	2015	2016
Export of goods by small and medium-sized business entities, billion USD	14.0	15.2	12.9	10.7
micro-, small and medium-sized business entities	13.9	15.1	12.8	10.6
medium-sized business entities	4.1	3.2	1.8	1.8
micro- and small business entities	9.8	11.9	11.1	8.9
<i>microbusiness entities</i>	0.9	2.9	1.1	1.0
<i>small business entities</i>	8.9	9.0	9.9	7.8
sole proprietorships	0.1	0.1	0.1	0.1

Overview of the EU4Business portfolio in Belarus

The EU4Business umbrella initiative has subsidised a total of 14 projects in Belarus since its inception. In 2017, 10 projects were still ongoing while 4 have been completed. Within the four objective areas that the projects covered, 3 were established to Improve the access to finance, 3 to Strengthen the policy and regulatory framework, 5 to Improve knowledge base and business skills, and 3 projects to Improve access to markets.

The table illustrates the distribution of projects in the different support areas, which of those are ongoing and which are completed.

Table 3.1: EU4Business project portfolio

PROJECTS in BELARUS				
Area of support	A: Improving Access to Finance	B: Strengthening policy and regulatory framework	C: Improving knowledge base and business skills	D: Improving access to markets
Ongoing projects	3	2	4	1
Closed projects	0	1	1	2
Total projects	3	3	5	3

Source: EU4Business database

The ongoing projects are supported through an EU contribution of approximately €21,200,000. The key area which received most support is the one targeting the improvement of knowledge base and business skills, followed by the one covering the objective of improving access to finance.

Regarding completed projects, the projects in the area of improvement of access to market received most financial support, with two completed projects. The second most supported area was the one on improvement of knowledge base and business skills with one closed project. The total EU contribution has been of approximately €3,200,000.

The EU4Business initiative and the projects implemented through it have a significant impact on enterprises and job creation.

The table below summarises these key impacts in terms of enterprises supported, the number of enterprises that received loans, the total value of the loans provided via the programmes, and the number of jobs created through the programme support. Between 2009 and 2017, EU4Business has directly or indirectly supported 271 enterprises, 620 enterprises received loans for a total value of €71,350,998 and through these as many as 3,859 new jobs were opened, and many more supported.

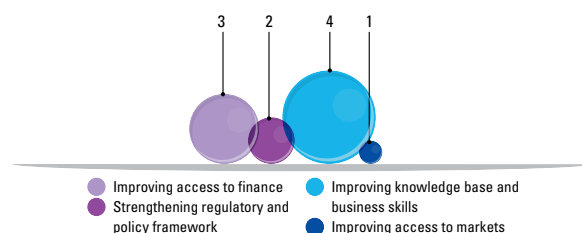
Advisory projects have also had a strong impact on businesses, as in the examples of online news portal TUT.by¹⁰ and Polimaster, a company offering radiation detection equipment¹¹, both of which registered increased turnover and jobs as a result of the consultancy.

Table 3.2: EU4Business impact in Belarus

Impacts of EU4Business support	2009-2015	2016-2017	2009-2017
Number of enterprises supported with advisory services	127	144	271
Number of enterprises which received loans	231	389	620
Total value of loans disbursed (Euro)	54,400,000	16,950,998	71,350,998
Number of new jobs created	1,035	2,824	3,859
Number of jobs supported and sustained (advisory and financial projects)	8,447	10,451	18,898

Source: EU4Business database

Figure 3.1 Ongoing projects by objective



Source: EU4Business database

¹⁰ For the related success story, please refer to page 3.

¹¹ For the related success story, please refer to page 9.



EU4Business

BELARUS: developing a clear vision for the future



“

Together with the project consultant we developed the company's mission, vision and long-term plan. This two-year project turned out to be quite rich and complex, but it gave us a sense of purpose and helped us to form a clear vision of our goals.

”

Ludmila Antonauskaya runs a holding company called Polimaster, among the world leaders in the field of equipment for monitoring and controlling radiation. With support from the EBRD's Advice for Small Businesses programme with the funding from the EU, she was able to develop a long-term business plan, as well as attract additional investment equivalent to \$1.2 million. The programme also contributed to an increase in both the company's turnover (15%) and number of employees (50%).

