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SME support organization in Belarus: Blueprint for a Restart

Robert Kirchner, Irina Tochitskaya, Alexander Knuth

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IPM Research Center

50B Zakharova Street, 220088, Minsk, Belarus

Tel: +375 (17) 2 100 105 Fax: +375 (17) 2 100 105 E-Mail: research@research.by http://www.research.by

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German Economic Team Belarus

c/o Berlin Economics Schillerstr. 59 D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0 Fax: +49 30 / 20 61 34 64 9 E-Mail: info@get-belarus.de http://www.get-belarus.de

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SME support organization in Belarus: Blueprint for a Restart

Executive Summary

Organizing efficient and effective public support for small and medium-sized enterprises (SME) is a complex challenge for several reasons. The SME sector is a very heterogeneous group with very different needs, and is usually not as organized as big business; thus communication with this group is difficult. Also, SMEs react very fast to changing conditions in both positive and negative directions; favorable conditions result in rapid growth of the SME sector, disadvantageous conditions can quickly result in failures and bankruptcies.

The current SME support system in Belarus is concentrated around the "Belarusian Fund of Financial Support of Entrepreneurs" that was established in 1992. However, a short assessment of the Fund in terms of key performance criteria for SME support programs – output, outcome and impact – reveals that it has not been able to address the mentioned challenges to a satisfactory degree. Thus, there is the need for a complete restart of the SME support organization in Belarus, a process that the Ministry of Economy is currently undertaking.

The following policy recommendations should support this reform process by adapting relevant German and international experience to the specific Belarusian situation:

Strategic recommendations:

On a <u>strategic level</u>, it is of utmost importance to define the strategic focus (industry, and/or regional focus), target groups and targeted needs (e.g. training, finance), and take into account the interactions with other policy programmes. At the same time, the SME support organization must be flexible, which requires constant monitoring, and have an efficient administration. Furthermore, it should be above short-term political motivations due to the long-term nature of its capacity building task.

Recommendations on structure and governance:

We recommend a three tier organizational SME support structure: The first tier is the Ministry of Economy, which defines long-term policy goals and the expected impact of SME policy on the SME sector and the entire economy. The second tier ("Administration Agency") is an institution that operates on behalf of the ministry but with great operational freedom. Its task is not the execution of the support measures, but the administration of the SME support. The third tier consists of the institutions that are actually responsible for designing and executing the SME support, i.e. in the fields of SME sector monitoring, SME support programmes and evaluation. All institutions below the Ministry are selected via transparent public tenders, i.e. there is a "level playing field" which stimulates efficiency and innovation to a maximum degree.

By following above recommendations, an efficient and effective SME support organization can be established in Belarus. In turn, such an institution might be an effective platform to mobilize and facilitate cooperation with foreign donors, e.g. International Financial Institutions (IFI) in the form of financial and technical assistance dedicated for SME support.

Authors

Robert Kirchner kirchner@berlin-economics.com $+49\ 30\ /\ 20\ 61\ 34\ 64\ 2$ Irina Tochitskaya tochitskaya@research.by $+375\ 17\ /\ 2\ 100\ 105$ Alexander Knuth knuth@berlin-economics.com $+49\ 30\ /\ 20\ 61\ 34\ 64\ 0$

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1. Introduction

SME support is one of the most complex challenges of economic policy for several reasons. First of all, the SME sector is a very big group with ten thousands of enterprises and hundreds of thousands of entrepreneurs. It is usually not as organized in associations and lobby groups as the big industries are, thus communication with this stakeholder group is difficult. Secondly, the SME sector is a very heterogeneous group with very different needs, problems and expectations towards the policy environment. Thirdly, the SME sector reacts very fast on changing conditions in both positive and negative directions; favorable conditions result in rapid growth of the SME sector, disadvantageous conditions can quickly result in failures and bankruptcies. An organization that is responsible for the SME support has to address those challenges. In order to successfully deal with this complexity it must be flexible and fast, but at the same time stable and reliable.

The current SME support organization in Belarus has not been able to address these complex challenges to a satisfactory degree. That is why the Belarusian Ministry of Economy currently assesses the existing SME support organization and started already a process of redesigning it. The following paper aims at supporting this reform process by adapting German and international experience to the specific Belarusian situation.

The good news is that there is a broad range of positive and negative international experience. This provides Belarusian policy makers with the opportunity to draw from lesson learned all over the world.

