



SUPPORTING SME COMPETITIVENESS IN
THE EASTERN PARTNER COUNTRIES

Strengthening SME capabilities through a sustainable market for business development services in Belarus

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Project Report

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FOREWORD

In 2014-15, the OECD, the European Commission, the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation carried out the second assessment of the Small Business Act (SBA) for Europe in the six Eastern Partner Countries, including Belarus. The SBA assessment provides policy makers with a detailed overview of small and medium-sized enterprise (SME) policy performance and recommends improvements in the implementation of the ten principles of the Small Business Act for Europe. The results were published in *SME Policy Index: Eastern Partner Countries 2016*.

Building on the results of the SBA assessment and following consultations with the Government of Belarus, the OECD and the Ministry of Economy of Belarus agreed to jointly work on the topic of developing SME capabilities through business development services. This project is embedded in the context of broader private sector development efforts and the prioritisation of SMEs by Belarusian policy makers.

The project is implemented within the framework of the Business Development Panel of the EU Eastern Partnership. Its main objective is to create a targeted and practical policy reform roadmap for SME support, with a focus on developing SME capabilities through business development services.

Developing business capabilities through targeted support services would help remove an important obstacle to firm growth and lead to a more competitive SME sector. In doing so, it is important to allow for the emergence of a sustainable market for business development services, in which private consulting companies can grow and play a major role in provision.

Broader structural reforms should accompany policies to promote private sector and SME development. In this regard, improving the general business environment would help maximise the effectiveness and sustainability of reforms in the areas described in this note, through broader liberalisation efforts, improved governance of state-owned enterprises, and a strengthened institutional framework for policy delivery. Such reforms would help create a level playing field for all firms, regardless of size and ownership status, thus fostering the competitiveness of the Belarusian economy.

This note is based on discussions and reviews by members of the dedicated project Working Group and Steering Group, who have jointly identified challenges and discussed recommendations for the policy reform roadmap. Project findings also benefit from the results of two surveys of SMEs and business development services providers in Belarus. A detailed description of the methodology can be found in Annex C.

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ACRONYMS AND ABBREVIATIONS

BFFSE	Belarusian Fund for Financial Support of Entrepreneurs
BSC	Business support centre
BDS	Business development services
EaP	Eastern Partner
EBRD	European Bank for Reconstruction and Development
EDMoE	Entrepreneurship Department of the Ministry of Economy of Belarus
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GH	Growth House
GoB	Government of Belarus
HGSME	High-growth SME
HR	Human resources
ICT	Information and communications technology
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
MGS	Matching grants scheme
NSSD-2030	National Strategy for Sustainable Socio-Economic Development of Belarus 2030
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
RIA	Regulatory impact assessment
SBA	Small Business Act
SME	Small and medium-sized enterprise
SME-SSP	State Support Programme for SMEs
SOE	State-owned enterprise
VET	Vocational education and training

KEY INDICATORS: BELARUS

Country profile	
Population, 2015	9.5 million
Surface area, 2015**	207 600 km ²
GDP (USD, current prices), 2015*	54.9 billion
GDP per capita, (USD, current prices), 2015*	5 777
Real GDP growth (y-o-y change), 2015*	-3.9%
Inflation (average consumer prices, y-o-y change), 2015***	13.6%
Exports of goods and services (% of GDP), 2015*	59.8%
Imports of goods and services (% of GDP), 2015*	59.4%
General government net lending / borrowing (% of GDP), 2015 ***	-0.26%
Unemployment (% of total labor force), 2015	1%
Enterprises with state share of 50% and above (% of total enterprises), 2015	12.6%
Employment in enterprises with state share of 50% and above (% of total employment), 2015	55.3%
State sector (enterprises with state share of 50% and above) in value added (% of total value added), 2015	46.3%
SME¹ statistics	
SME ² share in business population (% of total active enterprises), 2015	75.9%
SME share in total employment (% of total employment), 2015	30.5%
SME share in value added (% of value added), 2015	28.1%
State-owned medium-sized enterprises, 2015 (of total medium-sized enterprises)	24.8%

1. In this report, figures for SMEs refer to "subjects of small and medium enterprises", which include individual entrepreneurs.

2. Excluding individual entrepreneurs.

Source: Belstat (2015a; 2015d; 2016a, 2016b), *NBRB (2016), **World Bank (2016c), *** IMF (2016).

EXECUTIVE SUMMARY

In recent years, the Government of Belarus (GoB) has been increasing its efforts to develop the private sector, strengthen the position of small and medium-sized enterprises (SMEs) in the economy and sustain growth, employment and resilience in an increasingly difficult external environment. However, the SME sector's contribution to value added and employment in the country remains limited, and state-owned enterprises continue to play an important role in the Belarusian economy.

Among the major obstacles to the further development of SMEs in Belarus are a lack of entrepreneurship skills and business capabilities, both crucial for providing the know-how and skills needed to seize growth opportunities, reach export markets and become more innovative and competitive.

Targeted support services could help overcome the barriers to SME development and lead to a more competitive SME sector. To achieve this, however, it is important to allow for the emergence of a market in which private consulting companies can grow and, alongside other providers, play a central role in the provision of business development services (BDS).

Up until now there has been **a relatively low uptake of these services by SMEs, owing largely to a mismatch between demand and supply.** On the demand side, firms show limited awareness of business development services and face financial constraints in accessing them; suppliers, for their part, struggle to understand and meet SMEs' needs.

Furthermore, **government support in this area has been of limited efficiency and has relied on a supply-driven approach.** Subsidies are extended to a network of certified business support centres with rare prior assessment of either the needs of the business community or the quality and impact of the services provided.

A more strategic and market-oriented approach could enable Belarus to upgrade its business support infrastructure, to further develop the capabilities of its SME sector and ultimately to increase their contribution to the national economy. This will require reforms in three key areas:

- **Upgrading the institutional framework for the delivery of business development services** would help Belarus to adopt a more strategic approach to SME development and to strengthen the institutions involved in the delivery of SME support policies. This would allow better design and co-ordination of policies, as well as more effective delivery.
- **Belarus can unlock the latent demand for business development services,** not least by carrying out regular assessments of companies' needs, helping SMEs better understand their business needs, raising awareness of the benefits of BDS, and facilitating SME access to them.
- **The quality and range of services would benefit from a more market-oriented supply of business development services.** This can be promoted by improving the business environment for consultants, ensuring the quality of public and private business support provision, and increasing the involvement of private providers in the delivery of such services to SMEs.

THE SME SECTOR IN BELARUS AND THE NEED TO DEVELOP SME CAPABILITIES

In recent years, the Government of Belarus has been paying greater attention to private sector development. Strengthening the position of small and medium-sized enterprises (SMEs) in the economy will be fundamental to ensure growth, employment and resilience in the light of economic downturns. However, the SME sector's contribution to value added and employment in the country remains limited, and state-owned enterprises (SOEs) continue to play an important role in the Belarusian economy.

Further developing the private sector and increasing the competitiveness of SMEs will require overcoming an important barrier to firm growth: lack of entrepreneurship skills and business capabilities. To address these constraints, Belarus could consider developing targeted business development services (BDS) delivered through its public and private business support infrastructure. This section outlines the current status of SME support in Belarus and presents the main challenges to developing a sustainable market for business development services in the country.

Context: the business environment in Belarus is improving, but further support is needed for SMEs

Recent economic trends call for enhanced policy efforts to increase Belarus's competitiveness

1. Slow growth and external vulnerability have characterised the Belarusian state-led development model for the last few years. Since 2012, the Belarusian economy experienced three successive years of weak growth (1.5% gross domestic product or GDP growth rate on average) leading in 2015 to the first officially recorded recession in two decades. GDP fell by 3.9% in 2015, and is expected to further contract by an estimated 2.7% in 2016 (IMF, 2016). Weak global commodity prices have contributed to this downturn, reducing Belarus's earnings from exports of machinery to its main market, Russia, and refined oil products to the EU. Sluggish growth has been accompanied by the steady weakening of the Belarusian rouble, mirroring the fate of the Russian currency and representing a nominal depreciation of around 40% against the US dollar during 2015 (World Bank, 2016a).
2. Despite overall falling trade since 2014, Russia still remains the main export market, accounting for 43.2% of Belarus's exports during the second quarter of 2016 (Annex A, Figure 8). Close ties with Russia, as well as Belarus's limited export competitiveness, are hindering the diversification of trading partners and have contributed to an overall export contraction of 26.1% in 2015 (Belstat, 2016b; OECD et al., 2015).
3. Foreign investment could improve product quality and export competitiveness but remains very low compared to other countries in the region (Annex A, Figure 9). This issue is being addressed by a new investment law, adopted at the beginning of 2014, which aims at stimulating investment activity in the country through clear rules and mechanisms for protecting investors' rights (OECD et al., 2015).
4. State-owned enterprises (SOEs) continue to play an important role in the economy, benefiting from a preferential regime in terms of financial resources, lower energy prices, and limited regulatory obligations. This leaves the private sector at a competitive disadvantage. In 2015, SOEs accounted for 46.3% of value added and 55.3% of employment and are the dominant players in key industries such as machinery and chemicals. In contrast with other post-Soviet economies, Belarus has not implemented a large-scale privatisation programme yet, and structural reforms are proceeding slowly. The economic model continues to be based on full employment, primarily in the state-controlled sector, which hampers the reallocation of capital and labour to more productive sectors (EBRD, 2016a; OECD et al., 2015).
5. Overall, to promote sustainable growth, three policy priorities have to be addressed:

- First and foremost, there is a need to strengthen the institutional framework for SOE management, restructure larger SOEs and privatise small and medium-sized enterprises. This would facilitate the exit of less efficient companies, while promoting entry of new firms and allowing for a shift in the growth model towards more economic efficiency and market orientation (World Bank, 2015a). Restructuring SOEs could furthermore unlock their demand for external strategic advice by outsourcing services such as accounting, financial planning, marketing and management, while concentrating internal resources on the core business of the company.
- Second, to increase the competitiveness of the Belarusian economy, there is a need to create a level playing field for all firms, whatever their size or ownership status. The creation of a dedicated anti-monopoly authority represents a key step here. Anti-monopoly functions long remained under the Pricing Policy Department of the Ministry of Economy (OECD et al., 2015), but a new Ministry of Anti-Monopoly Regulation and Trade was established in June 2016 (GoB, 2016a). In addition, the GoB may consider phasing out subsidies for SOEs, while at the same time instituting measures such as preferential tax rates for SMEs. This should help create an environment for enterprises with incentives to reduce costs, increase investment, become more profitable and thus foster entrepreneurial initiatives.
- Third, there is a need to strengthen SME policy and private sector development. This would allow for a shift towards a stronger contribution of small and medium enterprises to the economy, in line with the targets set by the National Strategy for Sustainable Socio-Economic Development of Belarus 2030 (NSSD-2030), i.e. raising SMEs' share of GDP to 50% by 2030.

6. This note outlines policy recommendations related to the third point, and expands on ways to enhance the institutional framework for SME policy and address demand- and supply-side issues to allow for the emergence of a sustainable market for business development services for SMEs.

Progress has been made on SME policy, though SMEs' role in the economy is still limited

7. SMEs are crucial for an inclusive economy: they drive job creation, economic growth and contribute to a stable social environment. In the European Union (EU), 99 out of every 100 enterprises are SMEs, generating two out of every three jobs (OECD, 2015). SMEs also stimulate an entrepreneurial spirit and innovation, thus being key to fostering competitiveness and employment in modern economies (EU, 2015). However, they also face specific challenges, such as difficult access to finance and heavy regulatory burdens. To address these and other market failures affecting small and medium enterprises, governments should recognise SMEs as an important target of their economic policies and put in place specific mechanisms to create favourable conditions to foster enterprise creation and growth.

8. In the last few years, the Government of Belarus (GoB) has increasingly supported private sector participation in the economy and has taken steps to develop a comprehensive SME support policy. Current governmental action is based on four main documents: Presidential Directive No. 4 on the Development of Entrepreneurship and Stimulation of Business Activity in Belarus (adopted in 2010); Edict of the President No. 255 on Specific Measures of State Support for Small Entrepreneurship (adopted in 2009); Law No.148-3 on the Support of Small and Medium Entrepreneurship; and the most recent five-year State Programme for SME Support, 2016-2020.

9. Since 2012, progress has been made in removing administrative burdens for businesses by introducing electronic interfaces to facilitate interaction with government bodies, streamlining procedures for opening new businesses and reforming legislation in such areas as insolvency and public procurement (OECD et al., 2015). This has helped improve Belarus's ranking (44th out of 189 economies) in the 2016 World Bank *Doing Business* report (World Bank, 2016b). More recently, the GoB approved a new

dedicated action plan for 2016-20 to further improve overall business environment and the ranking in the World Bank *Doing Business* report.

10. Despite these developments, SMEs in Belarus¹ still contribute little to employment and value added, compared to OECD, EU and Eastern Partner (EaP) countries. In 2015, SMEs in Belarus accounted for 31.9% of total employment, compared to 60-70% in OECD and EU countries and 38% in EaP countries. The contribution of Belarusian SMEs to value added has been stagnating over the past five years, reaching 28.1% in 2015 as compared to around 60% in the EU (Annex A, Figure 10) (OECD et al., 2015; Belstat, 2016a; EU, 2016).²

11. Belarusian SMEs operate on very small scales in non-innovative, low-productivity industries, which in turn explains their limited contribution to total value added. In 2015, half of SMEs operated in manufacturing and trade, repair of motor vehicles, and household and personal goods. Only 3.5% of SMEs introduced product or process innovation in 2014 compared to 38% in the EU. However, the rapid expansion of the IT sector is worth mentioning, with exports of IT services having grown nearly fourfold from 2010 to 2015, reaching 12.3% of all service exports in 2015 (Belstat, 2015b, 2015c; 2016a; EU, 2016; UNITER, 2014).

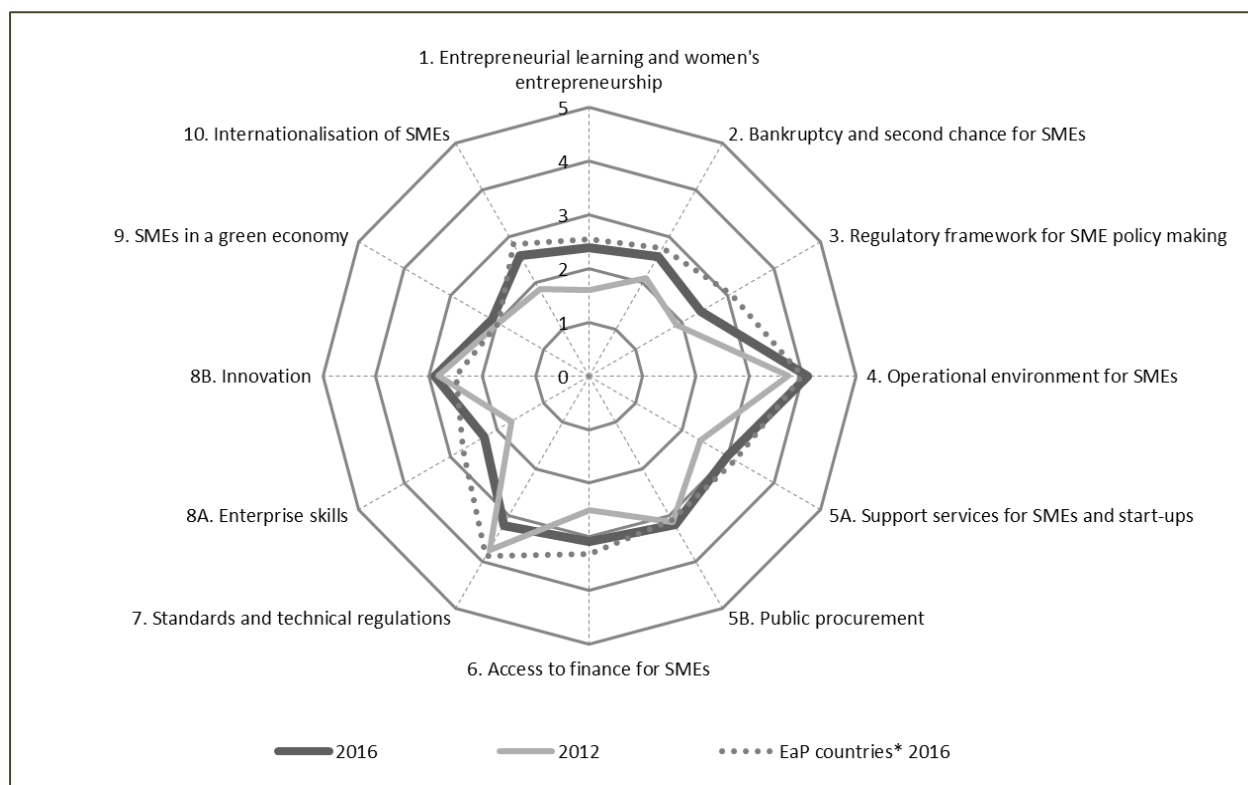
12. SMEs in Belarus continue to face a number of barriers and market failures that pose obstacles to business operations. According to the latest *Business Environment and Enterprise Performance Survey* (BEEPS V), the most significant constraint is an inadequately educated workforce, followed by access to finance and the practices of the informal sector (EBRD, 2014).

13. These firm-level data are matched by the findings of the latest assessment of the Small Business Act for Europe presented in the *SME Policy Index 2016* (Figure 1), where the following areas are seen as main constraints to SME development in Belarus: lack of a robust institutional environment for SME policy making (lack of an SME agency and strategy); legal and regulatory bottlenecks for access to finance (high collateral requirements and limited sources of finance beyond large state-owned banks); and limited enterprise skills and support services for SMEs and start-ups (lacking a concerted and strategic, market-oriented approach). Although access to finance remains a common issue for SMEs in most of the EaP countries, Belarus lags behind in the dimensions of regulatory framework for SME policy making and support services for SMEs, areas where best performing peers improved significantly by introducing the main building blocks of a robust institutional setting, such as an SME strategy and/or SME agency and designing targeted measures to support SMEs.

1. SME definition in Belarus: microenterprises ≤ 15 employees; small enterprises 16-100 employees; medium enterprises 101-250 employees (GoB, 2010a) vs. EU SME definition: microenterprises <10 employees and \leq EUR 2 million turnover or balance sheet; small enterprises <50 employees and \leq EUR 10 million turnover or balance sheet; medium enterprises <250 employees and \leq EUR 50 million turnover or \leq EUR 43 million balance sheet (EU, 2015).

2. This note identifies the share of SMEs in total employment and value added as measures of SME performance. Collection and use of other measures by the GoB, such as value added growth, employment growth or labour productivity could be considered for the future, allowing for a better understanding of recent developments and a clearer view on economic performance.

Figure 1. SME Policy Index 2016: Scores for Belarus



*Excluding Belarus

Source: OECD, EC, EBRD and ETF (2015), *SME Policy Index: Eastern Partner Countries 2016: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264246249-en>.

Limited entrepreneurship skills and business capabilities as important barriers to SME growth

14. Lack of management or technical skills, the use of suboptimal technology, limited access to markets and information, as well as regulatory barriers, hinder the development of SMEs. Business capabilities are therefore crucial for the development of SMEs, providing the know-how and skills to seek growth opportunities, reach export markets and become more innovative and competitive. Business capabilities also include knowledge about networks and the overall business environment, including about resources to expand the business, physical infrastructure, governmental regulations, as well as financial and non-financial support services.

15. More than half of Belarusian SMEs recognise an unskilled workforce as an impediment to their business (IFC, 2014) and a recent survey identifies human resource factors, such as lack of motivation and skills, as the biggest barrier to business growth after financial factors (IPM, 2015). In addition, the 2016 *SME Policy Index* (OECD et al., 2015) reveals that policies in support of enterprise skills and support services for SMEs and start-ups are found to be the areas showing the weakest performance.