9

Success stories:
Advice for Small Businesses

Donor support to the SME sector in the country - looking beyond EU4Business

Forty projects have been identified that focus on strengthening the role of SMEs in Belarus: 20 are grant projects from a variety of bilateral and multilateral institutions, while another 16 provide support in the form of loans, often targeting SMEs directly or through the banking sector, similarly to the access to finance pillar of EU4Business, and 2 projects are blended equity investments in SMEs with loans or grants. The Government of Belarus runs nine programmes of state support to SMEs in several areas.

Grant programmes largely look at strengthening entrepreneurship in less advantaged locations, chiefly the regions remote from the capital. They also target specific niches, such as entrepreneurial education, youth employment through MSMEs, incubating ideas, empowering BSOs and NGOs to support SMEs and training the media to promote entrepreneurship and report on economic development. Business education is tailored for a variety of stakeholders and a number of multilateral and bilateral donors engage directly or through national and international intermediaries with the targeted audience to increase their skills and stimulate private initiative.

In rural areas, agriculture is largely managed through state-owned enterprises and associations. These trainings encourage agribusiness SMEs and aim at empowering entrepreneurs in the countryside with the basic skillset to launch their business and where needed borrow wisely. In all these programmes, the audience is trained in exactly what has been identified as much needed in Belarus: how to successfully manage a business and engage with the national and international market, including clustering, associations, etc.

A number of projects work with the public sector: levelling the playing field from the ground up and making the business environment attractive for investment. It has been acknowledged that local communities play an important role in making the business climate more or less conducive for investment. The emphasis is quite heavily on local communities, while few projects look to reform at central level, notably public sector reform, or through accession to multilateral agencies, such as the WTO. Project sizes vary from several hundreds of thousand euros to multi-million euro investments.

Loan programmes are less restrictive and target the most viable investments. However, a few sectors have been highlighted by donors: ICT, rural entrepreneurship and infrastructure, agribusiness etc. However, many of these projects target specific instruments, such as enabling guarantee funds, portfolio diversification for banks etc. The syndicated revolving funds are channelled through local banks, but it should be noted that EU4Business is a lead agent in SMEs' access to finance.

There are very few other international programmes and state intervention only covers a fraction of the assessed needs. So, enabling access to finance remains a top priority in Belarus for SMEs to become competitive and increase their share in the country's exports.

Equity investment in a classic sense still does not exist in Belarus. A very early face of it is being put forward by a USAID project supporting start-ups that offers grants and then seed funding for the best projects.

Another similar project is run through state support where innovative projects and high technology may attract the earmarked funds, although it remains less clear whether this has a grant, loan or equity format. However, the funding is available to complement investment and support technological research or some form of business expansion or export orientation.

Comparing these interventions to the suggested gap assessment as portrayed by the national roundtables and other analyses deployed by the EU4Business Secretariat, the very basic needs are being met. The interventions focus mostly on the rural, agricultural areas, where several access to finance options are available.

Similarly, there are orchestrated efforts to support the IT sector, but there is a lack of support to the SMEs trying to position themselves in once leading industries in Belarus that are still dominated by less efficient large companies. The credit lines offered either through EU4Business or other programmes run in Belarus are hardly enough to cover the current demand, let alone to stimulate new one. The new SME industry is lean and fast and willing to engage with alternative forms of investment, such as venture capital.

There is solid awareness of the advantages to be gained through access to knowledge and to markets and demand for such products is on the rise. While it takes time to build such national consultancy skills domestically, SMEs in the IT sector could benefit from high-end expertise coming from the EU, where they are looking to export. Working with international consultants in clusters, while at the same time aiming to develop sustainable consulting capacities locally may represent a wise investment of resources.

A range of instruments is needed for this development: from the actual funds to support business development, to specialised training and business handholding in form of know-how and consultancy work, to guarantee funds, particularly as many of the entrepreneurs have little starting capital, etc. Enabling easier access to the EU market through business matching, participation in fairs and accessing specialised online facilities might be a relatively small investment yielding comparatively high growth.



