



EU4Business

COUNTRY REPORT

BELARUS

May 2017

 Armenia  Azerbaijan  Belarus  Georgia  Moldova  Ukraine

INVESTING IN SMEs IN THE EASTERN PARTNERSHIP



Belarus



EU4Business

STRATEGIC PRIORITIES



1

Improving
access to
finance



2

Strengthening policy
and regulatory
frameworks



3

Improving
knowledge base
and business skills



4

Improving
access to
markets





EU4BUSINESS ON THE WAY TO ECONOMIC GROWTH

Reinforcing economic resilience and promoting stabilisation at the EU's borders are key goals of both our new Neighbourhood Policy and of our Eastern Partnership initiative. Citizens across the Eastern Partnership countries aspire to economic development and greater prosperity. They are awaiting concrete and tangible results, such as getting a good job or growing their businesses.

It is in this spirit that the European Union launched the EU4Business initiative. The objective is to support our partner countries' commitment towards improved business climates and to support their SMEs and entrepreneurs in investing in their skills, in their ideas and reach-out to new market opportunities.

Our Eastern neighbours have all made considerable progress in promoting SMEs. Most have also made substantial progress in the design and implementation of business and investment climate reforms. This includes the simplification of business-related legislation, streamlining technical barriers to trade and upgrading quality infrastructure, and the improvement of the legal and regulatory environment in the financial sector. Partner countries are also increasingly aware of the need to support SMEs not only financially, but also by creating dedicated SME agencies and assistance programmes, and specific instruments to encourage SME access to finance and stimulate exports.

Under EU4Business, the EU and its partners have also achieved a lot, supporting countries in the design and implementation of SME policies, encouraging public private dialogue, reinforcing the role of business support organisations, as well as providing access to finance to SMEs. Through our DCFTA facility for example, the EU provided €200 million of grants which will unlock at least €2 billion of new investments. As a result of our joint efforts, more than 90 000 enterprises received already increased access to finance while about 93 000 jobs have been supported! You will read even more of our achievements in this report.

However, there are still important challenges ahead. Access to finance is often limited to foreign currencies exposing SMEs to currency risks. Many SMEs in the region remain tied in low valued-added sectors. Enhancing SME capacities to become more innovative, and to connect to new markets is especially pertinent today as some SMEs have been cut off from traditional markets. We should therefore consider additional support to realise quick commercial wins while fully benefiting from the opportunities offered by closer economic cooperation with the EU. I know that the three DCFTA signatories face a particular challenge in that respect. We have already achieved a lot. Let us now keep the momentum to further improve EaP countries' economic resilience, to support SME trade with the EU and to deliver concrete and positive impact for the life of all people.

Johannes Hahn

Commissioner for European Neighbourhood Policy and Enlargement Negotiations

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CHAPTER 1:

COUNTRY OVERVIEW

1.1 Country overview – overall update on the economic situation

Belarus is the second largest economy among Eastern Partnership countries, after Ukraine. The Belarusian economy is dominated by large State-owned enterprises, inherited from the USSR, as, unlike its neighbours, the Belarusian Government has been carefully avoiding nation-wide privatisation that would see a change in ownership of such assets. State-owned enterprises provide a major part of gross output and employment opportunities; the private sector is comparably less developed. Following the six-year period of economic stability (2009-14), the Belarusian economy entered a recession period. The Government believes that future economic growth cannot be achieved without a rapid surge in SME development, so considerable effort has been made in this direction in recent years. One of the reasons privatisation is moving slower than intended is the requirement to retain a headcount of privatised enterprises to provide social security for the employees, something that is unattractive for potential investors. The development of SMEs is expected to provide new workplaces, such that this requirement may be lifted and the pace of privatisation may increase.

To understand the position of Belarus in international trade, the following should be considered. Firstly, as Belarus is not an EU or WTO member, its economy is significantly dependent on trade relations with the Russian Federation (in fact, it is the only Eastern Partnership country whose main trading partner is not

the EU). Secondly, Belarus is a member of the Eurasian Economic Union (EAEU), so the technical regulations and standards that the country is required to comply with do not match those accepted in the EU, although some alignment of the two is being made. Furthermore, all Eastern Partnership countries are involved in this process. The Belarusian economy has also suffered from the effects of considerable devaluation of the national currency against the US dollar over the last five years (from BYN 3 000 per USD 1 as at 1/1/2011 to 19 585 as at 1/1/2017), which has resulted in a significant distortion of the economics and purchasing power of the population. It is also important to note that despite the official statistics showing positive net exports among SMEs, most SMEs are import-oriented (trade and manufacturing sectors that are dependent on the supply of imported goods and parts). The positive net result is being generated by State-owned SMEs that serve as trading houses for large State enterprises (i.e. the headcount of the Belarusian Potash Company, an affiliate of JSC Belaruskali (one of the world's largest producers and exporters of potash fertilisers) was 94 employees as of Q2 2016, with annual revenue exceeding USD 2.2 billion, mostly exports).