Overall objective: develop a sustainable market for business development services to strengthen SME capabilities in Belarus

16. Developing business capabilities through targeted support services would help remove an important obstacle to firm growth and lead to a more competitive SME sector. To achieve this objective, it is important to allow for the emergence of a sustainable market for business development services, in which private consulting companies can grow and play a major role in the provision of BDS. At the same time, the development of a market for BDS would contribute to the growth of the services sector in general, through increased competition among service providers.

Business development services as a policy tool to improve SME competitiveness

17. Business development services enhance the performance of individual businesses, allowing them to compete more effectively, operate more efficiently and become more profitable (Committee of Donor Agencies for Small Enterprise Development, 2001). Ultimately, BDS allow firms to focus on their core competencies, while outsourcing non-core tasks to specialised advisors and reducing search costs for relevant information. More advanced BDS can also provide businesses with knowledge and resources to innovate, grow and internationalise.

18. For the purposes of this note, “business development services” is a comprehensive term, covering both services and physical facilities for entrepreneurs to develop their business capabilities. The concept can be illustrated by a matrix, clustered in three different service types: 1) general information; 2) consulting; and 3) training. These have six different topic areas: 1) sales and marketing; 2) production, operations and information communications technology (ICT); 3) human resources (HR) management; 4) financial management; 5) strategic management; and 6) legal issues and regulations. BDS also includes physical infrastructure, for instance business incubators, providing a mix of “hard” infrastructure, such as premises, and “soft” services.

Figure 2. Business development services matrix

Type of services	Topic areas					
	Sales and marketing	Production, operations, ICT	HR management	Financial management	Strategic management	Legal issues and regulations
General information	<ul style="list-style-type: none"> Market overview Foreign markets Procurement Exhibitions Trade fairs 	<ul style="list-style-type: none"> Suppliers Warehousing ICT Technology suppliers 	<ul style="list-style-type: none"> HR management good practice Labour regulation Training options 	<ul style="list-style-type: none"> Grants Export financial support Financing opportunities 	<ul style="list-style-type: none"> First assessment of business feasibility 	<ul style="list-style-type: none"> Standards (Certification, quality, export regulations) Legislation (Patents, copyright, IP rights)
Training	<ul style="list-style-type: none"> Sales and marketing positioning Presentation and networking skills Export intelligence 	<ul style="list-style-type: none"> Process re-engineering ICT training Energy/resource efficiency 	<ul style="list-style-type: none"> Leadership training Career progress Team building 	<ul style="list-style-type: none"> Financial planning Credit orientations Trading 	<ul style="list-style-type: none"> Business plans Business development Policy advocacy 	<ul style="list-style-type: none"> Bookkeeping and accounting standards Quality / safety standards Export regulations
Mentoring & consulting	<ul style="list-style-type: none"> Advertising & PR Design Pricing Packaging Distribution Access to clusters 	<ul style="list-style-type: none"> Quality management R&D Engineering solutions ICT 	<ul style="list-style-type: none"> Recruiting techniques Workforce skills development Reward plans 	<ul style="list-style-type: none"> Short, medium, long term finance Auditing Loan applications Investment Tax advice 	<ul style="list-style-type: none"> Long term business strategy Market entry Customer relationship management 	<ul style="list-style-type: none"> Analysis of policy constraints and opportunities
Physical infrastructure	Technology parks and business incubators providing a mix of services					

Basic services typically provided by public business support network

Advanced services typically provided by private sector / third parties

Source: Authors own work based on OECD-Belarus Working Group, 2016.

19. The overall business support infrastructure refers to the set of public, private and third-party providers shaping the supply of business development services for SMEs. These typically include a wide range of actors: individuals or private for-profit enterprises, NGOs, business associations and networks, universities and research institutes, incubators, technology transfer centres, technology parks and the Belarusian Innovation Fund, as well as state institutions, such as national or sub-national economic departments or dedicated ministry departments.

20. The supply of business development services should be determined by the market and shaped by demand based on a clear understanding of company needs. However, market failures may occur and contribute to a sub-optimal equilibrium in the market for BDS, where SMEs fail to obtain the services they need. Such market failures are typically the result of information asymmetries, lack of trust between parties and financial gaps.

The current business support ecosystem in Belarus involves a wide range of stakeholders

21. The current business support ecosystem in place in Belarus involves a number of stakeholders and providers (public sector, private sector, civil society, international organisations):

Public sector

- **State bodies.** Two main state bodies are responsible for overall policy making in the area of SME support, in particular concerning the provision of business development services to SMEs. At the national level, the **Entrepreneurship Department of the Ministry of Economy (EDMoE)** allows public and private providers of business services to apply for the status of “certified business support providers” and registers them in a nationwide database. The network of certified business support providers includes business support centres (BSCs) and incubators. The EDMoE also provides general information through various hotlines and web pages. At the sub-national level, the **Regional Executive Committees** attribute a budget to provide financial support to BSCs, such as subsidies on costs for equipment and construction, as well as costs related to trade fairs, event organisation and market research. They also offer some basic information and free legal consultations. Some other ministries, such as the Ministry of Foreign Affairs or the Ministry of Anti-Monopoly Regulation and Trade offer general information for entrepreneurs.
- **Certified business support providers.** The network of certified business support providers currently consists of 89 BSCs, including three basic support centres expected to co-ordinate the operations of BSCs across the regions and 19 business incubators. These are either public or private companies that have to apply for the status of certified business support providers according to certain criteria established by the EDMoE, such as ownership right of facilities, availability of appropriate personnel and the absence of overdue payments to the budget and state non-budgetary funds. This network provides a range of basic information, consulting and training, mostly free of charge, as well as physical premises for companies.
- **Technology parks and transfer centres.** A dozen technology parks in Belarus aim to promote entrepreneurship in scientific, technical and innovative fields and create the conditions for entrepreneurs to carry out research and innovation activities. They mostly provide physical premises and support for implementing innovation projects, including business plan development, accounting services and services in the area of intellectual property management. The main focus of technology transfer centres is technology transfer implementation. This includes market research to identify the potential for introducing innovations; products, technologies, services, organisational and technical solutions based on those; and engineering consulting and design services.

- **Belarusian Innovation Fund.** Provides funding for research, development and technological activities performed within the framework of implementing innovative projects. This includes finances for work on establishing and developing scientific and technical production, and providing public financial support for innovative projects.
- **Belarusian Fund for Financial Support of Entrepreneurs (BFFSE).** Besides offering financial support to SMEs such as credits and guarantees, the BFFSE's mandate for 2016-2020 is to start providing non-financial support, including a dedicated support website for SMEs, a database of available BDS providers in the country and to organise networking events.
- **Development Bank of the Republic of Belarus.** The Development Bank launched a new SME support programme in August 2014. The main objective is to ensure and enlarge access to credit resources for SMEs operating in the manufacturing and service sectors, as well as conducting leasing operations for investment projects at different stages of their development.

Private sector

- **Private non-certified BDS providers.** These are private consultancies, offering a wide range of consulting and training services. Services usually differ from those provided by the certified business support network, since they cover training, mentoring and consulting, rather than providing general information. However, they are rarely targeted to SMEs. Professional consultants' lack of training is seen as a barrier to BDS development; some consultants do not have proper professional education or a good knowledge of English, which hampers their learning and business development. Furthermore, consultancy associations are at a nascent stage.

Civil society and educational institutions

- **NGOs and business associations.** There are a number of NGOs, business unions and associations in Belarus. The most active ones – such as the Republican Confederation of Entrepreneurship, the Kunyavskiy Business Union of Entrepreneurs and Employers and the Belarusian Scientific and Industrial Association – work towards the overall improvement of the business environment in Belarus, but also provide basic information and training to their members through seminars and roundtables on selected topics. They also organise frequent networking events for potential business partners. However, business unions represent no more than 5-7% of potential members according to governmental insights, and tend to represent larger companies.
- **Universities, research institutes and business schools.** There are 52 higher education institutions in Belarus. Their main way of supporting SMEs is through advanced staff training and retraining, aimed at professionals with higher education, and issuing state-approved certificates. The Belarusian National Technical University also includes a start-up hub and a technology park on its premises, supporting young entrepreneurs in the innovation sphere and tackling technology transfer issues. Business schools complete the picture, such as the private IPM Business School or the public Institute for Business and Technology Management of the Belarusian State University, offering corporate training.

International organisations

- **European Bank for Reconstruction and Development (EBRD).** The **EBRD Advice for Small Business Programme** plays an important role in supporting SMEs by providing financial support in the form of grants, but also contributes to the development of local business development

services. As well as training private consultants and developing a database of quality providers, the programme subsidises up to 70% of SMEs' costs for the use of business development services provided by a professional consultant from EBRD's database (Box 1).

Uptake of business development services in Belarus differs by company size and economic sector

22. The conducted survey reveals that Belarusian SMEs are mostly users of basic services, illustrated by a heavier use of general information on sales and marketing (63% of small enterprises and 78% of medium-sized enterprises have sought this type of external advice in the last 24 months), as well as on legal issues (58%) and regulations (48%). More sophisticated services, such as consulting in the areas of strategic management or production, operations and ICT have been used to a much lesser extent (e.g. 27% of small and 5% of medium-sized enterprises have sought external advice in strategic management in the last 24 months) (Figure 19).

23. Concerning the sectors of economic activity, the survey showed that Belarusian SMEs in trade and manufacturing are relatively more frequent users of BDS than companies in other sectors, particularly in the areas of sales and marketing (78% of SMEs in trade and 66% in manufacturing sought external support in the area of sales and marketing in the last 24 months). As above, more sophisticated services – such as support in the areas of strategic management or production, operations and ICT – have been sought to a lesser extent across all sectors of economic activity, ranging from 0% to a maximum of 43% for strategic management in the sector of education, health and social services (Figure 23).

Box 1. The EBRD in Belarus and the Advice for Small Businesses Programme

The European Bank for Reconstruction and Development started its operations in Belarus in 1994. Since then it has implemented several country strategies promoting private sector development, market and structural reforms, and has provided funds for projects. Cumulative EBRD investments in the country have now reached EUR 1.8 billion, over 79 past and current projects. With its Enterprise Growth Programme and Early Transition Countries initiative, it provides technical assistance, debt and equity financing across all sectors to private companies, with a special emphasis on manufacturing and agro-processing. The bank has also implemented the Advice for Small Businesses Programme. Programme activities include:

- *Improving SME performance through business advice.* Local consultants under the programme provide advice in core SME development domains such as strategy, marketing, internal organisation, IT and financial literacy. Experienced international advisors are deployed in targeted strategic industries to transfer high-level management know-how, accompany business development plans, and address environmental and energy efficiency matters. A specialised online self-assessment tool, currently only available through the EBRD *Women in Business* programme, allows for an initial company diagnostic.
- *Transferring know-how and best practices.* Know-how dissemination is done through seminars, training sessions and workshops targeted at specific industries, as well as pre-existing local BDS.
- *Consolidating local business advisory services.* In order to strengthen BDS supply, the EBRD stimulates the establishment of professional consultancy associations and the introduction of internationally recognised industry standards.
- *Reinforcing institutional capacities of professional and intermediary organisations.* In addition to the BDS industry, the bank also supports capacity building and the development of high value-added services in various industry associations and professional organisations.
- The programme's methodology is centred on a careful selection of enterprises and consultants, periodical review meetings on ongoing projects including on-site monitoring visits, and final evaluations directly after project completion and one year later.
- *Source:* EBRD (2016b), "Project synopsis: Implementation of the EBRD advice for small business programme in Belarus", internal working document, EBRD, London, EBRD (2013), *Strategy for Belarus*, EBRD, London, <http://tinyurl.com/jqbyvfg>.

Challenges: three key areas for developing a sustainable market for business development services

24. Overall, government support for the provision of business development services in Belarus lacks a strategic approach and a focus on SMEs, which should be its ultimate beneficiaries. A large number of providers offer a wide range of BDS to entrepreneurs in Belarus, but provision is scattered across regions; public/private provision is not co-ordinated by a single entity in charge of SME policy; and public support is rarely targeted to SME needs. A dedicated business support infrastructure for SMEs exists but faces a series of challenges and market failures, analysed in the next section.

25. Up until now, low uptake of BDS by SMEs reflects in large part a mismatch between demand, which shows limited awareness of BDS and faces financial constraints in accessing them, and supply, which struggles to understand and adequately meet SMEs' needs. This mismatch has hampered the development of a sustainable market for business development services.

26. Furthermore, governmental support in this area has been of limited efficiency and has relied on a supply-driven approach to provide support services to SMEs. Subsidies are extended to a network of certified business support providers without prior assessment – either of the needs of the business community, or of the quality and impact of the services provided.

27. Analysis conducted by a dedicated public-private working group for this project has identified several challenges in three key areas: 1) institutions; 2) demand; and 3) supply of BDS. These are detailed below.

Institutions: Lack of co-ordination and alignment with SME policy

28. The **institutions supporting SMEs lack co-ordination and orientation towards policy objectives**. The current approach to SME development in Belarus lacks strategic focus: since 2010, SME policy has been guided by various documents such as Presidential Directive No.4 on the Development of Entrepreneurship and Stimulation of Business Activity in Belarus and the five-year state support programme for SMEs (SME-SSP) (before 2016 there were three-year state support programmes). These documents spell out a number of objectives but offer little detail and show limited understanding of stakeholders' roles and actions regarding implementation, monitoring and evaluation. Moreover, Belarus displays several shortcomings in its basic institutional environment for SME policy making:

- The **lack of a single SME development strategy** hinders SME policy consistency, co-ordination and implementation, as well as regular monitoring and evaluation of existing SME support schemes.
- The **institutional framework for SME policy** is weak. Currently, EDMoE is in charge not only of policy design, but also of overall co-ordination and implementation of SME support measures. It is backed by national and sub-national government bodies, such as various entrepreneurship development councils and commissions: the Council for Entrepreneurship Development; the Interdepartmental Commission for the Support and Development of Small Businesses; and the Advisory Expert Council on Entrepreneurship Development under the Ministry of Economy. It also has the support of regional executive committees (mostly in charge of budget allocation to the certified business support infrastructure), the BFFSE and the Development Bank, the two latter providing financial support to SMEs. However, the institutional framework lacks a comprehensive mandate for an SME development agency to be the transmission chain of policies to SMEs – including, for example, facilitating access to more sophisticated training and consulting services, in addition to delivering basic information.

Demand: Limited knowledge and financial constraints to access business development services

29. The **demand for BDS is constrained by informational and financial gaps**. Often seen as the most important market failures in the area of business development services, the information asymmetries and financial gaps faced by Belarusian SMEs are starting to be addressed by the government. The current five-year SME state support programme acknowledges these challenges and, as a first step, aims to improve the visibility of public support to SMEs and gradually increase the available financial support. However, important demand-side obstacles remain:

- **Limited government awareness of SME needs.** No nationwide data collection and analysis on SME needs has ever been conducted in Belarus, leading to an untargeted and supply-driven provision of business development services and inadequately allocated state support.
- **Limited knowledge of the availability and impact of business development services.** Around 40% of surveyed SMEs in Belarus could not name any private BDS provider and almost none were aware of the existence of third-party providers such as NGOs or business associations. This is especially true for SMEs operating in the regions, where 70% of SMEs do not know any private BDS providers. Overall, there is a lack of information about the positive impact of BDS. Public-private dialogue, and especially the role of business associations in promoting BDS, remains limited. Moreover, the perception of an overall poor quality of services offered by certified BDS providers, as well as of poor capacity of government-related bodies, leads to a limited use of such providers.
- **Untapped potential from state-owned enterprises.** Increased use of business development services by state-owned enterprises could spur demand and help develop a private market for business development services. Although there are no specific limitations on the use of external support, industry-specific state bodies monitor the activities and expenditures of SOEs. In particular, any “non-vital” use of state-owned funds can be challenged: BDS expenditures are overhead costs, and can only be taken into account for tax purposes if managers are able to link such expenditures to a corresponding investment project. If such link cannot be made, the financial performance of the firm will be negatively affected, leading to managerial decisions potentially being applied against the director of the SOE. As the direct effect of consulting services is very difficult to assess *a priori* and to be linked to a specific investment project, managers of SOEs may face disincentives when considering using BDS.
- **Financial constraints to accessing BDS.** 46% of respondents named high prices as the primary reason for not seeking external support (Figure 17). The current financial support from the GoB, however, is focused on the certified business support infrastructure rather than on facilitating SMEs’ access to more advanced business development services. The non-eligibility of BDS as an expenditure when applying for SME financial support under Edict No. 255 On Some Measures of State Support for SMEs is an additional constraint stemming from the regulatory framework.

Supply: Provision scattered and untargeted to SMEs, without quality assessment

30. The **provision of BDS is not targeted to SMEs, and the business environment for providers could be improved**. Private providers in Belarus play too small a role in the supply of business development services to SMEs, and a number of regulatory barriers hamper the development of their business. At the same time, public provision is usually of poor quality, as the certified business support infrastructure lacks direction, quality control and monitoring tools. Weak co-operation among stakeholders represents an additional obstacle to increasing overall efficiency of BDS supply in Belarus.

- **Lack of quality and performance assessment criteria for BDS providers.** Public provision of business development services consists of basic information services to SMEs, mostly free of charge. However, some business support centres (i.e. in Grodno and Vitebsk) show a certain degree of success in providing services to SMEs through efficient co-operation with private advisors and public institutions. Nevertheless, the lack of appropriate criteria for assigning the status of certified business support centre/incubator and limited predictability of government support hinder a targeted provision of government-funded services to SMEs. 37% of certified business support centres think that government subsidies are provided inefficiently, e.g. not in line with SME support and without the involvement of BSCs, and 63% do not receive any state support (Figure 27). Moreover, the lack of formal mechanisms for evaluating the quality and effectiveness of the services provided by certified bodies limits their efficiency. As regards private providers, their limited associative capacity hampers further recognition of the consultancy profession and the introduction of quality standards.
- **Regulatory barriers for private BDS providers.** Private consulting firms seeking to expand face regulatory obstacles that hamper their growth. In particular, certain educational and advisory services are subject to difficult and time-consuming licensing procedures, which increase the costs of private BDS providers in expanding their service portfolio. Specifically, services requiring a license include: activities aimed at staff retraining; advanced training to individuals with higher education; and advisory services, such as basic legal consultations on how to establish a new business, provision of information on the real estate market and the conduct of feasibility studies for pre-investment cases.
- **Limited involvement of private BDS providers in the delivery of SME support measures.** At the moment, certified business support centres do not consider private providers as potential partners in the delivery of support services to SMEs. This contributes to a supply-driven provision of services to SMEs, which misses the opportunity to expand the palette of services available to SMEs and to create market demand for private consultancies.