SECTION 5:

SME survey results

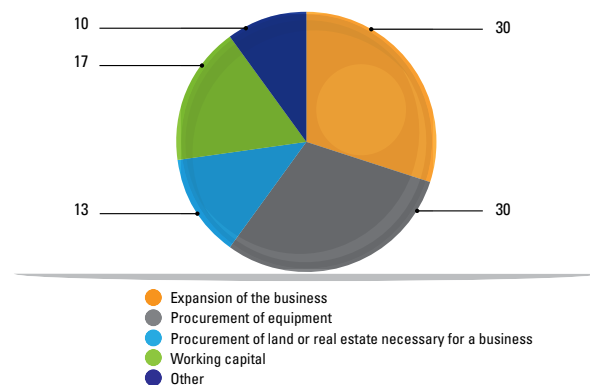
20 SMEs, all beneficiaries of the financial products of EU4Business, were surveyed in Belarus in the period March-April 2018¹². 80% of those were limited liability companies (aggregated with private unitary enterprises) and 20% were individual entrepreneurs. Half of them come from the services sector and the rest from wholesale/retail (40%) and manufacturing (10%). The majority have been in operation for 6-10 and 11-25 years at the time of taking the survey (39% for each group), and the dominant employee size is up to 10 staff – 50% of them – followed by 10-25 (35%). Given the relatively small sample size, the results need to be read with some caution, and they express the views of the ultimate beneficiaries of the EU4Business access to finance projects available in Belarus.

All these respondents borrowed in 2016-2017 through the SME Finance Facility. It is interesting that 55% of the surveyed SMEs confirmed that the loan was obtained through an EU4Business programme while the rest (45%) have no idea that the funds originate from EU4Business or from the EU.

For as many as 83% of those that were aware of the SME Finance Facility, the point of entry was their own bank (one respondent found out about it via the EU4Business website), while 85% of respondents obtained the full amount applied for. One third of respondents believe the terms were better than the otherwise market terms (two thirds see them as being no different).

In the case of Belarus, 30% of applicants needed the loan for business expansion, and another 30% for purchase of equipment, but as the chart below illustrates, also for variety of other purposes, with none using the loan dominantly for start-up purposes.

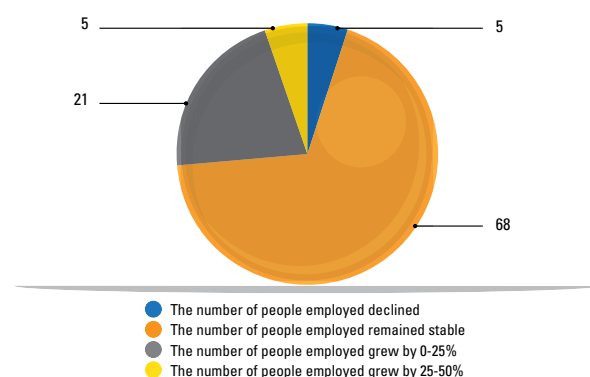
Figure 5.1: Loan purposes



Source: EU4Business database

The majority (68%) said the workforce remained stable in numbers following the investment. For 21%, the number of staff grew by a quarter and for 5% even more. Interestingly, 26% of the respondents noted the importance of the loan for the increase in employment in their firms, among which half acknowledged that the loan played a crucial role.

Figure 5.2: Impact of loan on employment



Source: EU4Business database

12 A total of 130 SMEs were surveyed in five countries of the EaP (Armenia, Belarus, Georgia, Moldova, Ukraine): 30 companies in the three countries with the DCFTA status and 20 in the other two. Initially, the key implementers provided lists of SMEs, from which firms were contacted until the target number of interviews has been completed. The firms were chosen randomly, but a precondition was that they had taken an EU4Business financed loan at least one year before the beneficiaries' lists were prepared. In the countries where different projects were being run, the SMEs approached were from a proportional mix of such projects (provided via EBRD, EIB and KfW).