Belarus has faced high inflation rates since 2011, however inflation is constantly reducing, reaching 10.6% in 2016. High inflation as well as a high refinancing rate (basic interest rate set by the National Bank and used

Table 1: Key macroeconomic indicators of Belarus ⁽¹⁾

INDICATOR	2013	2014	2015	2016
Nominal GDP (billion USD)	71.7	76.1	54.8	47.4
Per capita (thousand USD)	7.6	8.0	5.8	4.99
International reserve assets (billion USD)	6.7	5.1	4.2	4.9
Inflation	16.5%	16.2%	12%	10.6%
Population (thousand)	9 468.2	9 480.9	9 498.4	9 504.7
Net budget surplus as percentage of GDP	0.2%	1.0%	1.8%	-
Net exports (billion USD)	-2.4	-0.5	0.2	-0.05

Source:

⁽¹⁾ www.nbrb.by/eng/statistics/reserveAssets/assets.asp



to calculate other interest rates) makes long-term borrowings in the national currency too expensive and inaccessible for SMEs. It should be acknowledged that for the last year the refinancing rate decreased significantly, from 25% in January 2016 to 16% in February 2017. Similarly, rates for the continually available instruments and bilateral operations of the National Bank focused on maintaining banks' day-to-day liquidity also decreased – from 23% to 20% per annum over the same period. Inflation processes in the country continue to slow down. An increase in consumer prices in January 2017 is expected at the level of 9.6% per annum, then in February-March around 9%.

Investment activities and the attraction of borrowed financing among SMEs are generally low, and are further impaired by banks' unwillingness to provide higher-risk loans to this category of borrowers, especially in times of recession when incomes of enterprises in general reduce and the share of non-performing loans increases.

On the positive side, Belarus has an export strategy and a fair amount of Government measures for export stimulation.

Source:

- (2) http://www.belstat.gov.by/ofitsialnaya-statistika/makroekonomika-i-okruzhayushchaya-sreda/vneshnyaya-torgovlya_2/operativnye-dannye_5/eksport-import-s-otdelnyimi-stranami/
- (3) http://www.belstat.gov.by/ofitsialnaya-statistika/realny-sector-ekonomiki/investitsii-i-stroitelstvo/ofitsialnye-publikatsii_10/index_714/

Figure 1: Geographical structure Belarusian exports, 2016 ⁽²⁾

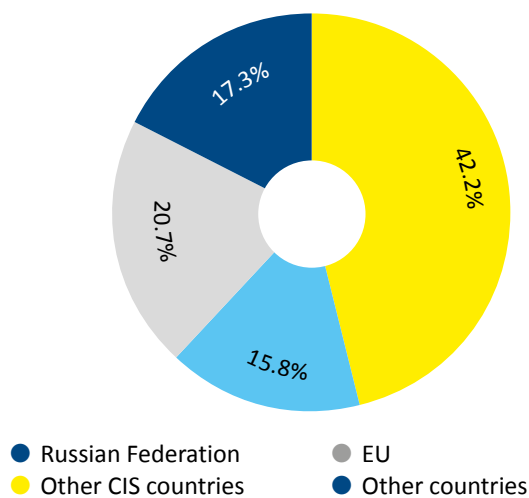
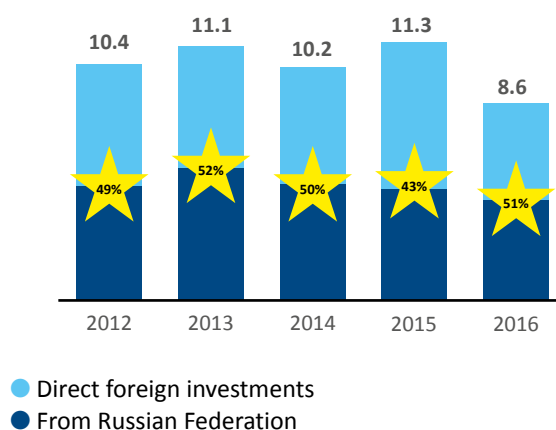


Figure 2: Amount of direct foreign investments (billion USD) ⁽³⁾



As a result, the Belarusian economy is generally well established internationally, with export sales accounting for 49.4% of gross domestic product. Compared to other Eastern Partnership countries, Belarusian SMEs account for a large share of total country exports (48.1%), while 22.8% of total SME revenue comes from export sales (2015). The Belarusian economy benefits from being able to buy energy resources from Russia at a reduced price and from prioritised access to Russian markets. The Belarusian export and import performance largely depends on Russia, its major trading partner, which accounted for 51.2% of Belarus' total foreign trade in 2016. That year, Russia accounted for 46.2% of Belarusian exports and 55.5% of Belarusian imports. The EU is the second-largest trading partner.

Investment in Belarus from abroad in 2016 saw USD 8.6 billion invested by foreign investors in the real sector of the economy (excluding banks). The main investors in Belarusian organisations were economic entities from the Russian Federation (51.5% of the total investment), the United Kingdom of Great Britain and Northern Ireland (17.1%) and Cyprus (7.3%). Gross foreign direct investment (FDI) was USD 6.9 billion, or 80.9% of the total foreign investment. However, such significant dependence on the Russian economy leads to negative consequences, as macroeconomic problems faced by Russia directly affect Belarus.

In general, if we consider the World Bank's 'Doing Business' publication as an overall rating of a country's ability to develop business and entrepreneurship, Belarus demonstrates steady growth, occupying 37th position in 2017 compared to 44th in 2016 and 63rd in 2014, thus showing an understanding of the necessity to reduce regulative and administrative barriers. Belarus moved up 13 and was named one of the top business reformers globally. In addition, Belarus ranked 30th in

facilitating cross-border trade for the second year in a row, ahead of all its CIS and EEU partners, as well as EU member countries such as Germany, Finland, Ireland, Malta and Cyprus. Such a position is quite favourable compared to close former USSR neighbours like Russia (40th place) and Ukraine (80th place), but shows areas for improvement in comparison to Poland (24th place), Latvia (14th place) and Lithuania (21st place).