RECOMMENDATIONS FOR DEVELOPING A SUSTAINABLE MARKET FOR BUSINESS DEVELOPMENT SERVICES IN BELARUS

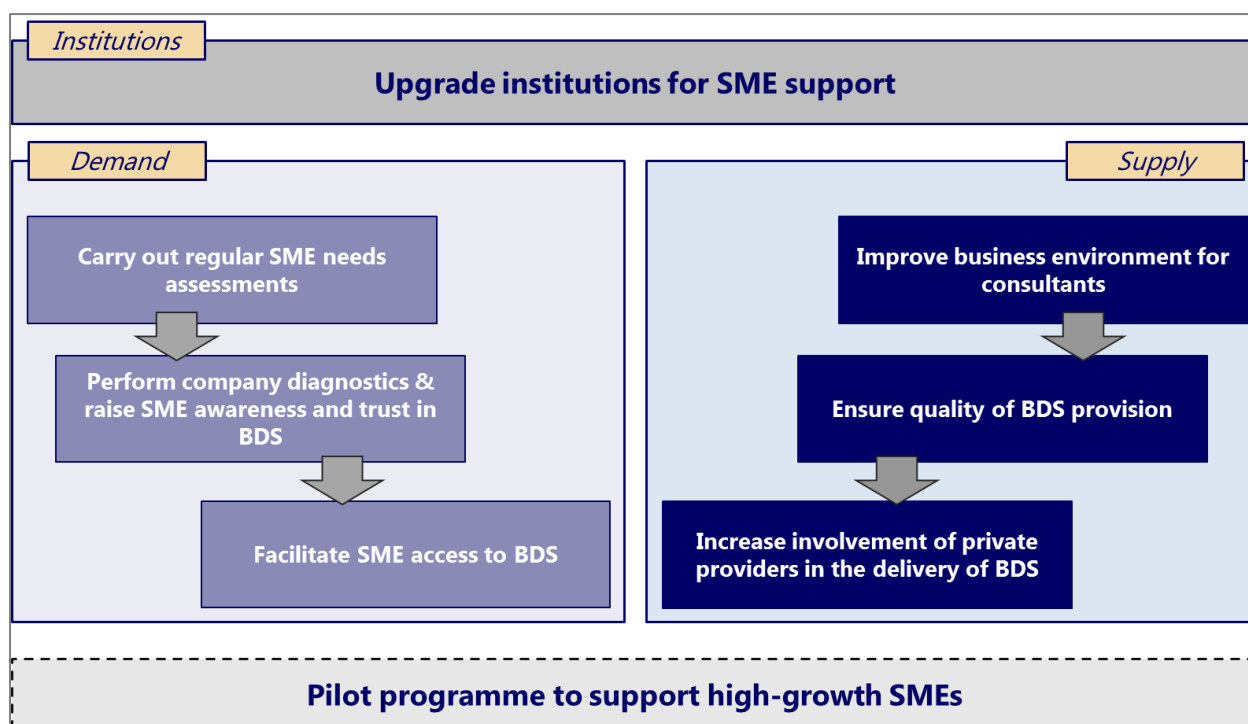
This section provides recommendations in three key policy areas (Figure 3), to help the government address the challenges of developing a sustainable market for business development services: 1) upgrading the institutional framework for the delivery of business development services (BDS); 2) unlocking latent demand for BDS; and 3) promoting a market-oriented supply of BDS. Implementing these recommendations will allow Belarus to upgrade its business support infrastructure, further develop the capabilities of its small and medium-sized enterprise (SME) sector and ultimately increase their contribution to the national economy.

31. Government policies can be put in place to address some of the challenges and market failures presented in the previous section. In particular, the government can play a key role as both promoter of the BDS market and a catalyst for the development of a sustainable business support infrastructure.

32. The recommendations provided in this note could contribute to the upcoming SME strategy, which is to be developed and approved by the Government of Belarus in 2017. This will ensure a co-ordinated approach to the design and implementation of nationwide SME policies, with particular reference to the development of a sustainable market for business development services.

33. Furthermore, the suggested reform plan could build on existing government strategies and programmes, in particular the NSSD-2030, the current SME state support programme, Directive No. 4 (GoB, 2010b) and relevant edicts such as Edict No. 255 on Some Measures of Governmental Support to Small Enterprises (GoB, 2009) and Resolution No. 195: On the financing of SME activities by the Development Bank of Belarus in 2016 (GoB, 2016b).

Figure 3. Framework for developing a sustainable market for business development services in Belarus



Source: Author's own work based on OECD-Belarus Working Group, 2016.

Upgrade the institutional framework for the delivery of business development services

34. Building on the recent progress made to develop the private sector and improve the general business environment in Belarus, further reforms should be considered to foster a strong policy making process in support of SMEs and their needs, and to ensure that the institutions for SME support evolve in a co-ordinated way. The recommendations to strengthen the institutional framework include two priority actions: 1) adopting a strategic approach to SME development; and 2) strengthening institutions by defining the roles of actors involved in the delivery of SME support policies.

Action 1.1: Adopt a strategic approach to SME development

35. Barriers and priority reform areas for SME development in Belarus need to be identified and structured into a single, coherent strategy. Selected topics and policy areas have been mentioned in various documents guiding SME policy, but the lack of a single comprehensive SME development strategy hinders an efficient and co-ordinated approach to supporting SMEs in Belarus. Such a strategy should aim to create a level playing field for SMEs through legal and regulatory reforms and outline tangible actions to address such problems as access to finance, skills development, technology transfer, research and development, and export competitiveness. The latest assessment of the Small Business Act for Europe could serve as a starting point to identify relevant policy areas and prioritise actions (Figure 11).

36. An SME development strategy should be accompanied by a dedicated action plan to ensure that strategic priority areas are translated into a set of well-defined policy actions, with clearly identified goals, responsible institutions, implementation timeframes and resources. Policy goals should be complemented by specific indicators, helping to monitor and evaluate progress of existing schemes and programmes. Moreover, support programmes for SMEs should be designed based on regular needs assessments (see Action 2), and with a specific view of those sectors that would benefit the most from the use of business development services in terms of enterprise population, potential to increase employment and value added, innovation and internationalisation (Figures 18, 23).

37. In this regard, a first step has already been taken by the Belarusian government. The most recent five-year SME state support programme (2016-20) includes as its first activity for the upcoming year the design of an SME development strategy until 2030. Policy recommendations provided in this note could serve as an input for the strategy, in particular those related to the institutional framework and the delivery of business development services to SMEs.

Action 1.2: Strengthen institutions involved in the delivery of SME support policies

38. The Government of Belarus (GoB) could also consider setting up a single policy co-ordinating body on the basis of the existing institutional structure for SME support, including the Council for Entrepreneurship Development, the Interdepartmental Commission for the Support and Development of Small Businesses and the Advisory Expert Council on Entrepreneurship Development under the Ministry of Economy. An independent SME agency should be established as a separate entity in charge of policy implementation.

- SME policy design should be guided by an oversight body, dedicating an important role to the Ministry of Economy and with representation from relevant line ministries, private sector representatives, as well as including the existing SME support bodies. The purpose of this single co-ordinating body would be to agree on strategic objectives for SME development, especially on long-term goals for the SME sector and on the budget for SME support programmes.

- A separate and independent SME development agency could improve the delivery of BDS to SMEs. Main tasks would include: 1) design and co-ordination of SME support programmes, including the administration of the allocated budget and the selection of appropriate providers through project-based tenders, i.e. public contracts to outsource consulting services; 2) collection and dissemination of market information, including monitoring and assessment of SME needs and support programmes; and 3) gathering and provision of information on existing support schemes to SMEs (e.g. financial support available through the Belarusian Development Bank or the European Bank of Reconstruction and Development (EBRD) programmes).
- At the regional and local level, the GoB could consider setting up branches of the SME agency, based on an assessment of regional economic activity and expected SME demand. These branches could be dedicated to the local dissemination of basic market information and initial company diagnostics. They could be selected from among the best performing certified business support centres after a thorough assessment of their capabilities.

39. The SME development agency should implement the state policy on behalf of the government and co-ordinate its activities with other stakeholders involved in the provision of business development services, such as private BDS providers, business associations and regional executive committees. An overview of the proposed institutional framework is presented in Annex A, Figures 13, 14.

Unlock latent demand for business development services

40. In order to reduce information asymmetries and relax financial constraints, the GoB should consider the following actions: 1) conducting regular SME needs assessments; 2) helping SMEs better understand their business needs; 3) raising awareness on the benefits of and increasing trust in business development services; as well as 4) facilitating access to BDS through dedicated financial tools and amendments to the regulatory framework.

Action 2.1: Carry out regular SME needs assessments

41. A clear understanding of SME needs is a prerequisite to any government policy and actions. Regular surveys of the SME community and assessment of market failures would enable the government to foster the development of a targeted and demand-driven market for business development services. Such surveys would provide information about current revealed preferences on the use of, and willingness to pay for, BDS, but also help to better understand the perceived needs, as expressed by SME owners and BDS providers respectively. Insights should also be sought into how, when, where and in what format SMEs are willing to obtain business development services.

42. The GoB could consider a combination of various tools to gather information, such as online surveys published on relevant websites, case studies or focus groups conducted with SMEs, reports of certified business support providers and regular consultations with the business community. Moreover, a national survey could be designed by the SME development agency and carried out through its regional branches, ensuring a regular up-to-date analysis. Going further, a framework for training needs analysis could be set up to assess SMEs' training needs in various sectors, helping to understand businesses' demand for skills and identifying skills shortages in the economy, which would allow to anticipate future developments at both the national and sub-national levels.

43. The needs assessments will serve as a basis to design targeted support programmes, reflecting revealed SME preferences and bridging market gaps. This would allow the SME agency to better target sectors and groups, such as offering support to internationalisation for high-growth SMEs, but also to develop a nuanced BDS policy as regards to which services should be provided for free, which should be

co-financed and which should be exclusively offered at market rates. Furthermore, communicating survey results to the wider public is expected to generate positive externalities, such as bringing to light the latent needs of SMEs and spurring their investment in support services, as well as nudging private BDS providers to better shape the offer available in the market.³

Action 2.2: Help SMEs better understand their business needs

44. To increase the uptake of BDS, initial company diagnostics should be offered to SMEs to help them better understand their specific business needs. These could be carried out by trained experts of the SME agency and its regional branches, who would perform an assessment of the company's recent business performance, current resources and future ambitions. The EBRD's remote company assessment tool could also be regarded as an inspiration for the GoB (Box 1).

45. Following the initial company diagnostics stage, SMEs should be directed to private consulting firms of proven quality and equipped to assist SMEs with appropriate support. This would enable SMEs to access the relevant services to solve specific business problems or fulfil their growth ambitions, while at the same time reducing search costs for the appropriate provider. In particular, local branches of the SME agency could facilitate matching SMEs with BDS providers by sharing information about relevant consultants and by organising industry fairs and networking events.

Action 2.3: Raise awareness of the benefits of business development services and increase trust in service providers

46. Disseminating information about the existence and availability of business development services will be an important step to increase SME awareness in this area. Setting up a single national database of existing public and private BDS providers in Belarus, e.g. on the website of the future SME agency, could contain indications of location, type of services provided, qualification and experience of the providers. Moreover, the database should be supplemented with information on existing support schemes for SMEs, providing information on financial support schemes from the Belarusian Development Bank, the EBRD's Advice for Small Businesses Programme, relevant legislation, standards and regulations.

47. The SME agency and local stakeholders (regional branches of the SME agency, education institutions and business associations) could also raise awareness of the benefits of business development services, linking those to the general promotion of entrepreneurship. This could be achieved through information campaigns, workshops, roundtables and advertising success stories of entrepreneurs for students and, more specifically, SMEs' use of BDS among members of business associations.

48. Business associations can act as important intermediaries in the market for BDS. In particular, they can increase SMEs' trust in the value and impact of advisory services by facilitating peer learning among companies. In a trusted environment, SMEs could openly exchange experience with peers and learn more about the external support available (Box 2).

Box 2. Leveraging business associations to increase trust and spur demand for BDS in Belarus

Mentoring schemes could be put in place by business associations, matching newly established SMEs with more mature companies. Such schemes could help accompany a firm from its inception through a series of dedicated support services, from the discussion on the results of initial company diagnostics to a regular support and exchange of good practices and peer-to-peer advice. Mentors could also share their experience of external support, thus

3. An initial step in this direction has already been taken by the GoB, an SME needs analysis being included as one of the activities (Action 27) of the current SME-SSP.

showcasing benefits of business development services.

Peer-learning and networking events as well as industry fairs could be organised by business associations in co-operation with local providers. This could be done at a national or sub-national level, increasing awareness about business development services in general, and their benefits in particular.

In order to maximise their potential as providers of BDS, business associations could go through a self-review, mapping the current services provided, improving their quality and exploring possible co-operation with local stakeholders and the SME development agency.

To fully leverage business associations as local intermediaries for SMEs, there is a need to further enhance and showcase the benefits of being an association member. This could include offering tax breaks on membership fees to develop participation in such organisations, as well as increasing their visibility among the business community.

Action 2.4: Facilitate SME access to business development services

49. High prices are seen as the main reason why SMEs do not seek external advice. To increase access to business development services, the government could consider financial support in the form of matching grants (Box 3) as a tool to facilitate the purchase of high quality services. Such grants should be designed to incentivise initial use of BDS, as well as allowing companies to access more sophisticated services. Such a scheme has already been put in place by the EBRD as part of its Advice for Small Businesses Programme, targeting SMEs with a minimum of two years of business experience and covering up to 70% of their costs for consulting services (Box 1). The GoB could build on this successful experience and further advertise EBRD's programme through the SME agency. Any additional donor's resources in this area should not compete with the existing schemes, and it will be the government's task to ensure that new financial tools are introduced in a coherent way with the schemes already being implemented. Such an approach would allow the GoB to maximise the impact of donor assistance in this area while focussing its resources on other parts of the reform plan requiring financial commitments.

Box 3. Setting up matching grants schemes for SMEs

Matching grants schemes (MGSs) consist of partial subsidies provided by government and donor programmes encouraging firms to undertake innovative activities (such as product creation, technological upgrading or the use of business development services). The underlying mechanism aims at triggering an "additionality" effect, i.e. benefits beyond those the firm would otherwise be able to produce. Grants are provided on a cost-sharing basis, with recipients matching the grant with a contribution from their own funds.

Typically, smaller firms tend to underinvest in learning and innovation, due to market failures such as credit market imperfections and an underestimation of the gains from using business development services, as well as the presence of positive externalities. By reducing the cost borne by the company, MGSs aim at facilitating SMEs' access to BDS and fostering an increased demand for these types of services.

The following guidelines could be considered when designing an MGS, according to private sector development priorities and available resources:

Target companies: The schemes should be adapted to specific business sizes and sectors, mirroring national policy objectives. Target companies could be selected, through competition, among firms able to absorb assistance effectively and showing the largest potential for positive spillover effects, e.g. high-growth SMEs triggering employment growth.

Type of services: Matching grants can support beneficiaries in subsidising the costs for the use of business development services. Additional services, such as initial business diagnostics or project preparation advice for applicants could be included as part of the MGS.

Cost-sharing ratio: The ratio of funds provided to SMEs by the scheme is usually around 50%, while the EBRD is covering up to 70% through their Advice for Small Businesses Programme in Belarus. Less generous ratios can arise, for instance when there is uncertainty over additionality or when applicants have already received grants for technical support previously. Conversely, more generous ratios could fail to secure adequate beneficiary commitment to the support service received.

Monitoring and evaluation: There is a need to closely monitor and assess the impact of MGSs, ensuring their contribution to the overall objective, and their additionality or extended benefits beyond those which the private sector would have produced in their absence. Econometric analysis of the basis of treatment and control groups could be considered.

Source: World Bank (2015b), "The additionality impact of a matching grant program for small firms: Experimental evidence from Yemen", Policy Research Working Paper, No. 7462, World Bank, Washington, DC, <http://tinyurl.com/h4gxt45>, World Bank (2001), *Implementing the Market Approach to Enterprise Support: An Evaluation of Ten Matching Grant Schemes*, World Bank, Washington, DC, <http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-2589>, Mills, G. (2006), "Matching grant schemes: What they are, why they exist and how they work", ITC Position Paper, International Trade Centre, Geneva, <http://www.carib-export.com/obic/documents/Matching-Grant-Schemes-Position-Paper.pdf>.

50. Specific regulatory amendments could help further unlock the demand for BDS. In particular, the criteria described in Edict No. 255 (on some measures of state support to SMEs) should be modified to make BDS expenditures eligible to receive financial support in the form of loans from public institutions, alongside current eligible activities such as participation in fairs.⁴ Moreover, temporary tax breaks for expenditures on BDS could also be considered (e.g. tax breaks for export support programmes could be made available to spur initial internationalisation for companies, but removed once the firm has established itself as an exporter).

51. Demand for BDS could also be unlocked by encouraging state-owned SMEs to purchase external services. A change of mind-set, attained through educational programmes to raise awareness about the benefits of business development services and targeted at managers of state-owned SMEs, would be an important step to foster demand for BDS from this important segment of the Belarusian economy. State-owned SMEs could thus start seeking external strategic advice – including on preparing for privatisation and outsourcing services such as accounting, financial planning, marketing and management – while concentrating internal resources on the core business of the company.

Promote market-oriented supply of business development services

52. To foster an efficient and sustainable supply of business development services in Belarus, the GoB should create the necessary conditions for private consulting firms to grow, while ensuring that public interventions in the market are driven by business demand and target identifiable market failures that constrain SME growth. To achieve this objective, the GoB could consider taking the following actions: 1) improve the business environment for consultants; 2) ensure the quality of business development services providers; and 3) increase involvement of private providers in the delivery of BDS to SMEs.

Action 3.1: Improve the business environment for consultants

53. To ease regulatory barriers for private consultants and foster supply-side growth, the GoB could consider amending licensing regulations regarding the provision of specific advisory services in the areas of legal advice (e.g. how to establish a new business, its operations and termination; legal activities regarding attracting investment in Belarus), real estate (e.g. analysis of available premises for business and

4. An initial step in this direction has already been taken by the GoB, the criteria described in Edict 255 being intended to be amended according to the current SME-SSP (Action 3).

estimation of market lease rates) and pre-investment documentation (e.g. business plans and feasibility studies). Moreover, the process and requirements for obtaining the license to provide staff retraining and advanced training to individuals with higher education could be eased, thus allowing providers to widen the palette of training services offered. Enabling private BDS providers to offer business advice outside their core businesses without licensing restrictions would help consulting firms tap into potential new revenue streams and thus grow their business. Business associations could also benefit from loosened restrictions regarding the provision of BDS for profit, especially in the context of collectively acquiring and providing sophisticated services for their members (Action 3.3).

54. Furthermore, availability of qualified human capital for private BDS providers should be enhanced. Lack of trained employees is considered one of the major concerns for consulting companies. The GoB could support human capital development for BDS providers by co-financing relevant expenses, such as training costs for staff in order to increase their English language knowledge. This would allow them to acquire new skills, crucial for researching up-to-date content such as on external markets, which in turn would increase the quality of the service provided and help to spur demand. Training for consultants is already being provided by the EBRD with very positive results (Box 1). The GoB could build on this existing scheme by advertising it through the SME agency and its regional branches, while contracting consultants to deliver complementary training to BDS providers.

Action 3.2: Ensure quality of public and private business support provision

55. First, the GoB should assess and review the current status of certified business support providers. The 89 currently certified business support centres and 19 incubators should undergo a rigorous mapping of the type and quality of services provided and goals achieved, as well as the available technical and financial capacity. The assessment could be carried out by the SME agency in co-operation with local stakeholders, and in particular with support from the regional executive committees, which currently assess the eligibility and provide financial support to BSCs in the regions. In addition, business associations could be consulted to incorporate the business and SME view in the assessment process.

56. Once the current infrastructure has been assessed, the GoB should reconsider the status of certified business support providers for those that do not adequately serve SMEs or meet appropriate performance requirements. However, best-performing certified bodies could be selected as potential regional branches of the SME development agency, taking into consideration regional economic activity and demand from local SMEs. New criteria should be introduced to provide financial support to the regional branches of the SME agency and could include: requirements regarding academic qualifications of staff providing services; number of years of relevant experience in providing business development services to SMEs; and direct staff involvement in the provision of services to SMEs in the past year.