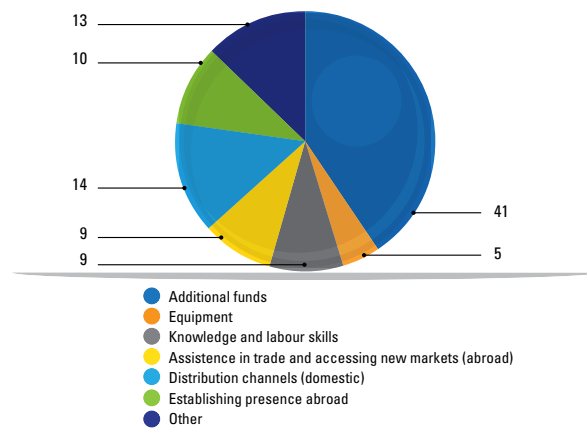
Half of all SMEs in the survey export abroad, mostly to the EU (78%; the others to Russia), and 78% of these export more than half of their current annual turnover, one of the highest shares among the EaP countries.

Also, about half of them engage in foreign trade activities. Of all the exporters, 78% have seen their export volumes rise due to the EU4Business loan, while one company increased their export volumes more than 50% and another one started exporting for the first time as a direct result of the financial package from EU4Business. This is why about half of the surveyed exporters rated the loan as important to some degree for the increase in exports, possibly interplaying with other market factors. When asked what would it take to increase their exports into the EU, two thirds cite inability to locate potential trading partners or establish distribution channels abroad.

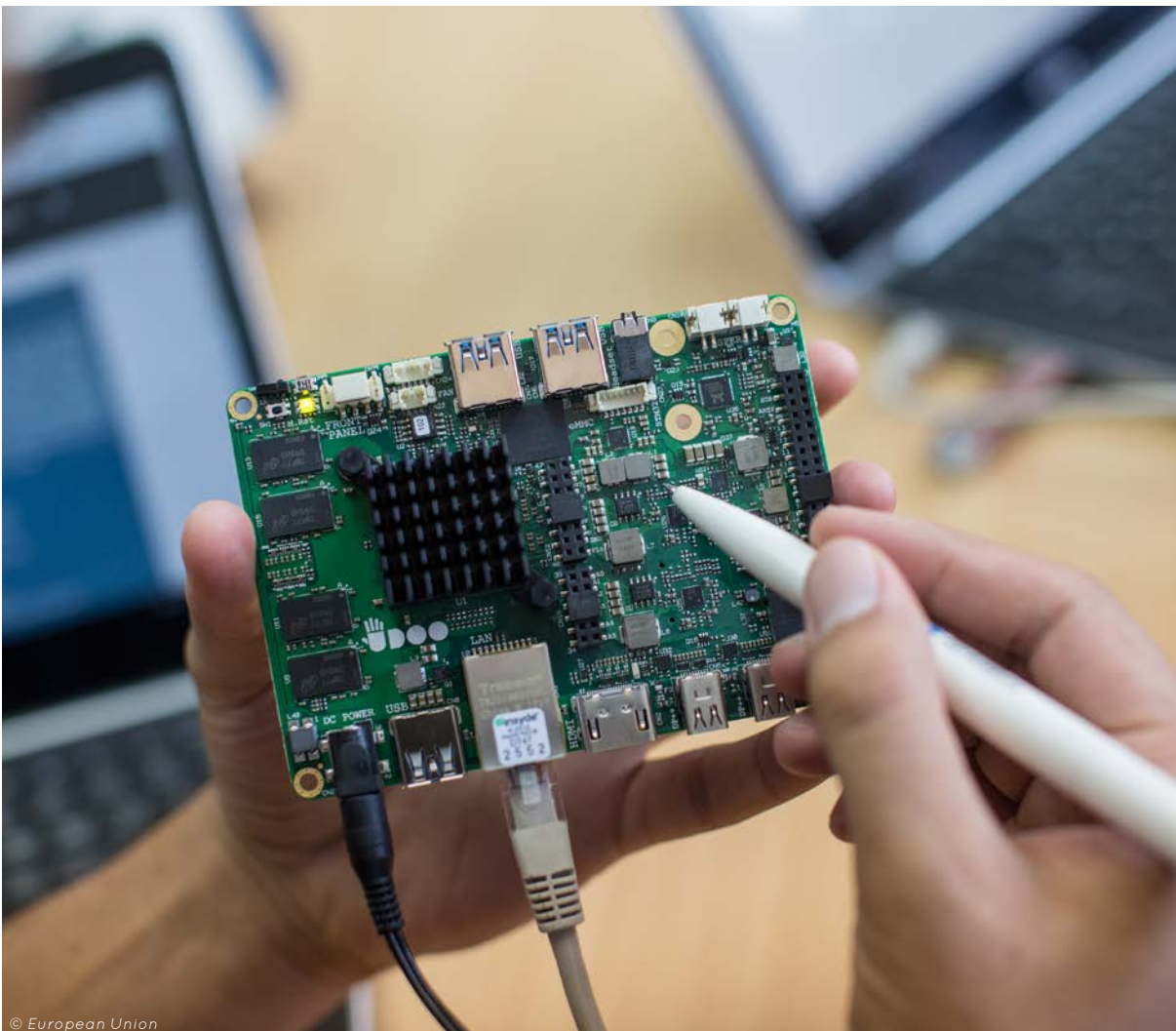
The majority of companies saw their turnover increase by up to 25% and one by up to 50%, although 11% saw a decline since the loan was taken. 32% of respondents do not attribute the increase in turnover to the loan, while the others see the link to a lesser or greater extent, incl. 37% that claim the loan was 'crucial' to increase the income generated by the business.