1.2 Country overview – overall update on the political situation

The political situation in Belarus is characterised by the steady, continuous leadership of Alexander Lukashenko, who won his 5th presidential term in October 2015 (ending in 2020). In response to the release of all the remaining political prisoners on 22 August 2015 and to the presidential elections of 11 October 2015 that were held in a violence-free environment, and taking into consideration the overall state of EU-Belarus relations, the Council of the EU agreed on a four-month suspension of most of the restrictive measures in October 2015. Later, in February 2016 the EU lifted restrictive measures against Belarusian individuals and companies.

Table 2: Belarusian MSME definition

CATEGORY	NUMBER OF EMPLOYEES
<i>Individual</i>	1-4 employees
<i>Micro enterprises</i>	up to 15 employees
<i>Small enterprises</i>	16-100 employees
<i>Medium enterprises</i>	101-250 employees

Following the latest presidential elections, the country is now, more than ever, politically and economically manageable.



1.3 Country overview – overall presentation of the SME sector policy & strategy

The Belarusian authorities launched the most unpopular reforms in 2016: an increase in the pension age, an increase in utility payments and the liberalisation of prices for social goods.

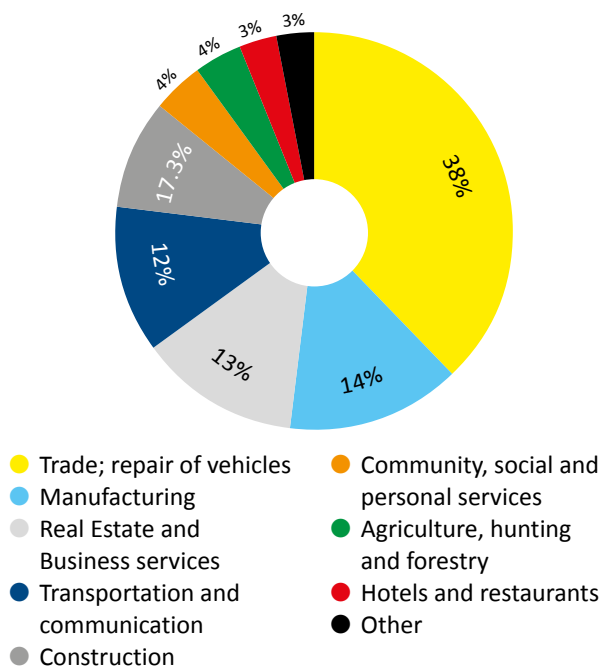
Table 3: Belarusian MSME definition

CATEGORY	NUMBER OF EMPLOYEES
Individual	1-4 employees
Micro enterprises	up to 15 employees
Small enterprises	16-100 employees
Medium enterprises	101-250 employees

The SME definition in Belarus includes only the employee headcount and does not include revenue or form of ownership as these distort statistics. Subsidiaries of large companies or organisations with small headcounts, but high revenues, are considered SMEs. However, for the purpose of direct State financing, SME revenue is considered.

The Belarusian SME sector strategy is shaped in the form of State support programmes for SMEs that have been constantly approved for three-year terms for more than 10 years. Each completed programme determined a set of quantitative objectives and an amount of financial resources allocated to specific areas of expenditure. For example, the main objectives for the 2013-15 programme were to increase the share of SMEs in GDP from 23.5% to 30%, the share of SMEs in sales revenue from 37.7% to 45%, the quantity of SMEs from 99 900 to 112 000, and employment in SMEs from 1.2 million to 1.8 million people. The total amount of financing for the three-year State programme was set at just USD 38.74 million. The main areas of expenditure included direct financial support for SMEs, informational support, educational and research efforts, product promotion,

Figure 3: Distribution of SMEs in Belarus by sector, 2015 ⁽⁵⁾



people involvement, SME support infrastructure modernisation and international trade relations development for SMEs.

Taking into account previous experience, the Belarusian Government and the Council of Ministers sought the advice of the World Bank Group, International Finance Corporation and OECD to provide their recommendations on core objectives, priorities and instruments that were included in the new 'Small and medium enterprises in the Republic of Belarus' State programme for 2016-20, approved by Decision No 149 of the Council of Ministers dated 23 February 2016, which is the first attempt to create a five-year plan. The programme outlines the following key objectives: to improve the business

Table 4: Key statistics, SMEs in Belarus, 2015 ⁽⁴⁾

INDICATOR	MICRO	SMALL	MEDIUM	TOTAL
Number of entities	92 684	12 363	2 394	107 441
Number of employees (thousand)	319.7	443.1	373.3	1 136.1
Sales revenue (million USD)	12 776	27 103	12 278	52 158
Revenue per entity (thousand USD)	137.8	2 192.3	5 128.7	485.5
Average size, employees	3	36	156	11
Share of GDP	5.20%	9.00%	6.90%	21.10%
Share of total revenue	9%	19.20%	8.70%	36.90%
Share of exports	4.20%	37.20%	6.70%	48.10%

Source:

⁽⁴⁾ www.belstat.gov.by/ofitsialnaya-statistika/publications/izdania/public_compilation/index_667

⁽⁵⁾ Idem

environment; to assist the development of SMEs; to improve support infrastructure for SMEs; and to form a positive image of entrepreneurial initiative among people. The total amount of planned financing for the programme is set at USD 317 million (at the exchange rate as of 31/03/2017), more than seven times higher than the previous programme, with most financing sourced from the Development Bank of the Republic of Belarus (DBRB), which was identified as the main body for consolidating all SME financing activities. The current programme has the following key success indicators that should be reached by 2020: 35% SME share in total added value; 35% share in total employment; 29.6 SMEs per 1 000 employed; 59.5 individual entrepreneurs per 1 000 employed; and 41.3% of total revenue. In addition to that, it is stated that by 2020 there should be 114 functioning centres for SME support and 38 business incubators, as well as more than 3 000 training courses conducted each year.