To state it very clearly from the beginning, this paper discusses SME support in terms of providing support as a public good, free of charge for the SME. The paper does neither consider any services that are charged to SME nor services and measures that crowd-out existing market players.

The paper is organized as follows. Chapter 2 briefly analyses the Belarusian Fund of Financial Support of Entrepreneurs, as the Fund is the main pillar of the current SME support in Belarus. Chapter 3 provides some recommendations for the redesign of the SME support organization. Chapter 4 concludes.

2. The "Belarusian Fund of Financial Support of Entrepreneurs"

2.1. Current Responsibilities

The "Belarusian Fund of Financial Support of Entrepreneurs" was established pursuant to the Resolution of the Council of Ministers Nº 36 on January 28, 1992 in order to provide funding for programmes and actions aimed at the development of **entrepreneurial activities** in Belarus.

The basis for the new operational policy of the Fund was created by the Presidential Edict N^{o} 136 "On the Belarusian Fund for Financial Support of Entrepreneurs" on March 18, 1998. The Edict empowered the Fund to provide finance for small business on a repayable basis (interest-free or interest-bearing), as well as property under a finance lease (leasing), and guarantees of subsidized loans, including micro-credits provided by banks in Belarus. The Edict also adopted the new Regulation of the Fund. In accordance with this Regulation, the basic directions of Fund's activity are as follows:¹

¹ See http://www.pravo.by/main.aspx?quid=3871&p0=P39800136&p2={NRPA}

- To support small business and to develop competition by the attraction and effective use of financial resources for the implementation of targeted programs, projects and activities;
- To participate in the design, examination and competitive selection, as well as in the
 implementation of government, sectoral and regional programs, projects, and activities
 that contribute to the creation of jobs through the development of small business and
 boosting competition, de-monopolisation of the economy, saturation of the market with
 goods;
- To participate in the creation of a market infrastructure for small businesses that ensures equal conditions and opportunities for entrepreneurial activity;
- To support innovation activities of small businesses, stimulate new product development and production, promote the adoption of new technologies, and the use of patents, licenses, know-how;
- To facilitate the attraction of domestic and foreign investments for the implementation of priority activities to create a competitive environment and small business development;
- To participate in international programmes and projects aimed at the development of small businesses.

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

The Fund support is provided on a competitive basis, in order to make the procedure for selecting investment projects open and transparent. The interest rate is set in a way that it does not exceed the refinancing rate of the National Bank.²

The Fund holds the selection of investment projects, defines the order of their financing, organizing an independent examination of investment projects, controls the use of funds allocated to small businesses or received by these subjects with the assistance fund, and suspends funding in case of improper use of the funds.

The loans are granted for a period up to 5 years, property on lease is provided for a period up to 5 years. Guarantees on subsidized loans should not exceed 70% of these loans. The Fund allocates financial support, usually by transferring funds cashless on current accounts of suppliers of equipment or providers of services or works.

The approved staff of the Fund is 14 people, but the actual payroll number amounts to about 7.2 employees currently.

² When an investment project has a high social and economic importance, the amount of the interest rate can be set below the refinancing rate of the National Bank, but not less than half of that rate.

2.2. Budget

The Edict of the President of the Republic of Belarus №255 "On Some Measures of State Support to Small Entrepreneurship" on May 21, 2009 brought new impetus to the Fund's activity. The Edict envisages that small entrepreneurship entities are able to receive state financial support within the framework of the "State Programs of State Support to Small Entrepreneurship" via four main channels:

- The Belarusian Fund of Financial Support to Entrepreneurs;
- The regional (oblast) executive committees and the Minsk City Executive Committee;
- The banks' preferential credits, including micro-credits at the expense of financial resources of local budgets, stipulated in state programs of support to small entrepreneurship and placed into deposits of these banks;
- The infrastructure supporting small entrepreneurship (centers supporting small entrepreneurship, incubators of small entrepreneurship) by the assignment of subsidies by regional executive committees and the Minsk City Executive Committee

In the "State Programs of State Support to Small Entrepreneurship for 2010-2012", the amount of funds allocated to small businesses' support was significantly increased in comparison to previous years and the financial resources available through the Fund were clearly indicated. Whereas in 2006-2009, the Belarusian Fund of Financial Support to Entrepreneurs, as well as the regional executive committees and the Minsk City Executive Committee handled only BYR 13.6 bn³ financing to SME investment projects, in 2010-2012 this assistance was increased up to BYR 67.5 bn.