57. Quality and effectiveness of future regional branches of the SME agency should be ensured by regularly monitoring and evaluating the activities and programmes carried out. These assessments could be based on results achieved against set objectives, such as the number of SMEs reached by a certain programme, the growth achieved by clients, satisfaction levels, and increased use of advisory services paid for by SMEs.⁵

58. In order to improve the quality of private BDS providers, the GoB could also support private advisors to acquire international certifications, help introduce quality standards and increase trust in and recognition of consultancy as a profession in Belarus. To this end, the SME agency could set up a pilot

5. The GoB has already taken an initial step in this direction by including the improvement of eligibility criteria (Action 17) and creation of an ongoing performance monitoring system (Action 18) in the current SME-SSP as crucial activities to improve the business support infrastructure.

scheme to co-finance international certification such as “Certified Management Consultant” and “Chartered Financial Analyst” for a limited number of consultants, for instance to be selected among those that have shown the highest growth in the last three years. However, it is important to stress that industry association and certification should ultimately originate spontaneously among industry players, and should not be mandated by the government.

Action 3.3: Increase involvement of private providers in the delivery of BDS to SMEs

59. Enhanced co-operation among BDS providers and other stakeholders, such as business associations, is needed to ensure an efficient and demand-driven delivery of BDS, while providing coverage of basic as well as sophisticated services throughout the country. This could be achieved through the three following sub-actions:

- There is a need to identify appropriate providers by type of service delivered, be it for basic or more advanced/sophisticated services. Regional branches of the SME agency should concentrate on the provision of basic services, such as general information (on regulatory issues, tax legislation, existing support schemes) and perform initial company diagnostics, while facilitating SMEs’ access to private consultancies which offer more targeted and sophisticated services and could compete via tenders as the implementing bodies of SME agency programmes.
- Furthermore, business associations should be leveraged not only as promoters of the benefits of BDS but also as direct providers of services to SMEs. In this regard, business associations could acquire sophisticated support services on behalf of their members, which individual firms might struggle to pay for. Aggregated SME demand would result from the collective purchasing power of association members, which would in turn raise the relevance of business associations for SMEs and increase their membership rate.
- Regional branches of the SME agency could also act as “brokers” and refer SMEs to their database featuring private providers of proven quality for the delivery of more sophisticated services, as well as to institutions of higher education (for services to improve the skills of administrative and managerial staff) and professional education institutions (for professional training, retraining and skills upgrade). This would help raise SMEs’ awareness about the availability of more targeted services in the region and provide them with a minimum of quality assurance. In order to preserve competitive mechanisms in the market for BDS, and following the initial company diagnostic that would identify the type of support required, the ultimate selection of providers and purchasing decision should be left up to the company.
- Furthermore, the SME agency could also partner with private consulting companies to serve SMEs. After going through a tender process, private consultancies could carry out training and seminars on the premises of the SME agency branches, while also showcasing the availability and benefits of more advanced services to participating SMEs.

60. Overall, an increased involvement of private providers in the provision of SME support entails many advantages, including a more efficient delivery of services due to competition through tenders and increased awareness about sophisticated BDS among SMEs. Moreover, by enhancing the co-operation between public and private providers, supply gaps could be reduced and diversification of services improved.

61. Specific programmes could be designed to pilot this co-operation. An example is presented in the next section, tackling the needs and supporting SMEs in Belarus at different stages of development.

THE WAY FORWARD

For a governmental programme to be successful and achieve the highest impact, it is critical to target the right audience (e.g. by sector and/or the lifecycle stage of small and medium-sized enterprises) with appropriate support services, based on company needs and demand. An audience showing difficulties in accessing external support, while at the same time demonstrating a strong absorptive capacity, should therefore be aimed at. In this regard, high-growth small and medium-sized enterprises (HGSMES) are expected to show the highest return on investment for business development services (BDS).

- The survey conducted for this report reveals that Belarusian SMEs in trade and manufacturing are relatively more frequent users of BDS than companies in other sectors, particularly in the areas of sales and marketing. This suggests that companies in those sectors have already developed their business operations enough to seek external advice in order to increase sales turnover or number of clients. This type of company is a particularly receptive target for support programmes to access BDS, as they have overcome internal development barriers and are in their initial growth phase.
- To deepen the investigation of appropriate targets and required services, the following key issues should be borne in mind and further analysed in the Belarusian context:
 - **Company ambitions vs. perception of internal capabilities** that determine the demand for external advice;
 - **Absorptive capacity of the company**, i.e. firms' ability to process external advice (managers' individual skills, organisational structure, prior knowledge, research and development activities);
 - **Growth objectives vs. internal development objectives**, the former mostly relying on advice on sales and marketing, the latter on production, operations and information and communication technology (ICT);
 - **Market failures**, e.g. despite having growth ambitions and appropriate absorptive capacity, a company may still lack awareness about available BDS, or need financial assistance to access them;
 - **Positive externalities**, e.g. the potential for a company in a given sector to generate benefits for the local economy in terms of employment, innovation and new business opportunities for other companies.

Figure 4. Suggested implementation roadmap

Recommendations	Indicative implementation timing			Priority
	Short term <1 year	Medium term 1-3 years	Long term >3 years	
1 Institutional framework for the delivery of business development services				
▪ Adopt a strategic approach to SME development	[Green bar: Short term]			High
▪ Strengthen institutions involved in the delivery of SME support policies	[Green bar: Medium term]			Medium
2 Unlock latent demand for business development services				
▪ Carry out regular SME needs assessments	[Green bar: Long term]			High
▪ Help SMEs better understand their business needs	[Green bar: Long term]			Medium
▪ Raise awareness on the benefits of BDS and increase trust in service providers	[Green bar: Medium term]			Medium
▪ Facilitate SME access to BDS	[Green bar: Medium term]			High
3 Market-oriented supply of business development services				
▪ Improve the business environment for consultants	[Green bar: Medium term]			Medium
▪ Ensure quality of public and private business support provision	[Green bar: Medium term]			High
▪ Increase involvement of private providers in the delivery of BDS to SMEs	[Green bar: Long term]			High

For the successful implementation of recommendations to develop a sustainable market of business development services in Belarus the following guiding principles should be considered:

- **Regularly consult and co-operate with all relevant stakeholders.** The recommendations mentioned above tackle institutional as well as market mechanism gaps for the emergence of a sustainable market for business development services. All key government and private stakeholders should be involved in the process of monitoring the implementation and updating the reform plan, for instance by using existing platforms for public-private dialogue such as the Belarusian National Business Platform. International donors, such as the European Bank for Reconstruction and Development (EBRD), the World Bank and the International Finance Corporation (IFC), should regularly be consulted in view of their current and prospective programmes, e.g. the establishment of matching grants schemes for SMEs to procure BDS by the World Bank, to ensure a coherent implementation of policy reforms.

The Working Group established for the design of the policy reform roadmap could be regularly consulted to update the action plan. Maintaining the Steering Group could help gather high-level representatives to ensure intra-governmental co-ordination and provide leadership for the successful implementation of reforms.

- **Leverage existing well-functioning institutional bodies, while clearly attributing roles and responsibilities to policy co-ordinators, executors and implementers.** The existing Council for Entrepreneurship Development, the Commission for the Support and Development of Small Businesses and the Expert Council on Entrepreneurship Development under the Ministry of Economy should co-ordinate their activities and act as the main SME policy-making bodies setting strategic directions for developing the SME sector in Belarus. As regards the executive level, an SME agency that operates with professionals hired from the private sector and delivers programmes on behalf of the government would therefore be desirable. This mandate could be complemented by awareness-raising campaigns on the availability and benefits of BDS, especially in the regions and in co-operation with relevant regional stakeholders acting as programme implementers (business support centres or regional branches of the SME agency, regional executive committees, business associations, private providers).
- **The role of the state should be limited to addressing market failures and developing sound policies that can help SMEs grow.** The SME agency and its regional branches should concentrate their efforts on providing information to SMEs about availability and quality of business development services, while leaving the direct supply of more sophisticated services to private players such as consulting firms and business associations. In this respect, the SME agency will act as a “facilitator”, helping to match demand and supply of BDS while avoiding crowding out the private sector.
- **Ensure policy coherence across government documents.** The recommendations provided in this note could contribute to the upcoming SME strategy, which will ensure a co-ordinated approach to the design and implementation of nationwide SME policies, with particular reference to creating a sustainable market for business development services. Wherever appropriate, specific actions could therefore contribute to the overall objectives set in the main government strategic documents such as the NSSD-2030, the current SME state support programme, Directive No.4 and relevant edicts such as Edict No. 255 and Resolution No.195.
- **Embed monitoring mechanisms at every policy level.** Policies should be regularly monitored and evaluated to assess progress in their implementation and introduce necessary adjustments. The programmes’ quality and relevance should be monitored, based on regular assessments of demand and impact on the real economy. This should be complemented by new evaluation criteria for recipients of public support, shifting from a supply-based system to one that is based on demand and therefore creates a sustainable market mechanism.

Pilot project: A blueprint for designing a support programme for high-growth SMEs

The role of an SME agency varies depending on companies’ stage of development and services needed

62. Over time, companies go through various development stages, which may be defined according to the company’s age, size, product cycle or growth potential. In particular, the latter can be divided in three different lifecycle stages: start-up, high growth and internationalisation. As a consequence of this evolution, company needs may vary significantly from one stage to another, as enterprises face different challenges stemming from evolving and changing objectives: a firm that has just started its operations may encounter business obstacles that have already been overcome by companies that, for instance, plan to start exporting.

63. Start-ups may need dedicated training to develop their initial strategy and business plan, while internationalised companies typically seek more specific information on market opportunities, product standards, regulation or trading requirements. On the other hand, high-growth enterprises are more likely to require tailored support on skills development such as management and leadership training.

64. While such a lifecycle approach could be a useful representation of how traditional businesses may evolve over time, it should be noted that firms in certain sectors may be born with an export-orientation already embedded in their business model. Due to relatively low capital expenditures required to scale their business and thanks to the universality of their services, start-ups in the IT sector, for instance, are often seeking clients abroad from a very early stage of their operations and find them as their main source of growth. At the policy level, therefore, it is suggested to provide tailored support based on the specific business needs of the company, which may span across the traditional stages of the business lifecycle.

Figure 5. Business development services for SMEs

	Start-ups	High-growth enterprises	Internationalised enterprises	Role of the SME agency
Information support	<ul style="list-style-type: none"> • Business registration and licensing • Market intelligence • Access to finance 	<ul style="list-style-type: none"> • New market opportunities • Access to BDS providers network • Product exhibitions 	<ul style="list-style-type: none"> • Foreign regulations, and network • International tax advice • Int'l trade fairs 	Direct provider <ul style="list-style-type: none"> • Information delivery • Initial company diagnostics
Training	<ul style="list-style-type: none"> • Strategy & business plan drafting • Entrepreneurship workshops • Management training 	<ul style="list-style-type: none"> • Growth strategies • Leadership training • Legal, financial & accounting training 	<ul style="list-style-type: none"> • Policy advocacy • Trading & export training 	Co-ordinator <ul style="list-style-type: none"> • Match SMEs and experts • Provide facilities • Organise workshops
Consulting	<ul style="list-style-type: none"> • Business incubators • Mentoring • Advice on product launch 	<ul style="list-style-type: none"> • Legal, financial, tax services • Certification & branding • Management consulting 	<ul style="list-style-type: none"> • Subcontracting & outsourcing • Standardisation • Trade services 	Broker <ul style="list-style-type: none"> • Intermediary between BDS providers for advanced services and SMEs

Source: OECD (2013), *An international benchmarking Analysis for Public Programmes for High Growth Firms*; UKTI & omb Research (2014), *International Strategies, Barriers and Awareness Survey 2014*; ILO (2008) *Developing commercial Markets for Business Development Services*, A. Miehlsbradt, M. McVay.

Source: Adapted from OECD (2013), *An International Benchmarking Analysis of Public Programmes for High-Growth Firms*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264048782-en>, UKTI and OMB Research (2014), *International Strategies, Barriers and Awareness Survey 2014, UK Trade and Investment*, London, <http://tinyurl.com/zaqjwnb> and Miehlsbradt, A. and M. McVay (2008), "Developing commercial markets for business development services", BDS update, Fourth Annual BDS Seminar, Turin, 1 September 2003, www.ilo.org/empent/Publications/WCMS_143127/lang--en/index.htm.

65. The role of an SME agency in the provision of business development services to SMEs will thus differ depending on the sophistication of services demanded as well as the stage of development of the companies requiring them. In particular, an SME agency could play a pivotal role in the provision of information about existing support programmes, legal issues and regulations, whereas more sophisticated and tailored services such as training and consulting are likely to be delivered more efficiently by private advisors and consultancies. However, an SME agency could act as co-ordinator for various training, reaching out to potential clients and offering physical facilities to host them. It could also facilitate matches between SMEs and professional advisors and broker more advanced types of services such as IT consulting

and internationalisation strategies. While the selection of service providers should ultimately be up to the company that seeks their services, the SME agency could support this choice by helping SMEs understand their business needs through an initial company diagnostic, and sharing information about existing providers of proven quality, their location, and the type of services provided.

66. With this in mind, below we present an example of a support programme for high-growth SMEs (HGSMES) that could be implemented in Belarus in order to jump-start the activities of the new SME agency.

Guidelines to design a pilot programme to support high-growth SMEs

67. The OECD defines high-growth companies as enterprises with an average annualised growth in employees or turnover greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period (OECD et al., 2015).

68. Academic research has shown the importance of high-growth SMEs in creating new jobs and introducing and commercialising innovations. A recent review that analysed findings from 20 empirical studies concluded that “a few rapidly growing firms generate a disproportionately large share of all new net jobs compared with non-high-growth firms.” In particular, evidence from different countries suggests that around 4-6% of high-growth firms produce around a half to three-quarters of all new jobs (Henrekson and Johansson, 2010). HGSMES also show above-average levels of productivity, export orientation and internationalisation (EU, 2014).

69. The contribution of high-growth SMEs to economic growth and job creation provides a strong rationale for policy intervention. Such enterprises generate positive externalities (via increased employment and consumer demand) that contribute to economic development beyond the private returns available to the entrepreneur, which provides a rationale for policy support. Their potential to generate growth means that HGSMES can act as catalysts for change, helping economies recover from recession and restructure quickly in response to changing economic, social and market conditions (OECD, 2013). Government agencies – in partnership with private advisors – can play a crucial role in shaping an environment in which HGSMES can flourish, providing appropriate business information, supporting entrepreneurs to develop business skills, and helping them access the financing required to grow.

70. The OECD has undertaken an international benchmarking exercise and identified good practices to design support programmes for high-growth firms. These cover all phases of the programme, from initial set-up to programme execution and final impact assessment. Key dimensions and corresponding good practice are presented in Figure 6.

Figure 6. OECD benchmarking exercise on good practice to design support programmes for HGSMEs

Dimension		Good practice	Performance indicators	
			Low	High
Programme set-up	Programme governance	Design programme in co-operation with private stakeholders, business associations and regional governments	Designed by single ministry	Inputs from all stakeholders
	Selection of participating companies	Be highly selective in the choice of target companies (growth potential, motivation)	"First come, first served" principle	Qualitative and quantitative criteria
Execution	Business diagnostic	A business diagnostic exercise is performed in key areas to identify needs of the company with regard to its ambitions	No formal business diagnostic	Formal business diagnostic covering 4+ areas
	Delivery of support services	Closely co-operate with private sector service providers to carry tailored management development activities	All support is internalised	All support is externalised
		External support is selected through competitive process, and requires co-financing on the part of the SME	Few intermediaries, not competitively selected	Large number of intermediaries, competitively selected
Impact	Monitoring and evaluation	Carry out monitoring and evaluation procedures regularly	Based on activity / satisfaction	Assess impact via econometric analysis
	Firm performance	Assess growth of company's key business indicators (e.g. turnover, employment, export)	Lower than -2%	Higher than 20%

Source: Adapted from OECD (2013), *An International Benchmarking Analysis of Public Programmes for High-Growth Firms*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264048782-en> and Brown, R. and C. Mason (2012), "Raising the batting average: Re-orientating regional industrial policy to generate more high growth firms", *Local Economy*, Vol. 27, No. 1, SAGE Publications, Thousand Oaks, CA, pp. 33-49, <http://dx.doi.org/10.1177/0269094211424252>

71. The newly established SME agency could consider designing a programme to support high-growth SMEs in Belarus based on OECD good practices and on its main role as provider of information and co-ordinator of external stakeholders as described above. The following activities can be seen as the building blocks around which the SME agency could structure such a programme over a four-year timeline (Figure 7).

72. The SME agency could start by raising awareness of the support programme and its benefits among HGSMEs. It could then select suitable firms by analysing the recent growth performance of potential candidates using a range of different growth indicators and prioritising sectors that could benefit most from the absorption of the activities offered (Annex B, Figures 18, 23). Once firms have been selected, the agency could perform initial business diagnostics, identify advisors that would accompany firms throughout the programme duration, and provide financial support, for instance through matching grants. In order to ensure the programme's successful implementation, the SME agency should constantly monitor the firms' progress. On completion, it should carry out an impact assessment through surveys and econometric analysis, and consider offering financial assistance to the firms beyond their participation in the programme.

Figure 7. Suggested pilot programme for high-growth enterprises in Belarus

	Selection Year 0	Preparation Year 1	Growth Year 2-3	Follow-up Year 4
ACTIVITIES	Assess firm's eligibility <ul style="list-style-type: none"> • Motivation to participate • Growth potential • Social spillovers 	Review company's status <ul style="list-style-type: none"> • Identify barriers to growth Define growth plan <ul style="list-style-type: none"> • Set strategic objectives • Link plan's activities to expected results • Assign funding sources 	Implementation of growth plan <ul style="list-style-type: none"> • Develop workforce skills • Enhance managerial capacity • Adjust internal processes • Develop links between firm and knowledge institutes • Expand client base 	Evaluation of progress achieved <ul style="list-style-type: none"> • Impact on firm's performance Provide further financial assistance
TOOLS	Recent growth indicators <ul style="list-style-type: none"> • Past growth rates • Organisational change • Increase in staff • Search of growth capital 	Business diagnostics <ul style="list-style-type: none"> • Firm's business diagnosis <ul style="list-style-type: none"> – business concept – organisation – operations – customer relations • Sector-specific diagnostics • SWOT analysis 	Capacity building <ul style="list-style-type: none"> • Specialist/managers coaching • Core skills training/workshops Relational support <ul style="list-style-type: none"> • Network of peers and mentors • Trade and foreign fairs Financial assistance <ul style="list-style-type: none"> • Matching grants to access BDS 	Assessment <ul style="list-style-type: none"> • Company surveys, econometric studies Financial assistance <ul style="list-style-type: none"> • Grants, e.g. for further R&D • Soft loans
ROLE OF SME AGENCY	<ul style="list-style-type: none"> • Raise SME awareness about programme • Analyse recent growth performance • Firms selection 	<ul style="list-style-type: none"> • Perform initial business diagnostic • Identify external advisors to provide training/consulting • Provide financial support to SMEs (e.g. matching grants) • Monitor progress in programme implementation 		<ul style="list-style-type: none"> • Carry out impact assessment • Provide further financial assistance

Source: Adapted from OECD (2013), *An International Benchmarking Analysis of Public Programmes for High-Growth Firms*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264048782-en> and Brown, R. and C. Mason (2012), "Raising the batting average: Re-orientating regional industrial policy to generate more high growth firms", *Local Economy*, Vol. 27, No. 1, SAGE Publications, Thousand Oaks, CA, pp. 33-49, <http://dx.doi.org/10.1177/0269094211424252>.