The positive image of entrepreneurial initiative should lead to the establishment of around 80 new SMEs for every 1 000 existing each year. This is the most comprehensive system of criteria ever used in SME development programmes in Belarus.

Government Decree No 870 of 25 October 2016 introduced amendments to the State programme. The share of gross value added generated by SMEs in the gross value added of the country is set to reach 40% by 2020.

The share of people employed in micro, small and medium-sized enterprises, and individual entrepreneurs and their employees, is set to reach 41.7% of total employment in the economy (instead of the previously planned 32% and 35%, respectively).

However, the problem that still remains unaddressed is that, even though the country has the strategy and has started developing the necessary supporting legal acts, there's still no dedicated authorised body to assume the responsibility for strategy implementation and, at the same time, serve as a permanent liaison between the Government and SMEs.



CHAPTER 2:

EU4BUSINESS PROGRAMMES UNDER IMPLEMENTATION

In the tables below, we present active EU4Business initiatives related to Belarus.

EU4Business initiatives in the sphere of improving access to finance

EBRD WOMEN IN BUSINESS PROGRAMME IN THE EASTERN PARTNERSHIP	
<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	2015
<i>DURATION (YEARS)</i>	7
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Women-led SMEs
<i>PURPOSE AND DESCRIPTION</i>	<ul style="list-style-type: none">• The programme promotes women's entrepreneurship and supports small SMEs led by women through access to finance and know-how solutions necessary for business growth. The European Bank for Reconstruction and Development (EBRD) is currently implementing the Women in Business programme in 16 countries. The programme is funded by the EBRD, the EU, Sweden and the Early Transition Countries Fund. EU contributes in the form of the risk spreading component (10% first loss guarantee to banks).• Belarus became one of the first countries to launch the Women in Business programme implemented by the EBRD. The EBRD is stepping up its investments in Belarus by extending new credit lines of up to EUR 10 million to Belinvestbank, one of the largest banks in the country. The loans will support the planned privatisation of Belinvestbank agreed between the Government of Belarus and the EBRD in May 2015 by broadening its business activities and outreach.• The two credit lines are a EUR 8 million credit line under the Belarus Sustainable Energy Finance Facility (BeSEFF) and a EUR 2 million senior loan under the EBRD's Women in Business programme.

SME FINANCIAL FACILITY I	
<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	2010
<i>DURATION (YEARS)</i>	9
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	The Facility aims at offering a wide range of financial services and products to SMEs and financial intermediaries throughout the region.

EU4Business initiatives in the sphere of improving legal and regulatory reform

STRENGTHENING AUDITING AND REPORTING IN THE COUNTRIES OF THE EASTERN PARTNERSHIP (STAREP)

<i>IMPLEMENTING AGENCY</i>	World Bank (CFRR)
<i>START DATE</i>	2013
<i>DURATION (YEARS)</i>	5
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Government/auditors
<i>PURPOSE AND DESCRIPTION</i>	This is a regional programme aimed at creating a transparent policy environment and effective institutional framework for corporate reporting within the countries that make up the EU's Eastern Partnership. STAREP is designed to assist them in adopting and implementing international standards and fostering the alignment of their financial reporting frameworks with international best practices and EU standards.

EU4Business initiatives in the sphere of improving skills and knowledge

EBRD SMALL BUSINESS SUPPORT PROGRAMME (SBS) – ENTERPRISE GROWTH PROGRAMMES (EGP) AND BUSINESS ADVISORY SERVICES (BAS) PHASE II

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>START DATE</i>	2015
<i>DURATION (YEARS)</i>	3
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	SMEs
<i>PURPOSE AND DESCRIPTION</i>	<ul style="list-style-type: none"> • The SBS – Enterprise Growth Programme (EGP) and Business Advisory Services (BAS) – helps MSMEs in the region to improve their competitiveness and ability to attract external financing by improving the financial literacy of senior managers and by facilitating their firms' access to high-quality business support services, enhancing managerial capacity in all areas and striving to develop the capacity of the local consultancy market to deliver the services needed. The SBS seeks to achieve enterprise-level change and the development of a sustainable infrastructure of business advisory services. • Continuation of the SBS activities in the Eastern Partnership region: it assists SMEs in the EaP countries in improving their competitiveness and ability to attract external financing.



EAST INVEST II

<i>IMPLEMENTING AGENCY</i>	EUROCHAMBRES
<i>START DATE</i>	2015
<i>DURATION (YEARS)</i>	3
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>TARGET BENEFICIARIES</i>	Business Support Organisations (BSOs) and SME associations
<i>PURPOSE AND DESCRIPTION</i>	<ul style="list-style-type: none">• The overall purpose of the East Invest programme is to develop mechanisms encouraging new flows of foreign direct investments and to strengthen the ongoing investment promotion process between the EU and the Eastern ENPI countries as well as between the Eastern countries, which will contribute to the enhancement of trade in the region.• East Invest provides training and technical assistance to SMEs in the Eastern Partnership countries, to enhance their networking and trading competences and opportunities.• It contributes to the economic development of the Eastern ENPI region and to the improvement of its business environment within the context of developing networking: on one hand between the EU and the Eastern ENPI partners and on the other hand between the Eastern partners. The East Invest projects work to facilitate the exchange of best practices and cooperation between the EU and Eastern Neighbourhood BSOs, particularly those with a focus on SMEs. Its focus includes promoting mutual trade and the transfer of technology, and aligning customs procedures and investment.