If they would borrow again, it would mostly be to cover a variety of needs, including working capital, but also various aspects of know-how and technical assistance. To do so, 41% would look to the commercial banks or non-bank institutions where they would seek loans under favourable conditions, primarily meaning lower interest rates than presently available, while almost a quarter would rely on own (owner's) funds or retained earnings.

Figure 5.3: Company's current needs



Source: EU4Business database



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Highlights of the round table discussion

The round table meeting held on 28 March in Minsk brought together all the key EU4Business stakeholders (32 in total) for the first time to jointly analyse the achievements and challenges of the past and current programmes supporting SMEs, experiences from past collaborations on the EU4Business platform, key benefits delivered to the Belarusian private sector, and aspects that can be strengthened to make delivery of such support even more effective.¹³

The participants jointly concluded that the funding, support and training provided to SMEs in the framework of the EU4Business programmes, have had a solid impact on the further development and growth of SMEs in Belarus, especially in the IT industry on which the discussion focused in particular. A number of key points were identified for a possible follow-up as a way to further strengthen the impact of EU4Business. They follow the logic of the four pillars of EU4Business.

6.1 Access to finance



Even though increasing support is available to SMEs, as facilitated by the international finance institutions under the EU4Business umbrella, access to finance remains critical for Belarusian SMEs. The financial market still remains insufficiently attractive for borrowers, especially in foreign currency, due to higher costs, currency risks and the fact that loans in local currency have become more available recently.

EU4Business programmes only provide loans in foreign currency at the moment. SMEs do not have equal access to finance across the country, with the situation in Minsk significantly better than in the regions, although it should be noted that as of 2016, 57% of all SMEs are located in the capital region and 38% directly in Minsk. Some SMEs do not have access to financial instruments due to provisioning and security requirements that limit the ability of the banks, and need technical assistance for borrowing significant funds.

Belarusian SMEs would like to see the following instruments developed or increased in scope:

- In the short to medium run, national and EU definitions of SMEs need to be harmonized or the eligibility criteria for EU4Business funding adjusted. Belarus companies are more labour intensive; sometimes they qualify as SMEs by revenue and asset definition, but exceed the employment criterion. Definition flexibility would lower the bar and more entities would be allowed to access EU4Business finance programmes.
- In the medium to long run, in addition to the well-received loans in local currency that hedge currency risks and therefore are in continuous high demand, alternative financial instruments could be developed for SMEs:
 - Equity and venture funds (for startups or to scale up);
 - Guarantee fund to support collateral requirements and combining them with other tools and loan schemes – risk sharing (similar to the green economy programmes where loans are offered in parallel to technical assistance, guarantees and/or grants);
 - It is important, however, that none of the grant schemes distort market competition and give some SMEs a better head start.