Box 4. Examples of successful HGSME support programmes in OECD countries

Denmark's Growth Houses

- In 2007 the Danish government established five “Growth Houses” (GHs) to support the growth of small businesses with high growth potential, regardless of company size, sector of operation or ownership. The selection process is based on an assessment of the businesses’ potential to increase job creation, turnover, export, and growth ambitions. More specifically, GH programme advisors assess whether the enterprise will be able to increase employment, turnover and its export in comparison with similar enterprises.
- GH programme advisors carry out a business diagnosis of the selected firm to form the basis for a tailored growth plan. Programme advisors then refer the companies to suitable intermediaries to provide BDS, in order to achieve the goals set in the growth plan. They co-operate with private firms as well as public institutions to strike a balance between private and public offerings. GH programme advisers also aim to match enterprises with investors. Services by the GH advisors are offered for free, while the services provided by the intermediaries are either paid for by the client firms or partially subsidised by state business support initiatives.
- The GH programme has made a considerable impact on enterprises’ growth in Denmark. It provided support to more than 14 000 potential high-growth companies between 2007 and 2012. On average, client enterprises’ employment growth exceeded those of similar enterprises in the regions by 3.3 percentage points, turnover growth by 8.8 percentage points and export growth was 10% higher than in other enterprises in the region. In general, the five GHs have managed to function as interconnected, yet independent, entities – while implementing objectives in a targeted fashion to take account of regional diversity and context.

The Netherlands Growth Accelerator Programme

- The Dutch Growth Accelerator Programme was introduced in 2008 to promote employment and internationalisation of Dutch companies. It aims to support and facilitate the growth of SMEs from a turnover of approximately EUR 2 million to 20 million over a five-year period. The programme targets companies from all sectors that are striving for significant growth in the short term. Companies that apply must undergo a financial scan based on business metrics. The entire programme is based on the idea that entrepreneurs who have experience with fast growth processes are the most suitable advisors for other fast-growing companies. The Growth Accelerator programme is managed by a group of five parties including business platforms and private consulting firms. The Dutch government finances programme development, while beneficiary firms are expected to contribute to take part in the programme.
- The five-year programme has four phases. In the first year, a strategic vision outlining the company’s goals, growth strategy and path addressing the various management areas are designed including annual milestones to be achieved. A personal development plan is also created for the enterprise manager. The next two years are devoted to implementing the growth strategy and personal development plan: personal development training, a personal “coach”, senior consultancy services and ongoing growth workshops. In addition to ongoing support, the fourth year serves to assess and revise the initial goals. In the fifth year the growth strategy is concluded. OECD analysis showed that programme participants outperformed a control group with similar characteristics. Firms that started the programme in 2009 had a gross turnover increase 22% higher than firms in the control group. Other results showed an 8% average employee increase and a 55% higher foreign turnover increase.

Source: OECD (2013), *An International Benchmarking Analysis of Public Programmes for High-Growth Firms*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264048782-en>.

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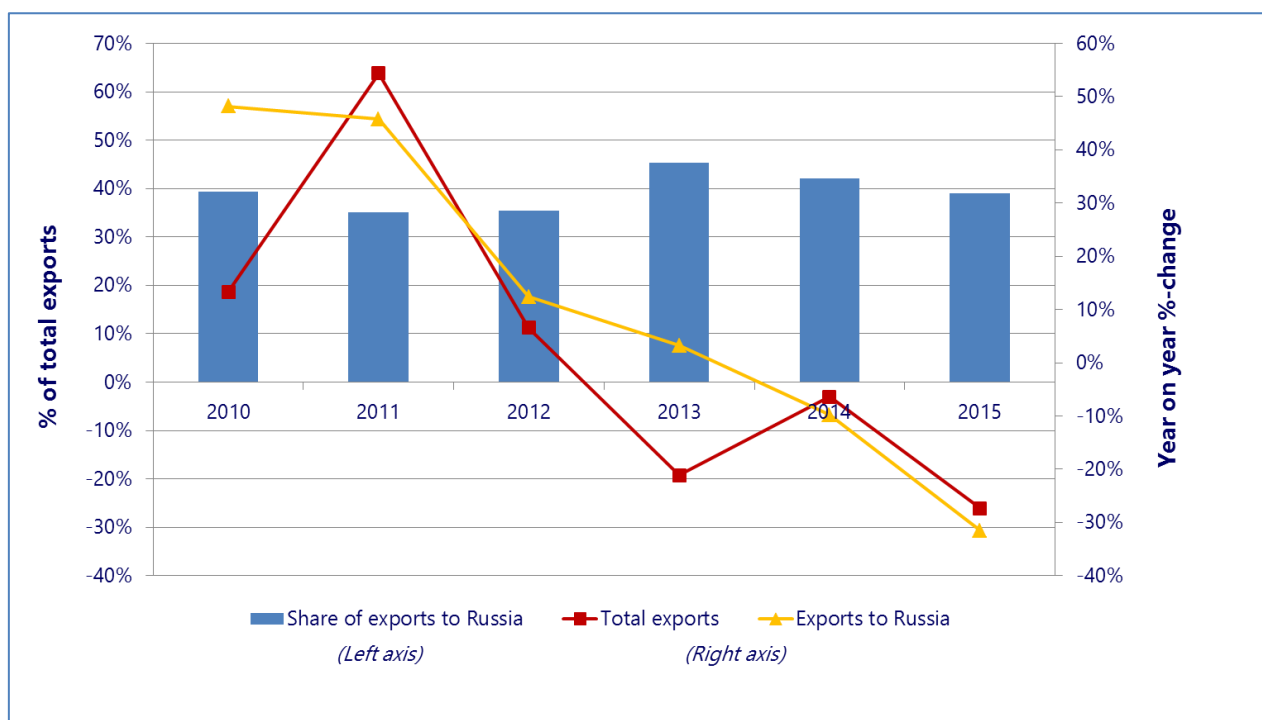
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ANNEX A: SUPPORTING ANALYSIS

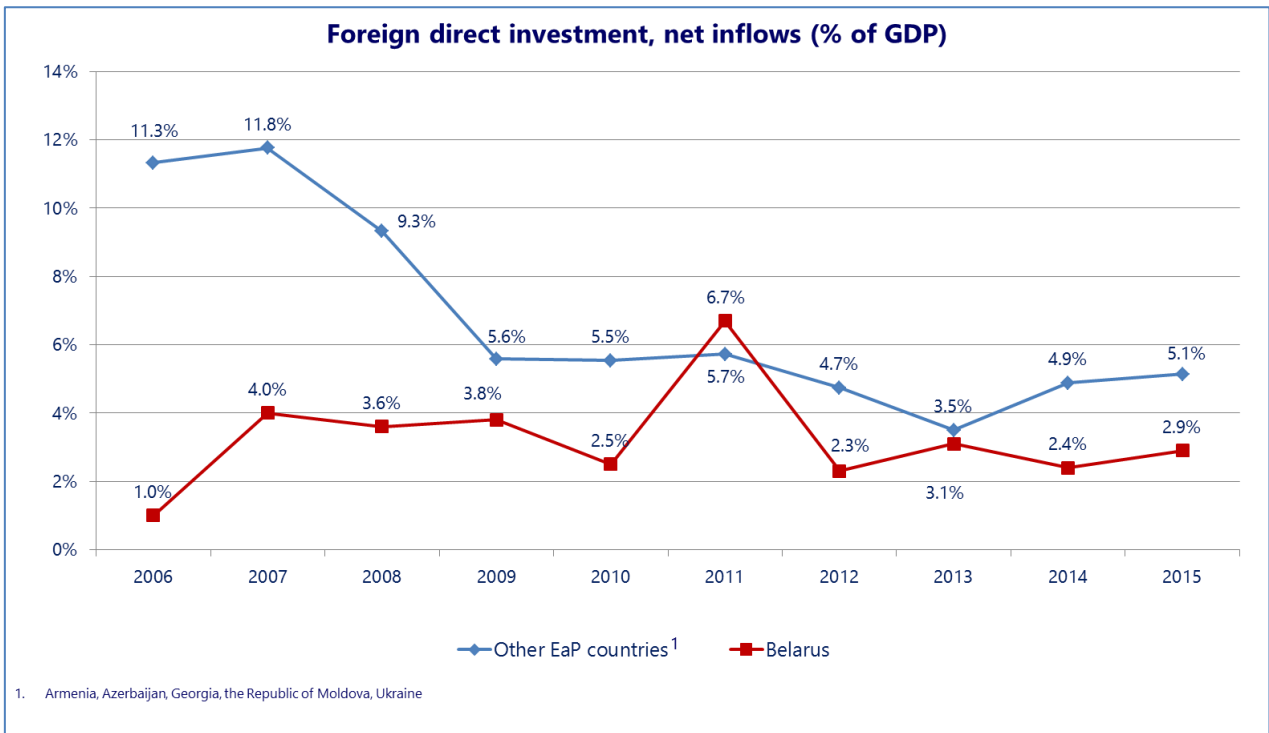
This annex contains a series of figures presenting project analysis and recommendations in greater detail. They provide additional information on the policy context, overall recommendations and good practice examples.

Figure 8. Russia remains the main export partner despite falling export trends



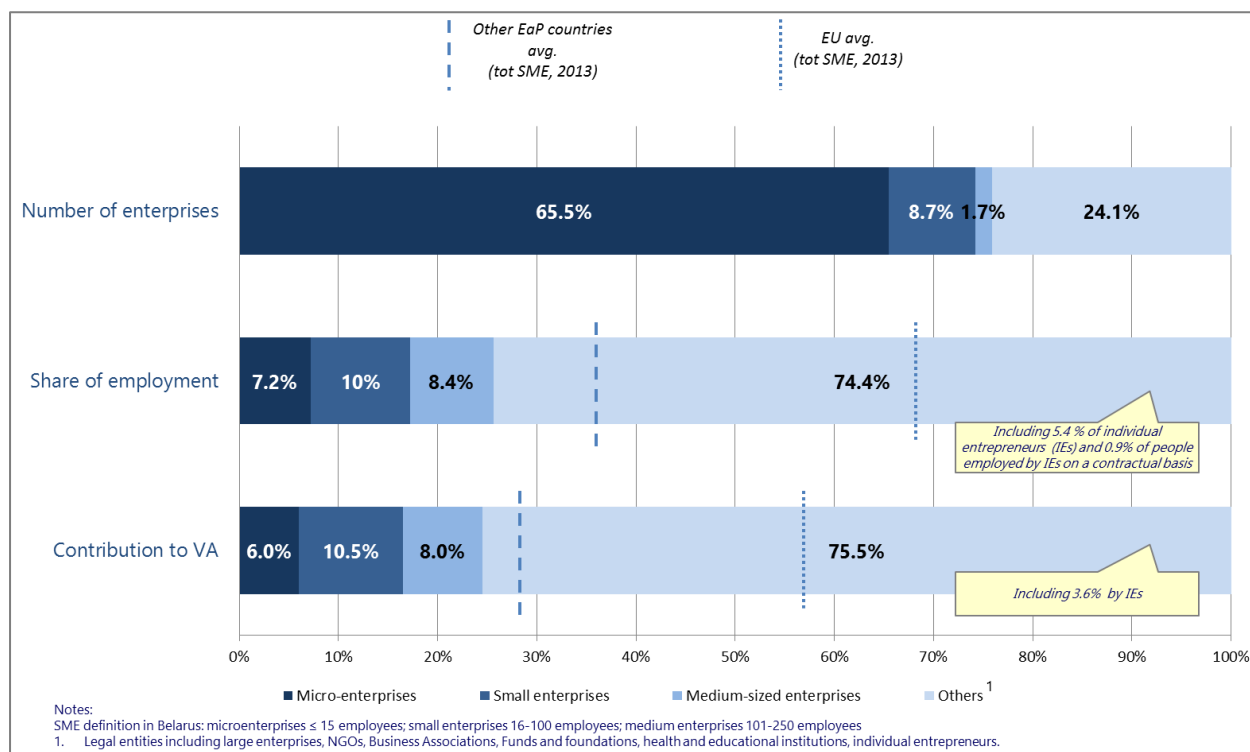
Source: Belstat (2016b), *Belarus in Figures*, 2016, Belstat, Minsk, <http://tinyurl.com/z77n9lm>.

Figure 9. Low FDI flows compared to rest of Eastern Partner Countries



Source: Adapted from World Bank (2016), *World Development Indicators* (database), World Bank, Washington, DC, <http://data.worldbank.org>.

Figure 10. SMEs' contribution to the Belarusian economy, 2015



Source: Belstat (2016b), *Belarus in Figures*, 2016, Belstat, Minsk, <http://tinyurl.com/z77n9lm>, GoB (2010a), Закон Республики Беларуси 1 июля 2010 г. № 148-3: О поддержке малого и среднего предпринимательства (Law of the Republic of Belarus of 1 July 2010, No. 148-31, On State Support for Small and Medium Entrepreneurship), Government of Belarus, Minsk, www.pravo.by/webnpa/text.asp?RN=H11000148, OECD, EC, EBRD and ETF (2015), *SME Policy Index: Eastern Partner Countries 2016: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264246249-en>

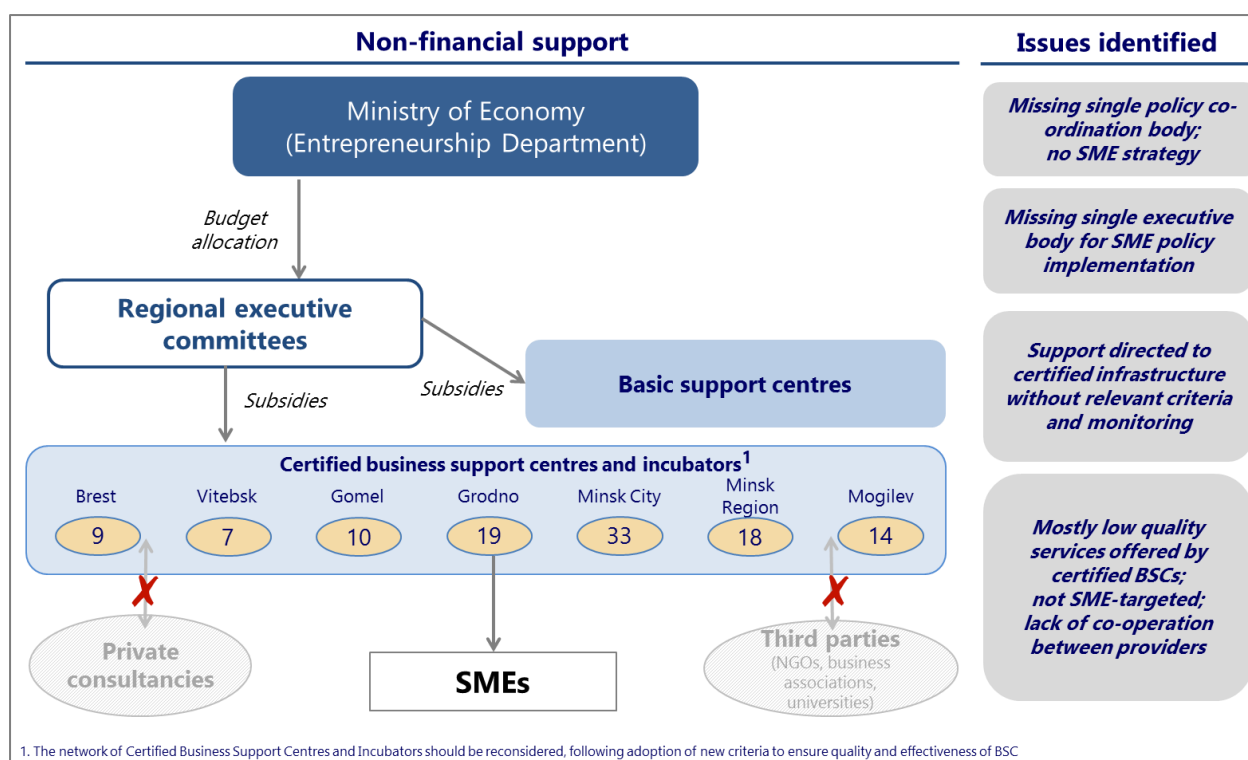
Figure 11. Results from the SME Policy Index 2016 - Roadmap for policy reforms in Belarus

Policy recommendations (priority reforms in bold)	Timeline (short, medium, long term)
1. Strengthening the institutional, regulatory and operational environment	
<ul style="list-style-type: none"> • Prepare and finalise new SME strategy, including new institutional arrangements, public-private dialogue structures and Monitoring & Evaluation systems 	S/M
<ul style="list-style-type: none"> • Revise the current SME definition to address shortcomings (e.g. add a turnover criterion) 	S/M
<ul style="list-style-type: none"> • Develop an RIA mechanism with an SME test 	S/M/L
<ul style="list-style-type: none"> • Further streamline business registration, in particular to improve the link between the register and other entities 	S/M/L
<ul style="list-style-type: none"> • Review the insolvency legislation in line with international best practices (e.g. creditors' rights); remove discrimination against failed entrepreneurs 	M/L
2. Facilitating SME access to finance	
<ul style="list-style-type: none"> • Improve the legislative and regulatory framework, in particular by strengthening creditors' rights, improving access to the credit information registry and adopting legislation on a registry for securities over movable assets 	S/M
3. Promoting skills and entrepreneurship development	
<ul style="list-style-type: none"> • Integrate entrepreneurship key competence and "learning outcomes" into the education system: review curricula, develop learning processes, implement teacher training, and promote active learning in the formal education environment. 	S/M/L
<ul style="list-style-type: none"> • Finalise and pilot the Entrepreneurial University concept (as well as Entrepreneurial VET College, etc.) 	M
<ul style="list-style-type: none"> • Improve SME training statistics to capture each target group (pre-start-up, start-up, growth and internationalisation of enterprises, women, youth, etc.); including sex-disaggregation 	S/L
<ul style="list-style-type: none"> • Promote and fund e-training for SMEs 	M/L
4. Enhancing SME competitiveness	
<ul style="list-style-type: none"> • Undertake a needs assessment for information, training and consulting services; develop a programme to encourage the emergence of a private business development service market (e.g. online portal, potential voucher schemes) 	M/L
<ul style="list-style-type: none"> • Introduce monitoring and evaluation of targeted schemes for business support services, innovation and business infrastructure 	M/L
<ul style="list-style-type: none"> • Promote SME participation in public procurement 	S/M/L
<ul style="list-style-type: none"> • Further enhance links between actors of innovation ecosystem and commercialisation of innovations 	M/L
<ul style="list-style-type: none"> • Develop a policy framework and targeted support for SME "greening" 	M/L
5. Supporting SME internationalisation	
<ul style="list-style-type: none"> • Consider establishing an adequate institutional framework for export promotion (e.g. an export promotion agency), and offer a broader menu of services (e.g. trade finance, market intelligence, promotion of FDI linkages) 	S/M/L
<ul style="list-style-type: none"> • Improve quality infrastructure (including institutional set-up) and market surveillance, and develop a general strategy for adopting and implementing legislation for industrial products taking into account SME needs 	M/L

Note: RIA: Regulatory Impact Assessment

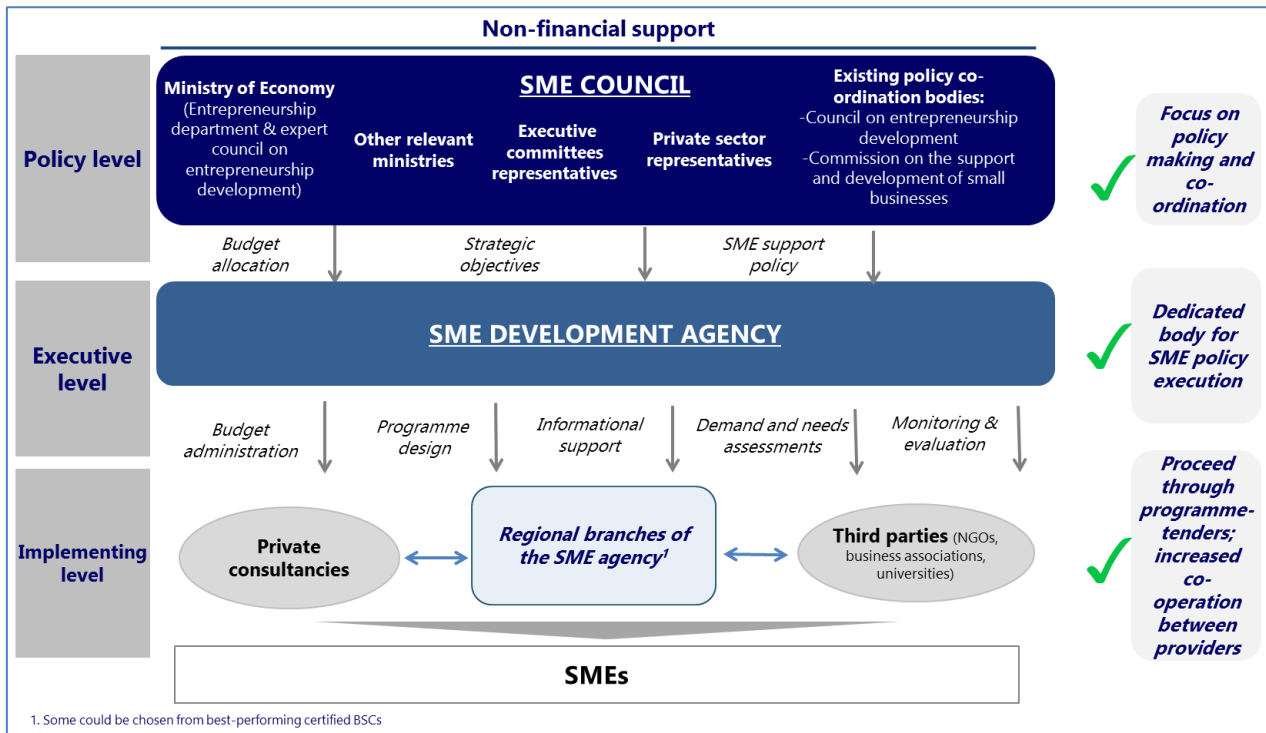
Source: OECD, EC, EBRD and ETF (2015), *SME Policy Index: Eastern Partner Countries 2016: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264246249-en>.