There are two planned EU4Business initiatives related to Belarus. They are presented in the table below.

EU4Business planned initiatives related to Belarus

INTEGRATING SMES FROM EAP COUNTRIES INTO DOMESTIC AND GLOBAL VALUE CHAINS

<i>IMPLEMENTING AGENCY</i>	ITC
<i>COUNTRIES COVERED</i>	Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine
<i>BUDGET TOTAL, MLN €</i>	6
<i>EU CONTRIBUTION, MLN €</i>	6
<i>TARGET BENEFICIARIES</i>	BSOs and SMEs
<i>PROJECT DESCRIPTION</i>	The project will help SMEs from EaP countries integrate into domestic and global value chains and access new markets with a focus on the European Union.

EU4BUSINESS: ADVICE FOR SMALL BUSINESSES IN BELARUS

<i>IMPLEMENTING AGENCY</i>	EBRD
<i>COUNTRIES COVERED</i>	Belarus
<i>BUDGET TOTAL, MLN €</i>	7.2
<i>EU CONTRIBUTION, MLN €</i>	6
<i>TARGET BENEFICIARIES</i>	BSOs and SMEs
<i>PROJECT DESCRIPTION</i>	Contribution to the EBRD Small Business Support programme (SBS), with specific focus on regional and local SME, where SBS is not currently operating.

CHAPTER 3:

SME NATIONAL POLICY AND FUTURE MEASURES PLANNED IN THE NATIONAL STRATEGY

The institutional framework for SME development in Belarus is currently being reformed. Measures for SME support are included in 'The National Strategy for Sustainable Development of the Republic of Belarus until 2030' (NSSD, adopted in 2015) and in the State Programme 'SMEs in the Republic of Belarus' for 2016-20. According to the NSSD, transforming SMEs into the country's sustainable growth drivers is a strategic goal for SME development.

The key indicator of success for this goal is SMEs' added value growth from 22.3% in 2013 to 50% in 2030. Key areas for SME sector development for 2016-20 and 2020-30 are defined in the NSSD. A long-term State SME Development Strategy through to 2030 is expected to be created in 2017.

National initiatives in the sphere of improving access to finance

ACTION ITEM	STATUS	IMPLEMENTING AGENCY	SOURCES OF FINANCING	DURATION (YEARS)	COST OF THE PROGRAMME (MILLION USD)*
<i>Establishing the work group to formalise the initiatives regarding the guarantee funds creation</i>	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016	
<i>SME financial support</i>	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee, BFFSE, Development Bank of the Republic of Belarus	The State budget, Regional budgets, Development Bank of the Republic of Belarus	2016-20	311.49
<i>Bffse activities in the defined areas</i>	Ongoing	Ministry of Economy (BFFSE)	BFFSE own funds	2016-20	1.83

* Exchange rate BYR\USD as at 31.03.2017

National initiatives in the sphere of improving legal and regulatory reform

ACTION ITEM	STATUS	IMPLEMENTING AGENCY	SOURCES OF FINANCING	DURATION (YEARS)	COST OF THE PROGRAMME (MILLION USD)*
<i>Creation of SME development strategy through to 2030</i>	Ongoing	Ministry of Economy		2017	
<i>Amendments to the laws related to SMEs</i>	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016-18	



ACTION ITEM	STATUS	IMPLEMENTING AGENCY	SOURCES OF FINANCING	DURATION (YEARS)	COST OF THE PROGRAMME (MILLION USD)*
<i>Administrative procedures optimisation</i>	Ongoing	Ministry of Economy		2016-20	
<i>Reduction of licensed activities</i>	Ongoing	Ministry of Economy		2016-20	
<i>Implementation of regulatory impact analysis mechanisms</i>	Ongoing	Ministry of Economy		2016-17	
<i>Translation of administrative procedures into electronic format</i>	Ongoing	Ministry of Economy		2016-20	
<i>Technical support, updating and modernisation of the electronic registry of administrative procedures</i>	Ongoing	Ministry of Economy	The State budget	2018-20	0.17
<i>Measures to improve Belarus position in the World Bank 'Doing Business' ratings</i>	Ongoing	Ministry of Economy		2016-20	
<i>Preparation of the annual report on the SME situation</i>	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016-20	

National initiatives in the sphere of improving skills and knowledge

ACTION ITEM	STATUS	IMPLEMENTING AGENCY	SOURCES OF FINANCING	DURATION (YEARS)	COST OF THE PROGRAMME (MILLION USD)*
Evaluation of activities of the directors of State bodies responsible for measures to improve the Belarus position in the World Bank 'Doing Business' ratings	Ongoing	Ministry of Economy		2016-20	
Establishing the systematic work of public and expert councils in Government bodies to support entrepreneur activities	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016-20	
Belarusian Fund for Financial Support of Entrepreneurs (BFFSE) activities improvement	Ongoing	BFFSE, Ministry of Economy		2016-17	
Improvement of the SME support infrastructure entities (business incubators and support centres)	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016-17	
Creation of service package to be provided to novice entrepreneurs without charge	Ongoing	Ministry of Economy		2017	
SME support infrastructure enlargement	Ongoing	Regional Executive Committees, Minsk City Executive Committee		2016-20	
Creation of subcontracting centre	Ongoing	BFFSE	Other sources (international technical assistance funds)	2017-19	0.06
Assistance to the SME support infrastructure entities (including financial and informational assistance)	Ongoing	Regional Executive Committees, Minsk City Executive Committee	Regional budgets	2016-20	2.60
Involvement of SME support infrastructure entities in the implementation of the Government measures for the development of entrepreneurship in the regions	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016-20	
Organisation of training events, round tables and workshops for executives and specialists of the SME support infrastructure entities	Ongoing	Regional Executive Committees, Minsk City Executive Committee		2016-20	