¹³ The national round tables were held in the capitals of all six EaP countries between late February and early April 2018, and engaged all the EU4Business stakeholders in each country: the EU Delegations, the IFIs involved, national counterparts – SME agencies and Ministries of Economy, commercial banks involved, business associations, key implementers and any other related party, totalling between 25 and 45 persons per round table. The discussions focused on the ongoing achievements across all four pillars of EU4Business, but the content was tailored to the priorities of each country. The discussants were specifically guided to address the forthcoming challenges anticipated and to propose solutions for the way forward.

6.2 Access to market



Belarusian SMEs find trade with EU member states increasingly important, despite an already high share of local exports going to the EU. As they look to export and internationalise, SMEs typically look to join forces per industry (cluster) and increase quality of products and services. Again, all these appear simpler for companies based in the capital than in the regions.

- In the short to medium run, standards applicable to SMEs are vital to access further EU markets. This will often require one-on-one expert work with the SMEs and handholding.
- In the medium to long run, engaging with SMEs in the regions and bringing them closer to those effective and prospective clusters and the capital can be done through a network of business support organisations (BSOs) or SME support centres. Clusters with high potential, such as IT and the textile and clothing industry need further development and feasibility studies.

6.3 Access to knowledge and skills



Generally, SMEs still lack appropriate education and entrepreneurial skills. Most SMEs find it difficult to train and use the most appropriate labour force.

- In the short to medium run, certain skills can be upgraded based on existing programmes, but expanded. It is hard to locate and identify businesses that have training needs, as SMEs are often unaware of them. For example, start-ups and small businesses with novel ideas often do not have management capacities, quality control and lack the understanding of clustering and supply chains.
- In the medium to long run, specific industry or cluster hard skills, as well as entrepreneurial skills, digitalization and modernization skills need far greater resources. Individualised trainings on how best to utilise resources coupled with financial education needs to accompany an improved access to finance.

6.4 Policy and regulation



Despite certain advances in smart regulation of the market, a number of regulatory issues still require attention for the benefit of the national SMEs. The EU Delegation raised very strongly their concern about the state registration of support/technical assistance to SMEs, which is largely seen as unnecessary and burdensome. While streamlining of business regulation is evident, there is no assurance that new bureaucracy will not replace the old. In order to make SMEs more resistant and structured, the following is important:

- In the short to medium run, removal of the requirement to register technical assistance would streamline EU4Business support to SMEs. Small Business Act monitoring conducted by the OECD may show areas of concern that the Government should address to further improve investment climate.
- In the medium to long run, engagement of BSOs in public-private sector dialogue around specific industries or more broadly private sector development would ensure reforms are not reversed and new ones are advanced, with a steadier and more consistent implementation of reforms.

6.5 Communication and visibility of EU4Business Programme

The round table acknowledged a much greater need for timely information exchange and access to information. Also, this roundtable was seen as a starting point for an ongoing exchange among the stakeholders to assess impact and fine-tune the programmes going forward:

- In the short to medium run, more promotion and direct engagement with the SMEs is needed, particularly in the regions. This can be done by the specialised SME agencies, government representatives, but also commercial banks and other EU4Business stakeholders that can distribute relevant information to the SMEs, ideally in a coordinated fashion. Showing success stories in the regions would have a major communication benefit for the entrepreneurs who potentially have access to the programmes. Some of that can be simplified to product-based communication understandable to all, by means of simple messages. The role of BSOs needs to be studied further in facilitating this flow of information.
- In the medium to long run, a standing taskforce could be created to follow up on the suggestions made at the round table. Participants particularly noted that the more often such a group meets, the more they will be making specific suggestions for which they will be receiving evaluation inputs.

Participants of the round table concluded that some continuation of this very first such gathering of all the stakeholders involved in the EU4Business is highly desirable.





THIS PROJECT IS FUNDED BY THE EUROPEAN UNION

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