Figure 12. Current state of BDS provision in Belarus



Source: OECD and UNITER analysis, stakeholder interviews, Kirchner, R., I. Tochitskaya and A. Knuth (2014), "SME support organization in Belarus: Blueprint for a Restart", Policy Paper Series, IPM Research Center and GET Belarus, Minsk and Berlin, www.get-belarus.de/download/Beraterpapiere/2014/pp2014e01.pdf ; GoB (2016c), Перечень центров поддержки предпринимательства Республики Беларусь (List of Business Support Centres in Belarus), www.economy.gov.by/ru/small_business/support-of-small-enterprise/activities-of-infrastructure-to-support-small-businesses/center-predprin , GoB (2016d), Перечень инкубаторов малого предпринимательства Республики Беларусь (List of incubators for small entrepreneurship in Belarus), www.economy.gov.by/ru/small_business/support-of-small-enterprise/activities-of-infrastructure-to-support-small-businesses/perechen-incubatorov ; Number of certified business support centres and incubators as of 9 March 2016

Figure 13. Establish strong institutional framework for delivery of BDS to SMEs



Source: OECD analysis, stakeholder interviews.

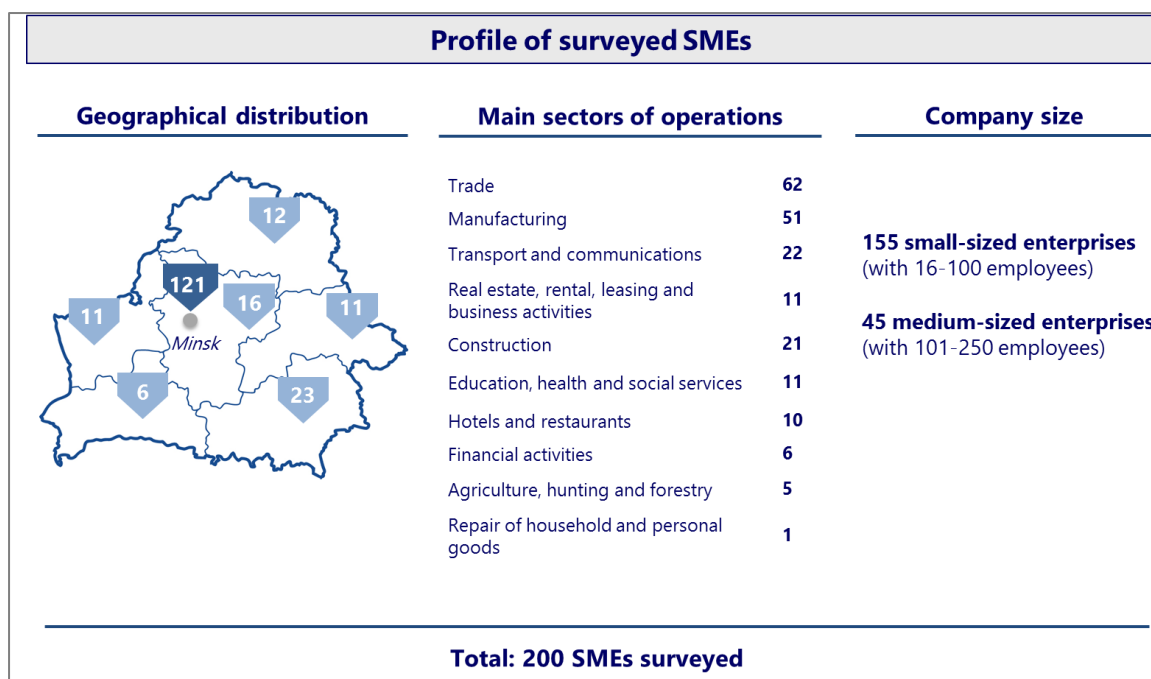
Figure 14. Clearly define roles for stakeholders to create a sustainable business support infrastructure

Suggested structure	Role
<p>Policy level: SME COUNCIL</p>	<p><i>Role can be taken up by existing policy co-ordinating bodies</i> Set strategic objectives for SME development</p> <ul style="list-style-type: none"> • Ministry of Economy's Entrepreneurship department to act as chair of SME Council • Define long-term goals for the SME sector and strategic directions for policy intervention • Allocate budget for SME support programmes
<p>Executive level: SME DEVELOPMENT AGENCY</p>	<p>Design and coordinate SME support programmes</p> <ul style="list-style-type: none"> • Design targeted programmes for SMEs and administer allocated budget • Hold tenders for potential implementers of governmental support programs <p>Gather and provide information on existing support schemes for SMEs</p> <ul style="list-style-type: none"> • Provide information and assistance on financial support to SMEs (e.g. Development Bank, EBRD) <p>Ensure quality and co-ordinate activities for BDS provision at the regional level</p> <ul style="list-style-type: none"> • Set criteria and quality standards for potential regional branches of the SME agency • Provide financial resources, information, build capacity of regional branches <p>Monitor activities in the regions</p> <ul style="list-style-type: none"> • Coordinate, monitor and evaluate assessments of SME needs, regional economic activity and demand for business development services • Monitor and evaluate governmental support programmes <p>Organise public-private dialogue at the regional level</p> <ul style="list-style-type: none"> • Facilitate co-ordination between private and public providers of BDS
<p>Implementing level: Regional SME agency branches; private providers; third parties</p>	<p>Compete for programmes designed by SME agency and increase co-operation among providers</p> <ul style="list-style-type: none"> • Ensuring target groups and priority sectors are met <p>Regional branches as first-stop shops for SMEs</p> <ul style="list-style-type: none"> • Regional branches could be selected from best-performing current certified providers • Distribute information on local BDS providers and national SME support programs • Offer basic informational support to SMEs • Carry out initial company diagnostics <p>Private and third party providers to provide more tailored services and spur demand</p> <ul style="list-style-type: none"> • Business associations to increase trust in providers; private providers to offer sophisticated services

Source: OECD analysis, stakeholder interviews.

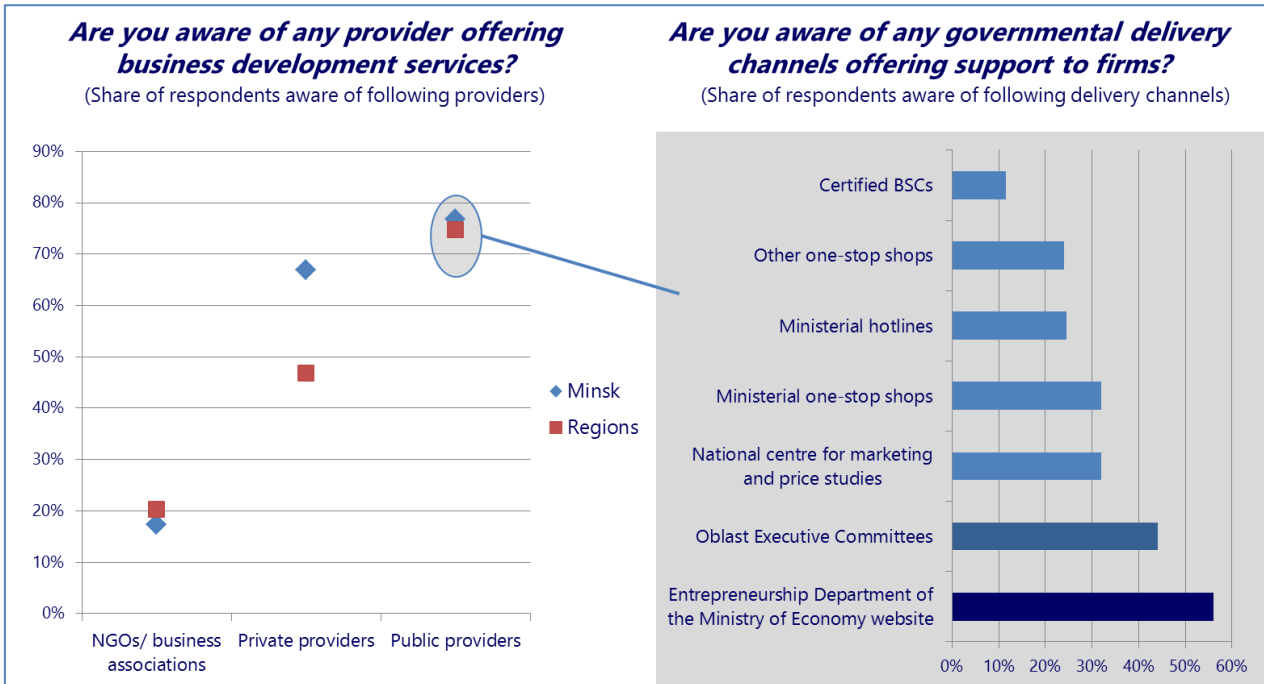
ANNEX B: COMPANY SURVEYS ON BDS DEMAND AND SUPPLY

Figure 15. Demand of business development services in Belarus



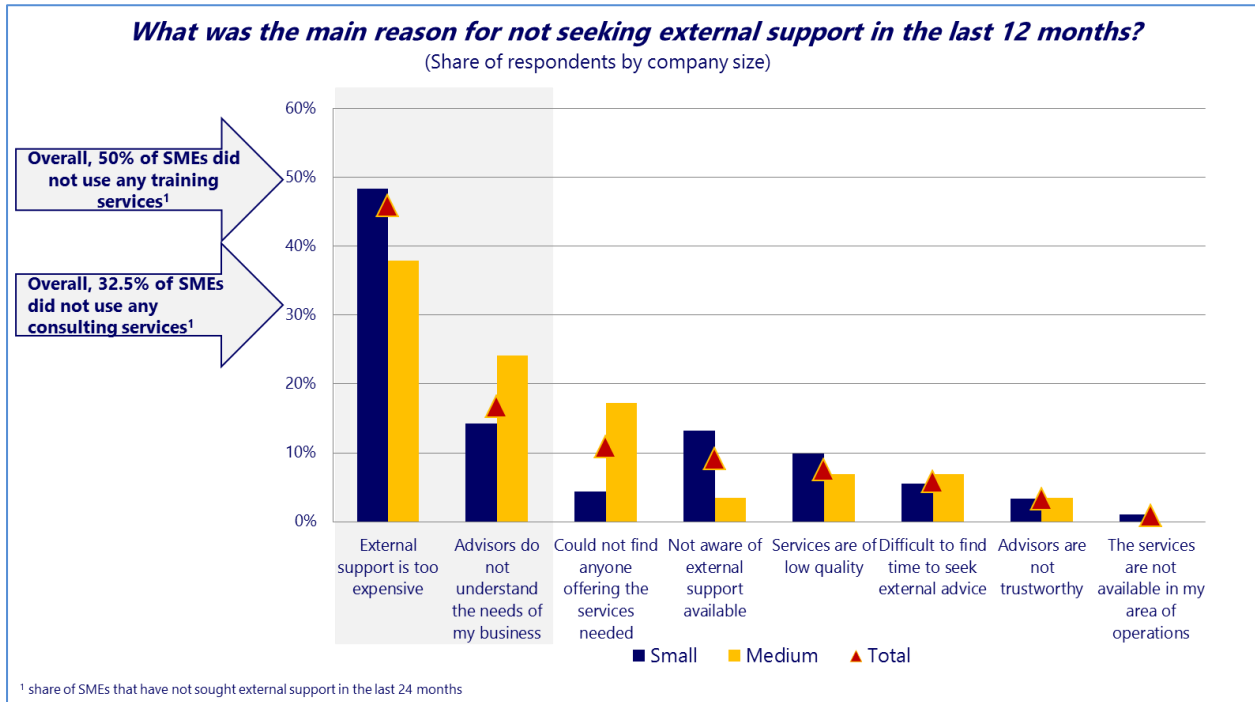
Source: Authors' own work based on survey of BDS demand, 2016.

Figure 16. General low awareness about BDS providers



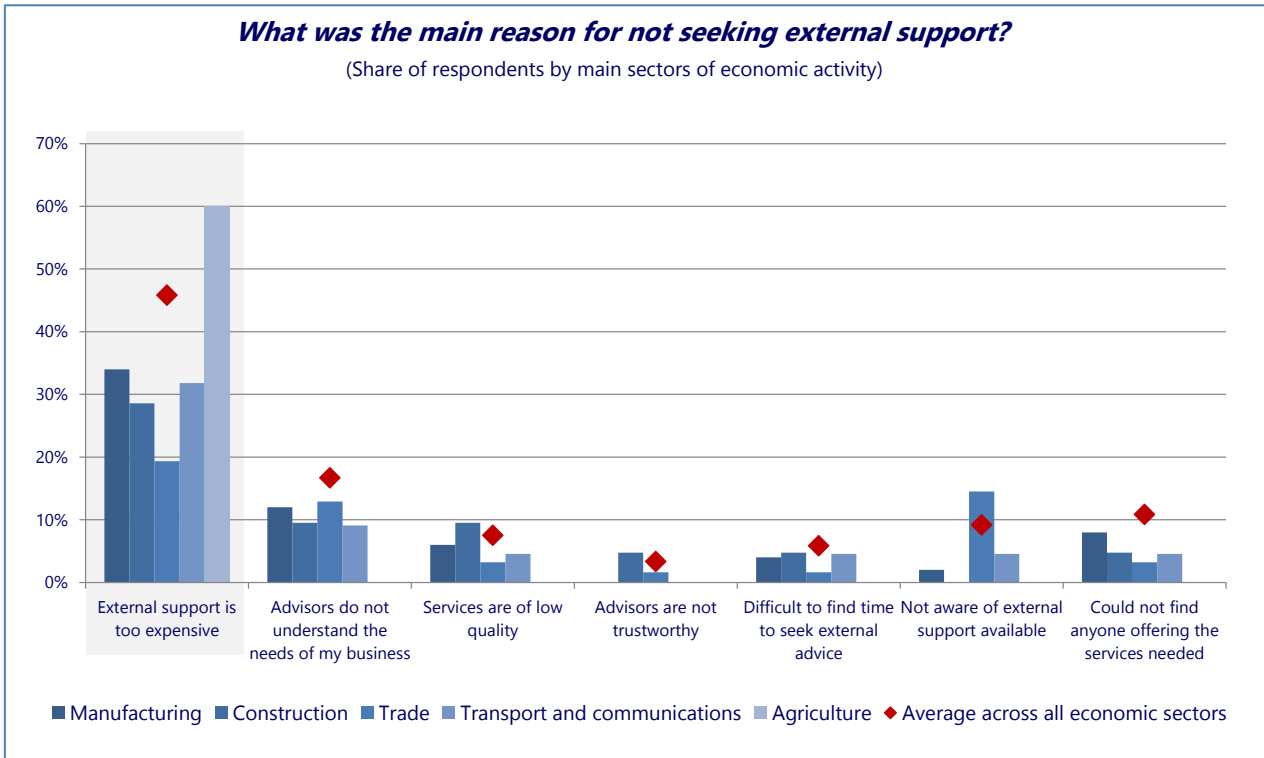
Source: Authors' own work based on survey of BDS demand, 2016.

Figure 17. Main deterrents to using BDS: High prices and perceived lack of understanding of SMEs



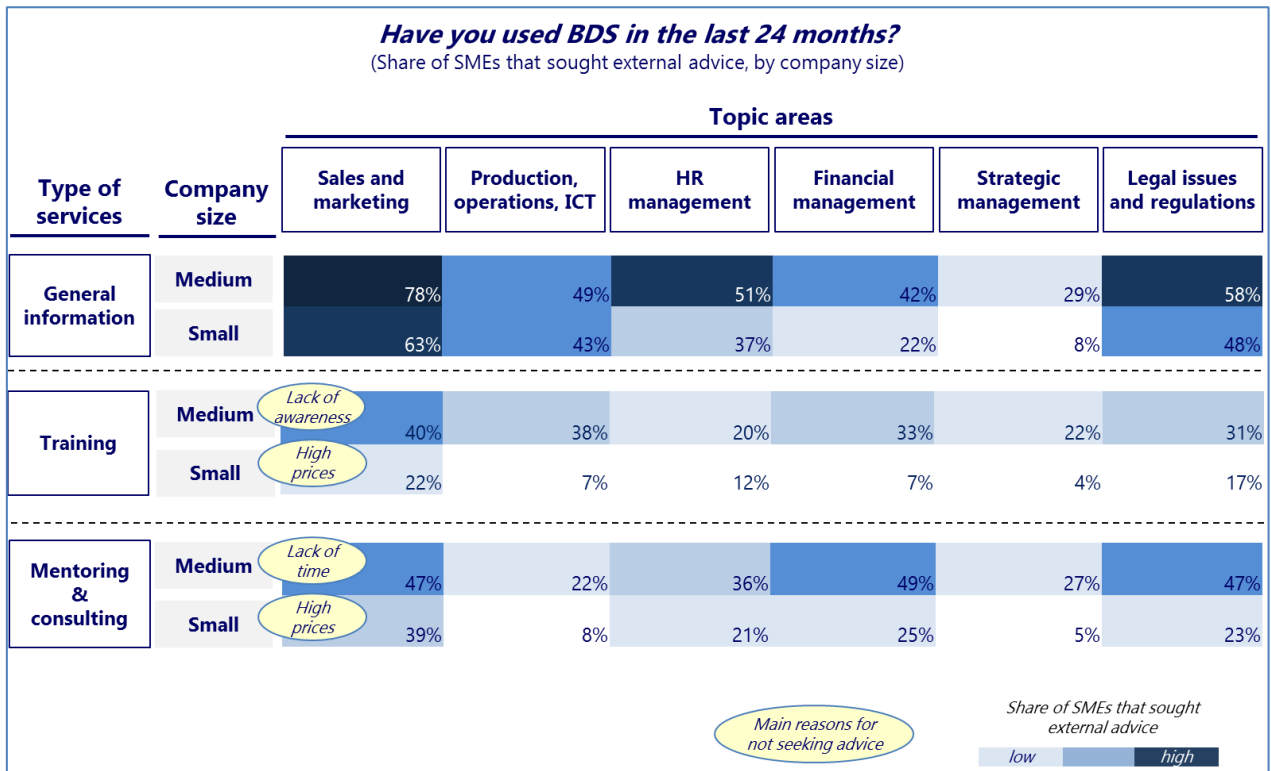
Source: Authors' own work based on survey of BDS demand, 2016.