ACTION ITEM	STATUS	IMPLEMENTING AGENCY	SOURCES OF FINANCING	DURATION (YEARS)	COST OF THE PROGRAMME (MILLION USD)*
Organisation of annual forum to summarise the results achieved by SME support infrastructure entities and set goals for the following year	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016-20	
Research of SMEs' needs for the support services	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016	
Development of measures to improve the necessary professional skills in SME subjects	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee		2016-17	
Preparation and distribution of manuals, catalogues, reference books, other printed (electronic) products and videos regarding the organisation and operations of business in Belarus	Ongoing	Regional Executive Committees, Minsk City Executive Committee	Regional budgets	2016-20	0.13
Creation of the subcontract exchange	Ongoing	Ministry of Economy, BFFSE	The State budget, other sources (international technical assistance funds)	2016-20	0.05
Organisational and informational support for start-up movement in Belarus	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee	Regional budgets	2016-20	0.24
Regional Executive Committees and Minsk Executive Committee website maintenance and promotion in SME-related areas	Ongoing	Regional Executive Committees, Minsk City Executive Committee	Regional budgets	2016-20	0.08
Media (printed, electronic, TV and radio) coverage of issues regarding SME development and support. Organisation of periodic thematic direct telephone conferences and other events with media participation	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee	Regional budgets	2016-20	0.07

ACTION ITEM	STATUS	IMPLEMENTING AGENCY	SOURCES OF FINANCING	DURATION (YEARS)	COST OF THE PROGRAMME (MILLION USD)*
Organisation of the fair of innovative ideas, business forums, round tables with the participation of public associations of entrepreneurs, and seminars on the legal and financial framework of entrepreneurial activities	Ongoing	Regional Executive Committees, Minsk City Executive Committee	Regional budgets	2016-20	0.11
Development and realisation of middle-school business initiatives	Ongoing	Ministry of Economy, Ministry of Education, Regional Executive Committees, Minsk City Executive Committee		2017-20	
Creation and development of the specialised business web portal	Ongoing	Ministry of Economy (BFFSE)	BFFSE own funds	2016-18	0.09
Organisation of the national contest 'Entrepreneur of the Year', Belarusian Entrepreneurship Week and the Global Entrepreneurship Week	Ongoing	Ministry of Economy, Regional Executive Committees, Minsk City Executive Committee	The State budget, Regional budgets	2016-20	0.35

The programme 'SMEs in the Republic of Belarus' for 2016-20 was created to enhance further development of SMEs in Belarus. Government Decree No 870 of 25 October 2016 introduced amendments to the State programme 'Small and medium enterprises in the Republic of Belarus' for 2016-20, approved by Decision No 149 of the Council of Ministers dated 23 February 2016. The share of gross value added generated by SMEs in the gross value added of the country is set to reach 40% by 2020. The share of people employed in micro, small and medium-sized enterprises, and individual entrepreneurs and their employees, is set to reach 41.7% of the total employment in the economy (instead of the previously planned 32% and 35%, respectively). The table above is based on the planned projects from the State programme. If the cost of the programme is not stated in the table, it means that financing for the programme is not planned.

Currently, the realisation of national initiatives in the sphere of improving access to finance includes guarantee fund creation for SMEs in 2018. This fund will be oriented towards supporting start-ups. At the moment, the guarantee fund model is being defined with the involvement of international organisations. According to the action plan for national initiatives in the sphere of improving the policy and regulatory framework, the draft SME development strategy through to 2030 has been developed and submitted for public consultation.

The EU4Business Strategy is considered highly relevant to the Belarusian State SME Support Strategy. The main challenges for SMEs in Belarus are access to finance, access to markets, improving skills and knowledge, and regulatory and policy development. Actions provided under the National Strategy for Sustainable Development fall into three EU4Business priorities relevant to the Republic of Belarus, except for 'Access to Markets' as Belarus is not an AA/DCFTA partner.

There is a high level of coherence between EU4Business projects and SME policies; however, many EU4Business projects are not present in Belarus at the moment.

EBRD Country Strategy for Belarus

The EBRD is a key implementer for EU4Business projects in Belarus. The EBRD is also the most prominent and visible international development organisation acting in Belarus.

According to the [strategy adopted in late 2016](#), the EBRD will pursue the following strategic orientations in 2016-18, supporting the efforts of the Belarusian authorities:

1) Enhancing the competitiveness of the real economy by supporting growth and efficiency in the private sector and promoting the privatisation of State-owned companies:

A vibrant private sector is vital to promoting long-term sustainable growth. Access to finance, particularly for SMEs, remains constrained due to a combination of a lack of long-term funding, high interest rates and stringent collateral requirements. To bolster private sector growth, the Bank will seek to provide long-term debt and equity financing to local and foreign investors, as well as encourage MSME lending through the development of a sustainable, commercially-oriented banking sector.

The Bank will continue to provide advice to SMEs to strengthen their competitiveness through improved skills, investment in modern technology, good governance, and better business practice and standards. In Belarus' State-dominated economy, the private sector is also forced to compete for resources with less productive State-owned enterprises, which are a drag on the potential growth of the country. A core objective of the Bank's policy dialogue, therefore, will be to promote the privatisation of State-owned enterprises among strategic investors in order to inject capital and know-how to improve their competitiveness and productivity.

2) Enhancing the sustainability and service quality of public infrastructure through policy and regulatory reforms and the introduction of commercial solutions:

Belarus' aging infrastructure is almost entirely State-owned. Private sector participation is virtually non-existent, except in urban transport and renewable energy. Public infrastructure remains largely unreformed and transition gaps are large across all sectors. Tariff policies have been socially driven. Household tariffs are still below cost recovery and are subsidised by the budget, as well as by industrial and public entity tariffs which are substantially above the cost of service. As part of their commitment to reach full cost recovery for all utilities by the end of 2018, the authorities increased basic household tariffs for water supply and sanitation by 85% as of 1 January 2016. Where feasible, the Bank will encourage private sector participation in the provision of public infrastructure services.

The Bank will also seek to support reform initiatives of the Government at the project or sector level in the municipal, transport, power and energy sectors through its investments and technical assistance.

These two themes will be underpinned by the Bank's Green Economy Transition (GET) approach. The Bank will assist Belarus' transition to a low-carbon market economy, in which public and private investments are made in a way that minimises the impact of economic activity on the environment. Bearing in mind the Bank's adherence to high environmental standards in its projects (as enshrined in its Environmental and Social Policy), it will also explore opportunities to engage in select dialogue and technical assistance on environmental issues with the Belarusian authorities, consistent with the GET and in line with good international practice.

Table 5: The Bank's current portfolio (Private sector portfolio ratio: 96.6%, as of July 2016) ⁽⁶⁾

SECTOR	PORTFOLIO				
	NUMBER OF PROJECTS	PORTFOLIO, EUR MILLION	% OF PORTFOLIO	OPERATING ASSETS, EUR MILLION	% OF OPERATING ASSETS
Energy	1	6	1%	6	2%
<i>Natural Resources</i>	1	6	1%	6	2%
Financial Institutions	20	170	36%	132	33%
<i>Depository Credit (banks)</i>	17	168	36%	130	33%
<i>Non-depository Credit (non-bank)</i>	3	3	1%	2	0%
ICA	18	254	54%	237	60%
<i>Agribusiness</i>	6	25	5%	21	5%
<i>Equity Funds</i>	2	14	3%	2	1%
<i>ICT</i>	1	4	1%	4	1%
<i>Manufacturing & Services</i>	7	196	42%	194	49%
<i>Property & Tourism</i>	2	15	3%	15	4%
Infrastructure	4	40	9%	22	6%
<i>MEI</i>	3	18	4%	1	0%
<i>Transport</i>	1	22	5%	22	6%
TOTAL	43	471	100%	398	100%

Source:

⁽⁶⁾ EBRD Business Performance Navigator

GENERAL CONCLUSION

4.1 Main challenges for SME development

Compared to other EaP and EU countries, the level of SME development in Belarus is lower. According to the OECD SME Policy Index 2016, Belarus has made substantial improvements over the last four years, but still remains in 5th and 6th place in six out of 12 dimensions.

The general challenge that still remains is the improvement of the Belarusian economy. According to the World Bank's Doing Business reports and the Heritage Foundation's Index of Economic Freedom, the ease of doing business has been improving in Belarus. Nevertheless, FDI in Belarus has been falling since 2013. Even though there are good examples of foreign investment (such as Austrian Kronospan which has already invested USD 870 million in Belarus), the overall business image of Belarus remains unfavourable.

Belarus should seek more economic benefits from trade with the EU and the rest of the world. In this regard, Belarus has demonstrated a strategic interest in as well as a political will to join the World Trade Organisation.

Opening the national market to external competition has to occur on a well-prepared basis and on terms allowing Belarus to gradually get prepared for new realities. As a positive impact, the steps taken by the Government towards SME development in the country should be noted. The adopted State programme 'Small and medium enterprises in the Republic of Belarus' for 2016-20 sets out a range of ambitious and complex measures to meet expectations, such as: the share of gross value added generated by SMEs in the gross value added of the country reaching up to 40% by 2020; and the share of people employed up to 41.7% of total employment in the economy.

The action plan in the State SME programme for 2016-20 is described in the third section of this report (3. SME national policy and future measures planned in the national strategy) and demonstrates that for many actions included therein, neither financing nor external technical aid is currently available. Any kind of assistance related to execution of the plan can significantly influence SME development in Belarus and will be highly appreciated by local authorities.

Table 4: SME Policy Development Index Dimensions for Belarus, 2016 ⁽⁷⁾

POLICY DIMENSION	SME POLICY INDEX BELARUS			
	2012*	2016*	EaP average, 2016	Belarus rank among EaP countries, 2016
1. <i>Entrepreneurial learning and women's entrepreneurship</i>	1.6	2.39	2.52	5
2. <i>Bankruptcy and second chance for SMEs</i>	2.11	2.57	2.71	5
3. <i>Regulatory framework for SME policy making</i>	1.89	2.41	2.95	6
4. <i>Operational environment for SMEs</i>	3.73	4.09	4.01	3
5a. <i>Support services for SMEs and start-ups</i>	2.41	2.99	3.13	4
5b. <i>Public procurement</i>	3.14	3.21	3.12	3
6. <i>Access to finance for SMEs</i>	2.5	3.08	3.28	5
7. <i>Standards and technical regulations</i>	3.75	3.22	3.76	6
8a. <i>Enterprise skills</i>	1.69	2.28	2.66	6
8b. <i>Innovation policy for SMEs</i>	2.83	2.91	2.57	1
9. <i>SMEs in green economy</i>	1.97	2.1	1.99	4
10. <i>Internationalization of SMEs</i>	1.86	2.59	2.79	4

Source:

⁽⁷⁾ OECD Policy Index EaP countries, 2016

* *Score range 1-5, with 1 being the weakest, 5 being the strongest



Belarus currently hosts the lowest number of projects under the EU4Business initiative. Considering the recent abolishment of sanctions against Belarus, the fact that Belarus borders on three EU countries (Poland, Lithuania and Latvia), that it has established strong economic relations with the EU and that it is the second largest economy among EaP countries, it would be reasonable to increase EU4Business activity for existing projects as well as extend those EU4Business programmes that have not included Belarus before.