Figure 18. Reasons for not using BDS are manifold but high prices remain main challenge across sectors



Source: Authors' own work based on survey of BDS demand, 2016.

Figure 19. Use of different types of BDS varies between medium-sized and small enterprises



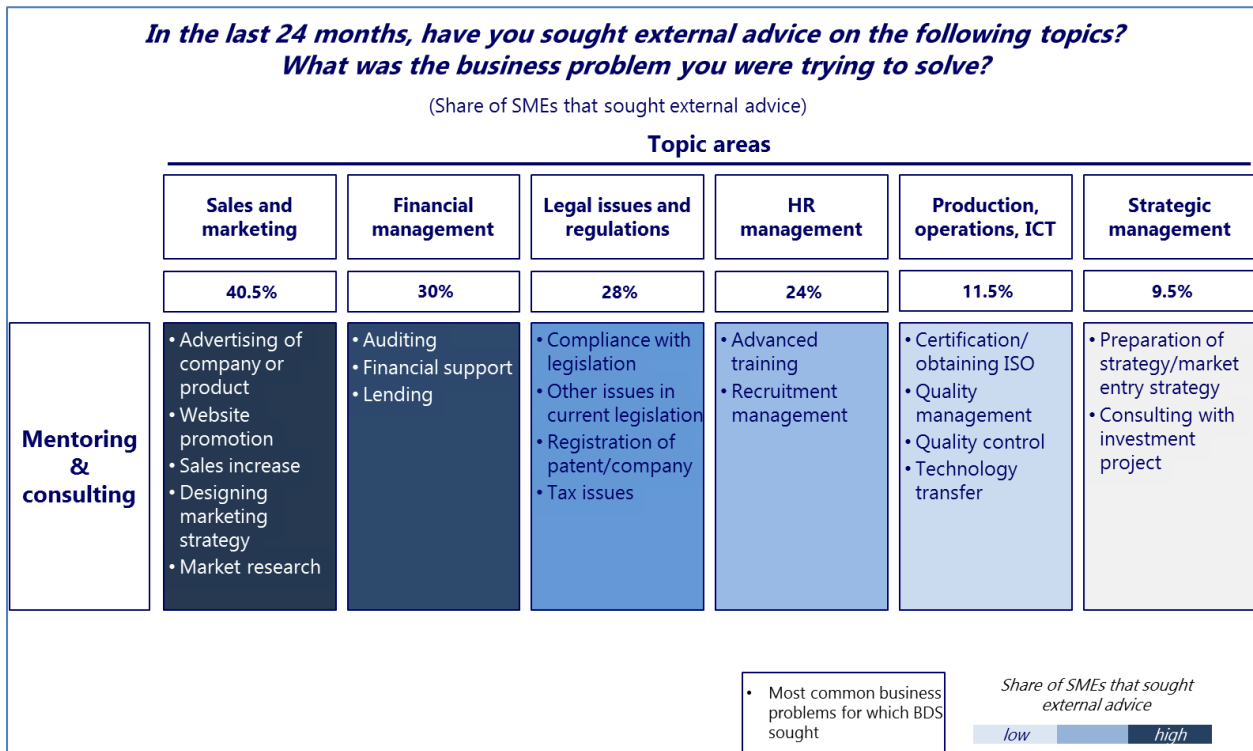
Source: Authors' own work based on survey of BDS demand, 2016.

Figure 20. Lack of in-house skills as main reason to use business development services



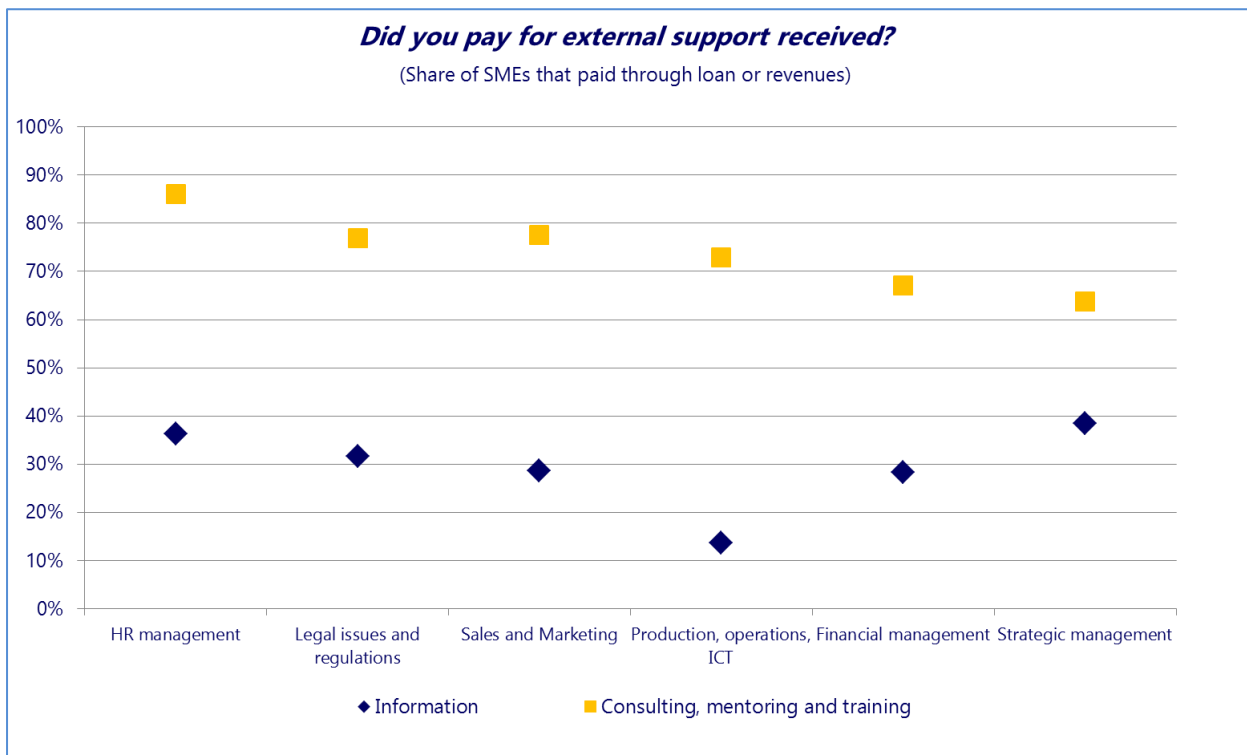
Source: Authors' own work based on survey of BDS demand, 2016.

Figure 21. Most common problems that SMEs are trying to solve when seeking external advice



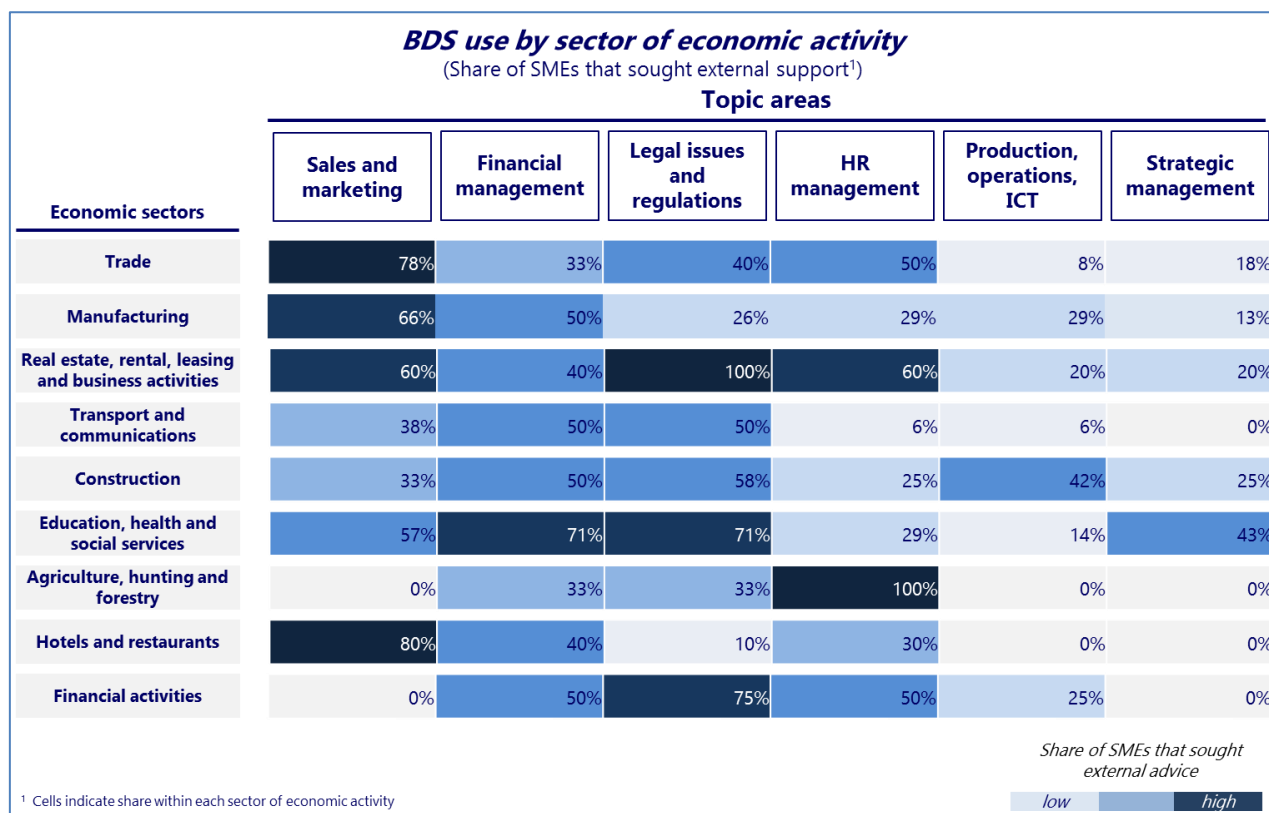
Source: Authors' own work based on survey of BDS demand, 2016.

Figure 22. Information mostly obtained for free, but firms are willing to pay for more sophisticated services



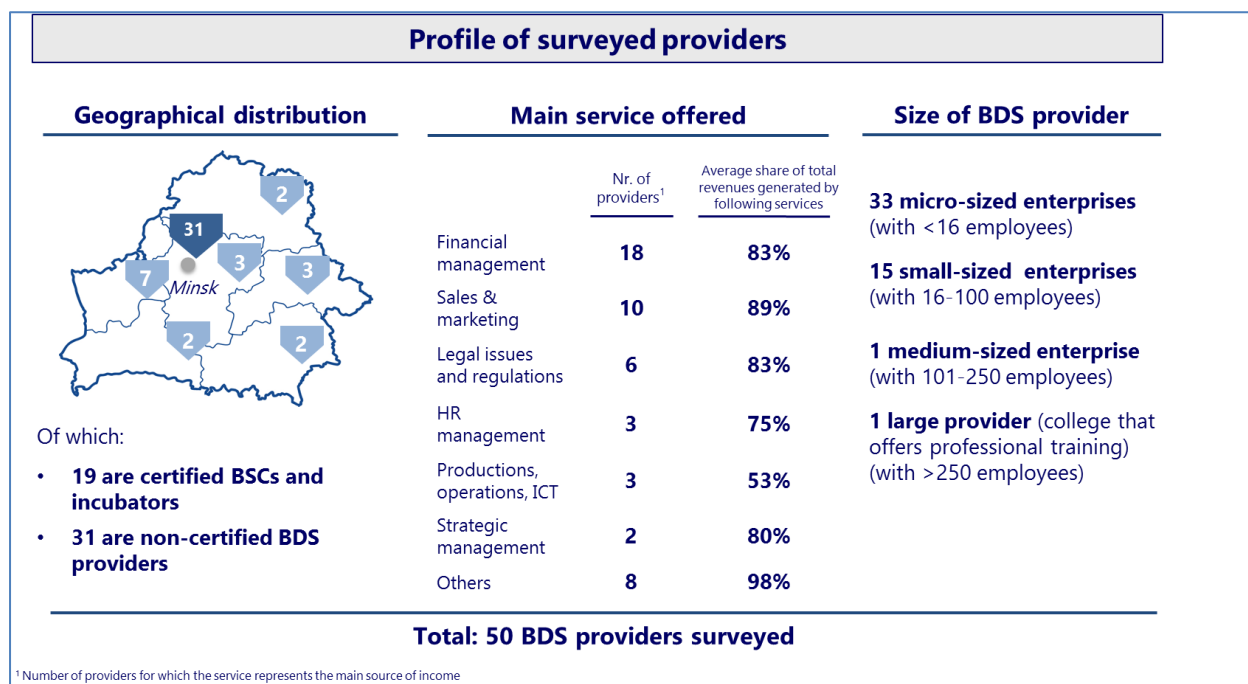
Source: Authors' own work based on survey of BDS demand, 2016.

Figure 23. Demand for BDS differs across sectors of economic activity



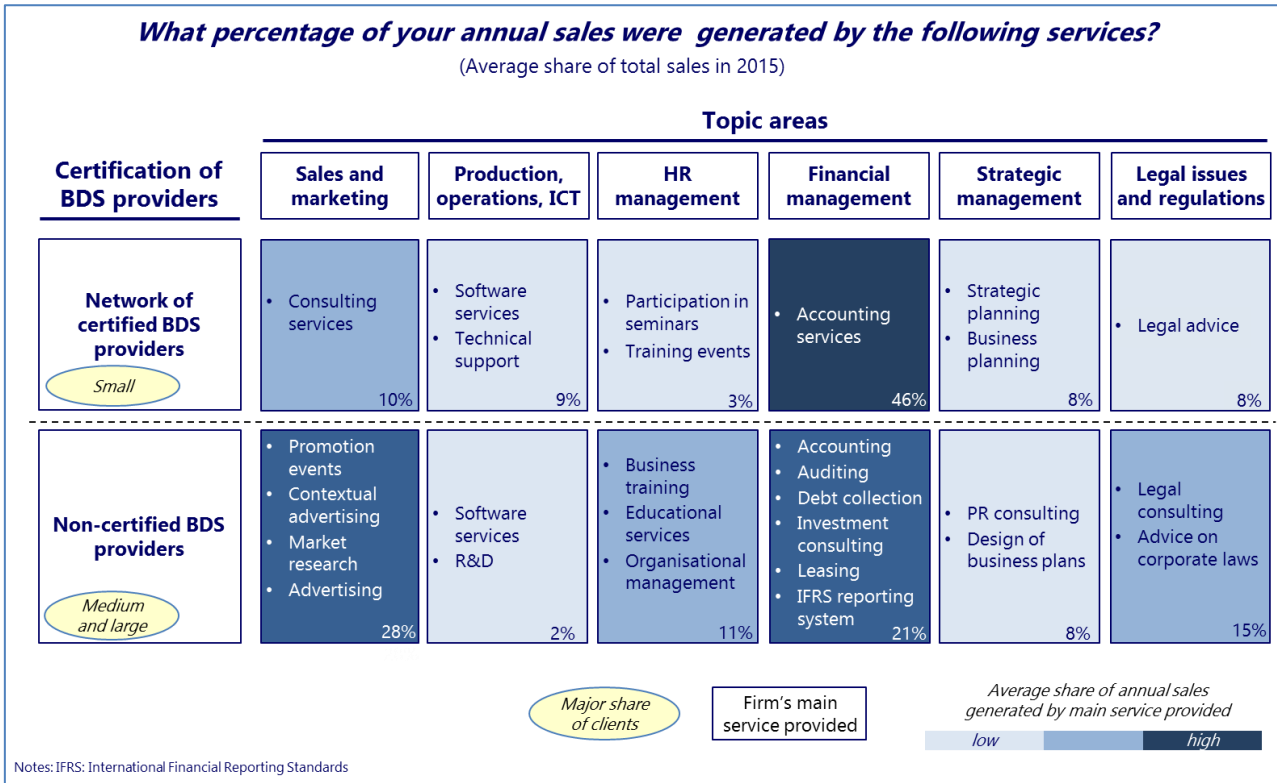
Source: Authors' own work based on survey of BDS demand, 2016.

Figure 24. Supply of business development services in Belarus



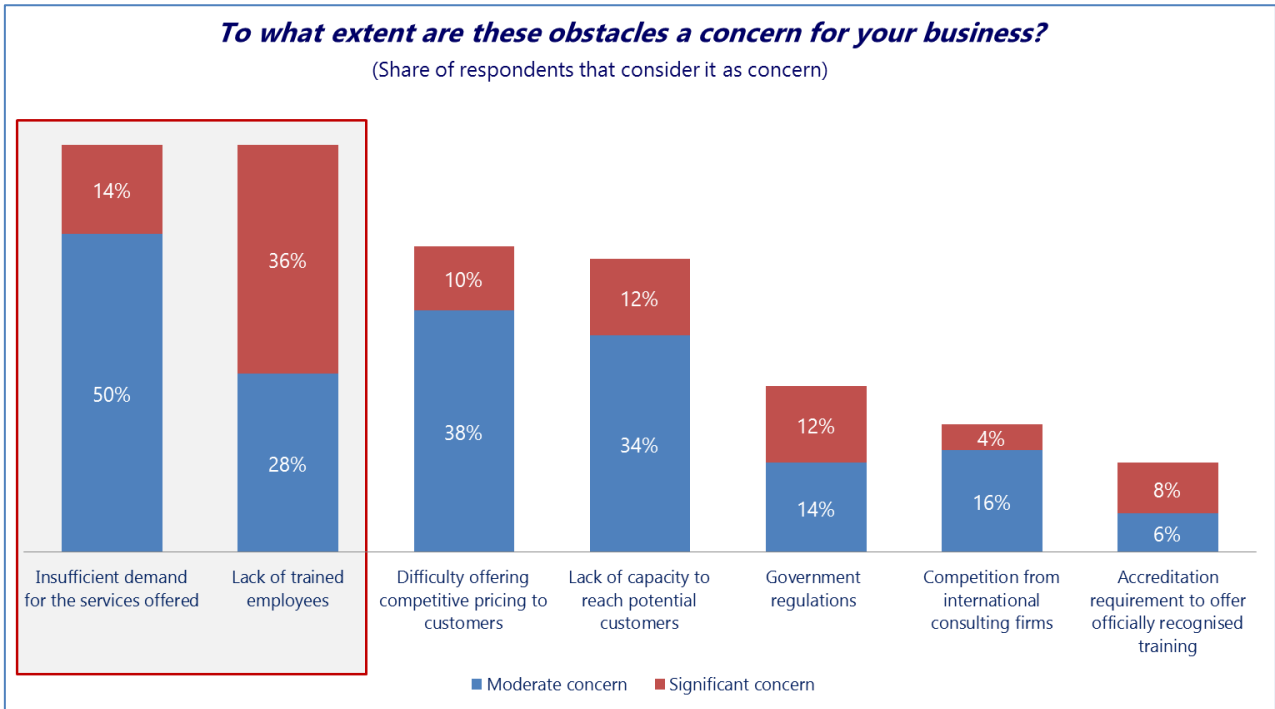
Source: Authors' own work based on survey of BDS supply, 2016.