The current level of awareness of the authorities and the business community regarding the EU4Business activities is rather low, so measures should be taken to increase visibility of the EU4Business initiative and promote the opportunities it offers in Belarus.

Furthermore, some events related to EU4Business implementing bodies' activities in Belarus are only announced one week ahead, or even less. This short notice announcement does not allow enough time for participating or finding out more about them.

4.2 Building up collaboration with Belarusian authorities on SME development

The Ministry of Economy, the main body responsible for SME development in Belarus, has expressed considerable interest in the EU4Business initiative. Pursuant to the official letter by the former of 20.04.16, No 16-02-14/60, and according to the recently enacted State SME programme for 2016-20, the most important areas

for improvement, which require external technical and financial support, due to being very significant for SME development in Belarus, are:

- development of SME support infrastructure (support centres and business incubators);
- creation of guarantee fund to secure the liabilities of SMEs;
- creation of the electronic registry of all administrative procedures for legal entities' requests;
- initiation of regulatory impact analysis for legislative acts that can affect SMEs and their activities.

4.3 Access to finance

The current economic situation is leading to high interest rates for borrowings in the local currency. The loan granting process is also complex and time-consuming. SMEs cannot accumulate tangible assets and have to use leased property in most cases. On the one hand, this is related to the high costs of real estate and lack of available investment resources. On the other hand, it further impairs the ability of SMEs to take out loans, as they are unable to provide any substantial collateral that would satisfy the banks. There are no established guarantee funds that can provide the necessary vouching and security for SME borrowings.

Venture capital legislation remains underdeveloped in Belarus. There is an increasing supply of start-up ideas, however they face problems with getting venture investments.

Access to venture capital due to a lack of venture capital infrastructure and regulations is notably one of the key barriers limiting new innovative business development.

One of the important aspects that will significantly affect the situation with SME financing is facilitation of the SME guarantee fund creation, as well as various external risk-sharing programmes. According to the State programme for SMEs 2016-20, a workgroup aimed at formalising initiatives regarding the guarantee fund creation is to be formed in 2016.

In conjunction with institutional and policy improvement, the fostering of SME access to subsidised loans is crucial in the current conditions. The DBRB, which is currently the main institution providing financing to SMEs in Belarus, considers SME development one of its main priorities and is interested in strengthening its collaboration with international organisations involved in SME financing. The DBRB has already established sound operational activities with Belarusian commercial banks for SME financing products and can use administrative leverage due to its integration with the Government structures to effectively manage the resources provided by external institutions for SME financing. It would be reasonable to improve mutual activities of the DBRB as SME programme coordinator with the EBRD, which is a European institution that actively operates in Belarus. Financing opportunities are also limited, as compared with other EaP countries, taking into account that the European Investment Bank (EIB) is not yet operating in Belarus.

4.4 Improving the policy and regulatory framework

The regulatory framework and requirements for business operations are designed in view of large enterprises and often have additional conditions and provisions that are hard for smaller entities to grasp. SMEs are facing complications with many regulated aspects of business operations and legislative compliance. Control by supervising and monitoring State institutions affects a significant part of SME business activities and can sometimes be excessive. New legal acts are often enacted without considering their impact on the operational environments of SMEs, which are not subordinate to State bodies. However, in 2017 the Ministry of Economy plans to launch a mechanism of regulatory impact analysis for legislative acts that can affect SMEs and their activities.

As impaired access to borrowings remains among the main constraints for SMEs in Belarus, the most valuable and practical near future efforts that would positively affect SME development are those related to assistance with policy and institutional measures. In the current situation with the high cost of financial resources, which cannot be changed in the existing economic climate, the authorities may provide support with regulatory actions (preferential conditions for prospective businesses, deregulation and simplification of administrative procedures, promotion of entrepreneurship, etc). This might be achieved through institutional and consultative cooperation on the State level and with external technical and financial aid for the execution of important programmes.

Another initiative, which will need additional technical assistance to implement and which is supposed to improve the business environment in general, is the implementation of mechanisms for regulatory impact assessment of SMEs, which is also included in the State SME programme 2016-20.

5.5 Improving skills and knowledge

Belarusian SMEs face a lack of experienced personnel with the necessary theoretical knowledge and practical entrepreneurial skills to resolve complex enterprise management tasks. Due to the lack of financial capabilities and insufficient awareness, SMEs cannot afford to use consulting services related to business administration and development. The Belarusian educational system offers few post-graduate programmes related to entrepreneurship and business administration, and they are generally regarded as a means of staff development, rather than a way to become self-employed.

The other issue regarding SME development is the image of SMEs and entrepreneurship in general in society. Due to the State-oriented nature of the Belarusian economy and the somewhat controversial results of privatisation in neighbouring countries, for many years the image of an entrepreneur has often been regarded in a negative context. Many people who work as hired employees are afraid to start their own business and do not even consider this as an option.





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