Figure 25. Services offered differ in sophistication and variety between types of providers



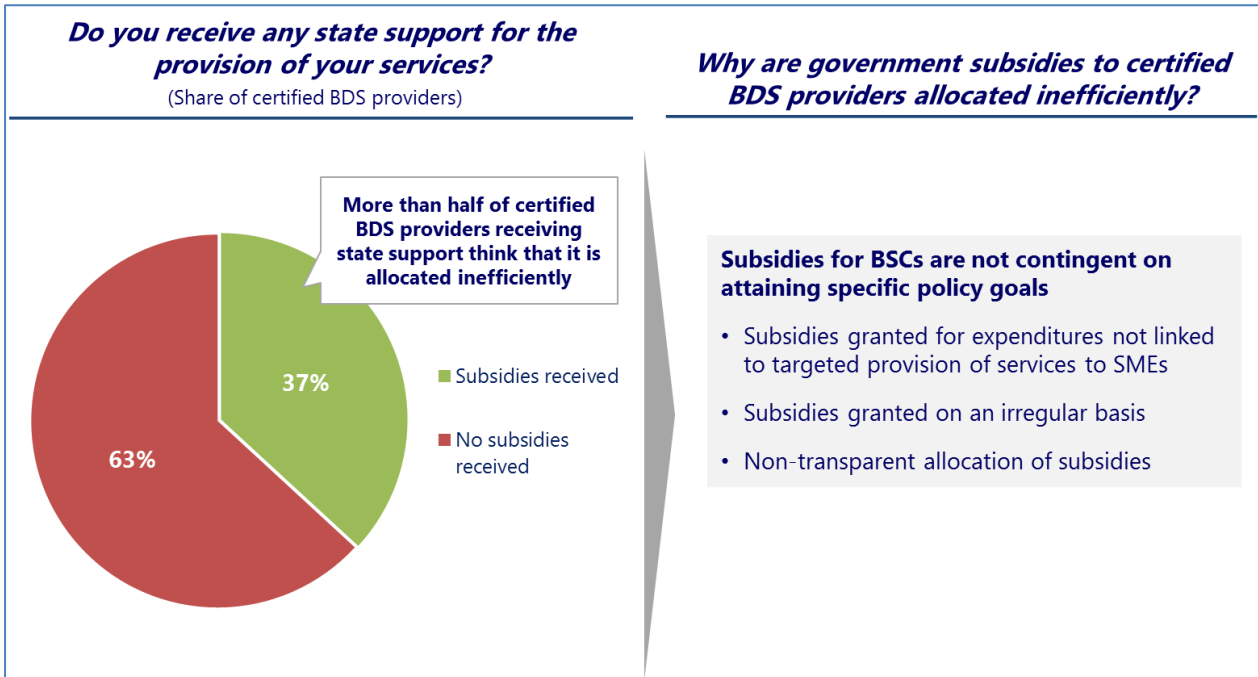
Source: Authors' own work based on survey of BDS supply, 2016.

Figure 26. Main obstacles to business: Insufficient demand and lack of trained employees



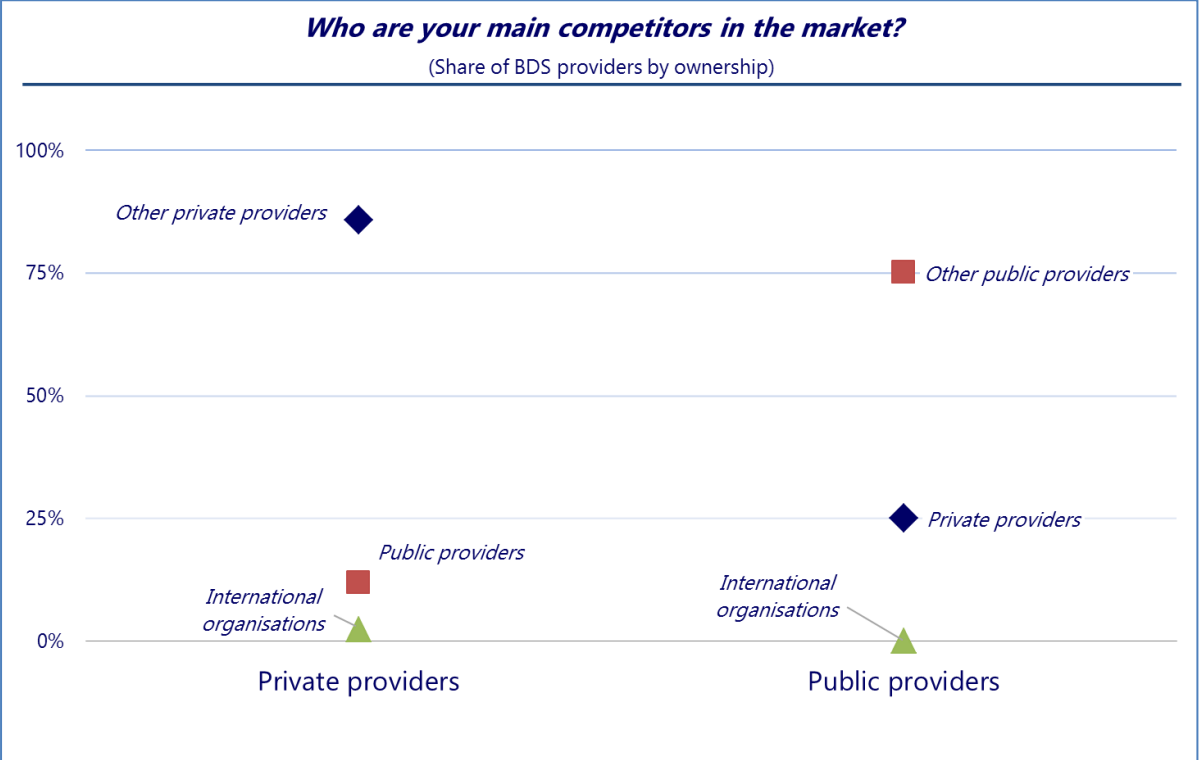
Source: Authors' own work based on survey of BDS supply, 2016.

Figure 27. Inefficient use of state subsidies for certified BDS providers



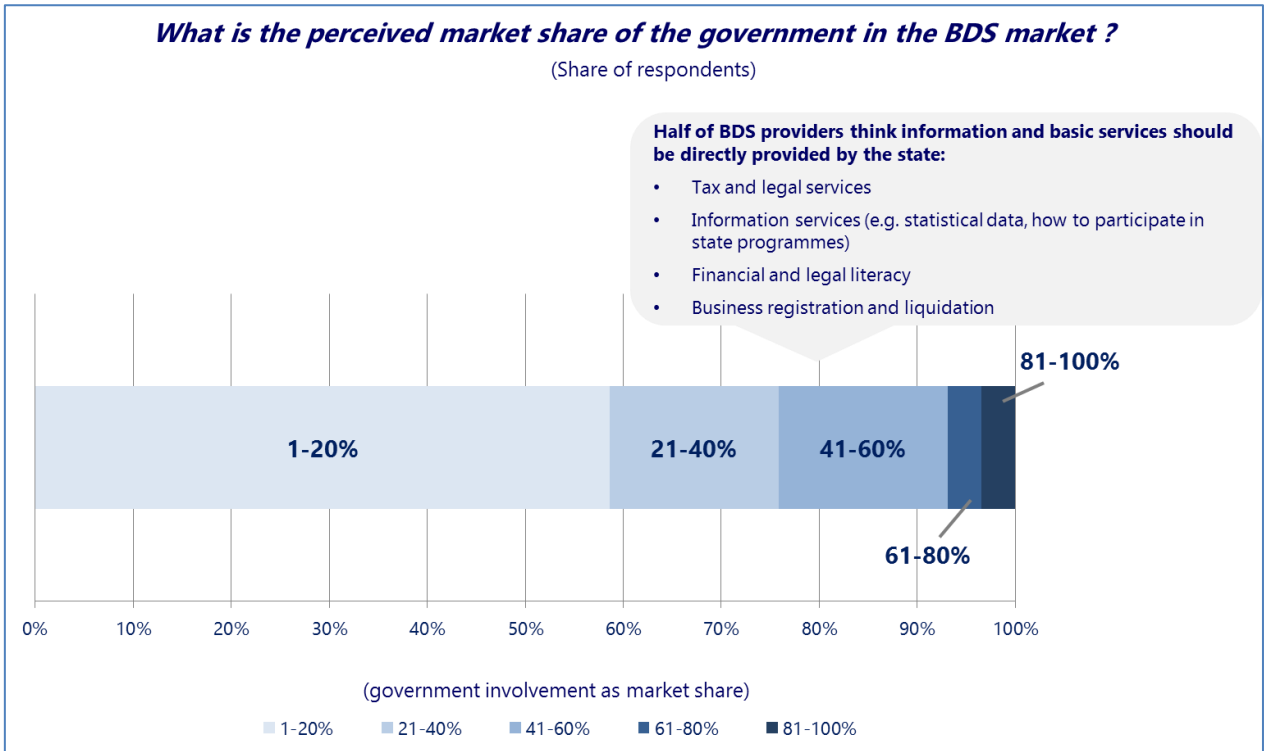
Source: Authors' own work based on survey of BDS supply, 2016.

Figure 28. Public providers are only minor competitors for private consulting firms



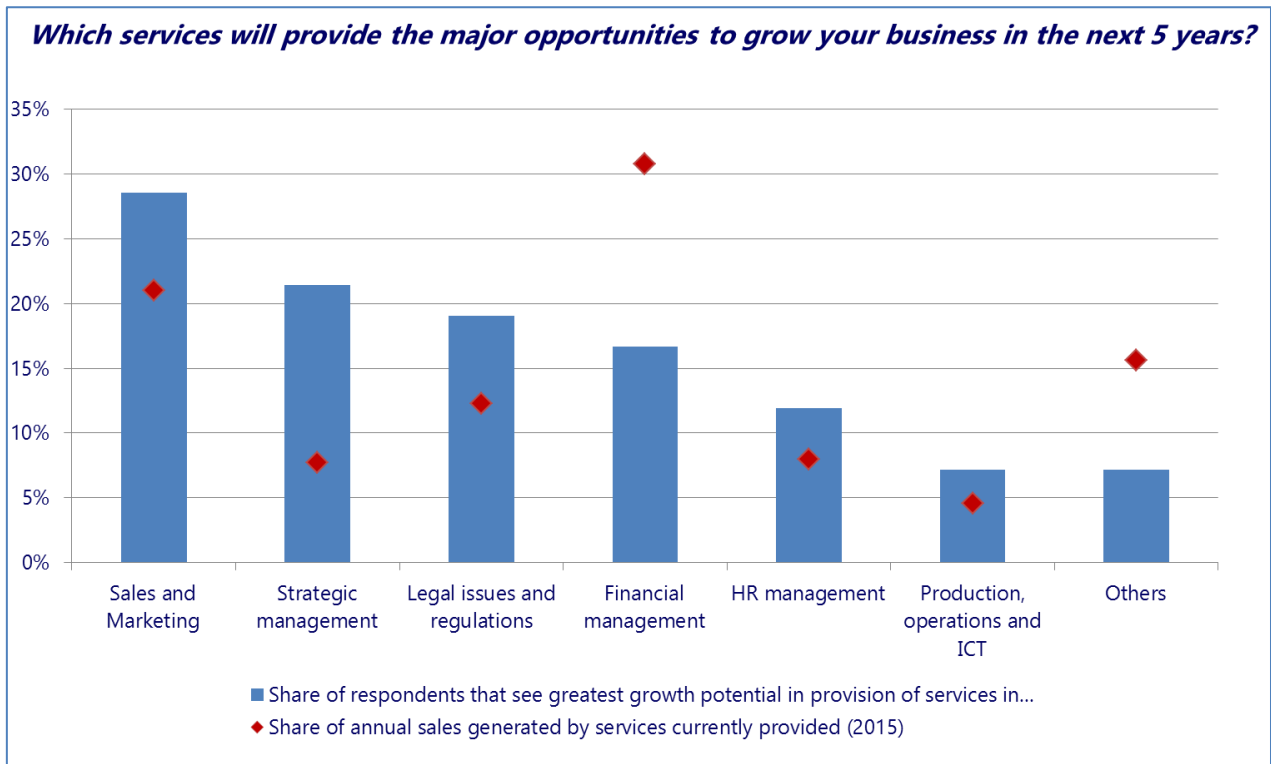
Source: Authors' own work based on survey of BDS supply, 2016.

Figure 29. Private consulting firms suggest that government focuses on basic service provision



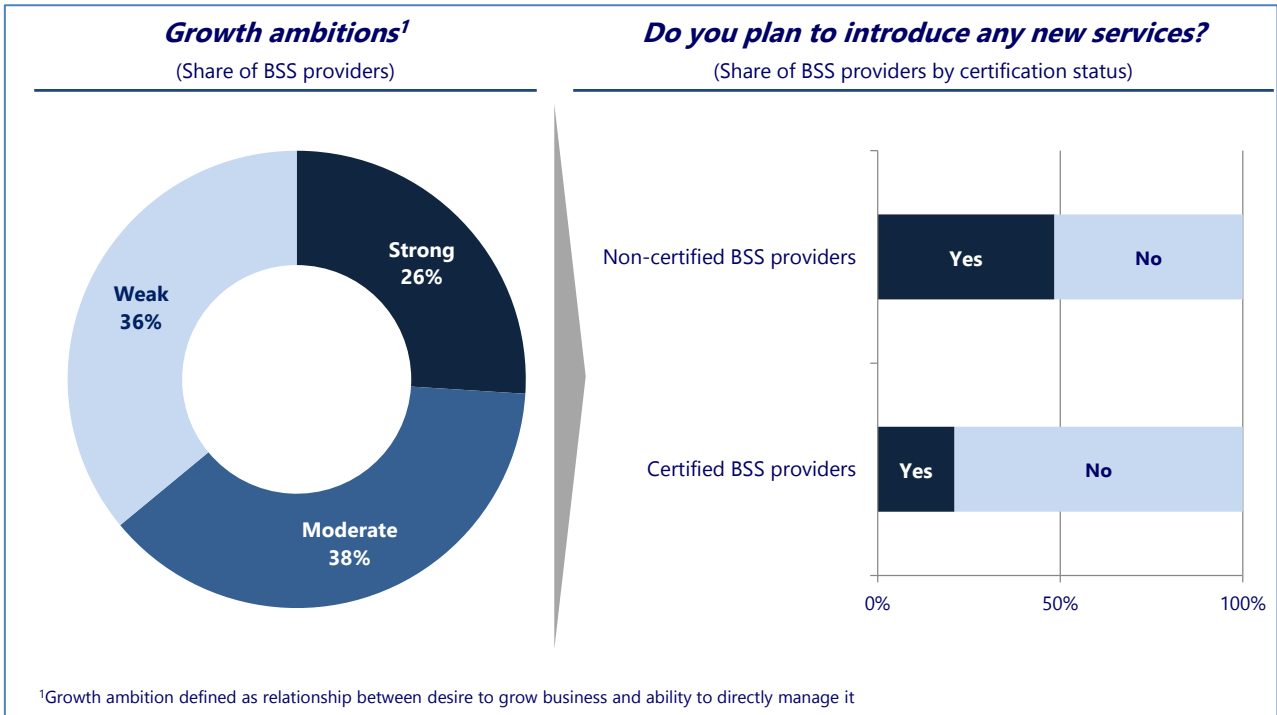
Source: Authors' own work based on survey of BDS supply, 2016.

Figure 30. Growth opportunities are expected from services currently provided to a minor extent



Source: Authors' own work based on survey of BDS supply, 2016.

Figure 31. BDS providers' growth ambitions do not translate into widely introducing new services



Source: Authors' own work based on survey of BDS supply, 2016.

ANNEX C: METHODOLOGY

The first step of the project was for the OECD team and its project partners to identify priority areas for small and medium-sized enterprise (SME) development in Belarus through the framework of the SME Policy Index 2016. The topic of developing SME capabilities through business development services (BDS), which could help remove an important obstacle to firm growth and lead to a more competitive SME sector, emerged as a priority from the results of the SME Policy Index 2016 and consultations with the Government of Belarus. This targeted approach will enable the Government to focus resources on specific policy issues and prioritise their future implementation, while at the same time increasing institutional capacity and securing support from implementers as a result of a continuous consultation process.

The second step was to establish a dedicated Steering Group, chaired by Vladimir Zinovskiy, Minister of Economy, and a Working Group, chaired by Ms Irina Kostevich, Deputy Minister of Economy, as the two main bodies to guide project steps.

The Steering Group was created for the purpose of setting project priorities, reviewing progress and endorsing the reform plan. It is composed of high-level representatives from the public sector, including the Ministry of Economy, the Ministry of Education, Ministry of Labour and Social Protection and the Council for the Development of Entrepreneurship; and from the private sector, represented by business associations and from international organisations, including the EU Delegation in Belarus, the European Bank of Reconstruction and Development (EBRD) and the International Finance Corporation (IFC).

The public-private Working Group, composed of representatives from government, business, academia and international organisations, was established as the main operational body to provide the necessary data, and to analyse, discuss and review project key findings and recommendations.

The OECD team helped to co-ordinate the project, analyse data, develop materials and suggest recommendations that were brought to discussion during Working Group and Steering Group meetings.

The following project activities led to a thorough gap analysis of the business development services market in Belarus, providing a basis for targeted recommendations:

- **Desk research on business development services in Belarus:** an overview of the existing business support infrastructure in Belarus, based on local knowledge and relevant legal and policy documents (e.g. laws and decrees, reports and surveys conducted by the EBRD and IFC).
- **Survey of SMEs and business support providers**
 - SME survey: 200 SMEs have been surveyed to obtain evidence on issues such as awareness, obstacles to accessing BDS or preferred delivery channels. Based on expert advice and with the consensus of Working Group members, it was agreed to build a sample to obtain as much insight as possible from companies expected to be the best target for BDS. As a result, firms based in Minsk whose main operations are in trade and manufacturing constitute the largest part of the sample.
 - BDS providers survey: 50 private providers have been surveyed, including 19 certified business support centres/incubators, on issues such as main growth constraints, future growth ambitions and perceived opportunities, competition and governmental support.

- **Qualitative interviews and focus groups:** several interviews have been conducted throughout the duration of the project with public and private sector representatives, including business associations (e.g. Kuniavskiy Business Union of Entrepreneurs and Employers, Minsk Capital Association of Entrepreneurs and Employers, Republican Confederation of Entrepreneurship), incubators (e.g. MAP ZAO, High Technology Park Minsk), certified BSCs (e.g. Vitebsk regional centre for marketing). Focus groups were organised with private consulting firms (e.g. XXI Vek-Consult, Baker Tilly Belarus, Vondel) and selected SMEs.

The Steering Group and Working Group held meetings in Minsk to discuss project findings illustrated by international good practice examples. The following meetings were held to prepare for the peer review of Belarus:

- **6 October 2015:** Formal launch of the project and presentation of the topic outline.
- **26 January 2016:** First Steering Group meeting and first Working Group meeting on mapping the provision of business development services in Belarus and sharing draft questionnaires of the surveys.
- **12 April 2016:** Second Working Group meeting on first survey results, challenges and recommendations for the demand of business development services in Belarus, as well as on the institutional framework.
- **5 July 2016:** Third Working Group meeting on final survey results, challenges and recommendations for the supply of business development services in Belarus.
- **28 September 2016:** Second Steering Group meeting presenting the summarised findings of the draft peer review note and endorsing the recommendations.

This document was submitted for peer review on 23 November 2016 at the fourth session of the OECD Eurasia Competitiveness Roundtable, a policy network that brings together high-level representatives and technical experts from Eurasia countries, OECD member countries and partner organisations. The Roundtable meets annually and serves as a platform for peer review and knowledge sharing on the implementation of competitiveness reforms.

The Roundtable discussion was facilitated by two international experts, who provided comments on Belarus's reform plan to improve business development services and insights into the policy experience in selected OECD countries:

- Mr Karel Lember, Analyst, Economic Development Department, Ministry of Economic Affairs and Communications, Estonia
- Mr Wojciech Sudoł, Deputy Director, Department of International Cooperation, Ministry of Economic Development, Poland.

Progress in implementing these recommendations will be discussed in three years' time at the 2019 OECD Eurasia Competitiveness Roundtable.



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