According to the "State Programs of State Support to Small and Medium-Sized Entrepreneurship for 2013-2015" the funding of SMEs will be increased further up to BYR 434.5 bn⁴ (see Table 1).

Table 1Planned financing of State Programs of State Support to Small Entrepreneurship (BYR m)

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

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

The financing that is planned to be allocated through the working capital of the Fund will be expanded in 2013-2015 according to the State Programme as well, as Table 1 shows. Over the entire period, it will amount to BYR 24.5 bn (5.6% of total state financial support), while in 2010-2012 the sum assigned for support accounted only for BYR 7.8 bn.

In addition, it was planned that the Fund will receive money from the Republican budget in the amount of BYR 10.5 bn (in 2013 – BYR 2.9 bn, in 2014 – BYR 3.5 bn, in 2015 – BYR 4.2 bn)⁵.

⁴ The amount of funding of this Programme through the republican and regional budgets is adjusted annually.

³ See http://neq.by/publication/2012 08 07 16284.html?print=1

Thus, the total sum of the financial support that will be provided by the Fund to SME is expected to reach in 2013-2015 BYR 35.1 bn^6 (8.1% of total state financial support).

As seen from Table 2, most of the resources granted by the Fund came from the Fund's working capital (on average 72.6% for 2010-2013). In 2013, the total amount of state financial support that was virtually allocated through the Fund amounted to BYR 8.7 bn, of which BYR 2.2 bn came from the Republican budget (loans – BYR 702.9 m, leasing – BYR 1,475.9 m), and BYR 6.5 bn was distributed from the Fund's working capital (loans – BYR 3.9 bn, leasing – BYR 2.7 bn).

Table 2Amount of state financial support provided by the Belarusian Fund of Financial Support of Entrepreneurs in 2010-2013 (BYR m)

	2010		2011		2012		2013	
	plan	in fact						
Republican budget	327.6	327.6	655.2	655.2	3,276.0	3,276.0	2,857.5	2,178.8
Working capital of the Fund	1,500.0	2,057.1	1,700.0	2,515.1	1,900.0	3,217.0	5,176.0	6,547.9
Total sum	1,827.6	2,384.7	2,355.2	3,170.3	5,176.0	6,493.0	8,033.5	8,726.7

Source: Ministry of Economy of Belarus

2.3. Economic Impact

In 2010-2013, the Fund supported the implementation of 170 investment projects of small businesses for the total amount of BYR 20.8 bn (the average size of the project was BYR 122.2 m). Over this period, small businesses that received financing from the Fund created 348 new workplaces, of which 96 in 2013.

⁵ The Fund will receive the part of the sum that should be allocated through the Republican budget according to *State Programs of State Support to Small and Medium-Sized Entrepreneurship for 2013-2015.*

⁶ In 2010-2012, the total financing that was allocated through the Fund (including working capital of the Fund and money from republican budget) to SMEs amounted to BYR 12 bn.

Table 3Activity of the Fund in 2011-2013

	2011	2012	2013
Number of financed projects	43	37	41
Financial support provided by Fund, BYR m	3,170.3	6,491.6	8,726.7
yoy, at previous year's prices, %	-	62.5	15.4
of which:			
loans	1,624.0	4,236.8	4,568.0
yoy at previous year's prices, %	-	114.2	-7.5
leasing	1,546.3	2,254.8	4,158.7
yoy at previous year's prices, %		19.7	58.3
Average project size, BYR m	64.7	175.4	212.8
yoy, at previous year's prices, %	-	122.5	4.2

Source: Belarusian Fund of Financial Support of Entrepreneurs

As can be seen from Table 3, in 2012 and 2013 the number of projects financed by the fund declined slightly compared to 2011. At the same time, there was an increase in the average amount of funding available per project. The most notable increase was in 2012, when the average size of the financed project increased by 2.2 times yoy at current prices (it was equivalent to USD 21 thsd), which was partly due to the base effect in 2011, when Belarus faced a severe currency crisis. In previous year's prices the amount of financial support went up by 62.5% in 2012 in comparison to 2011, and by 15.4% in 2013 yoy. In 2013, the average size of the project was slightly increased (by 4.2% yoy at previous year's prices and was equivalent to USD 24 thsd).

In 2010-2013, the Fund granted financing to small businesses by providing loans (65.3% of total support), and property on lease/finance lease (34.7% of total support), while guarantees of concessional loans, including micro-credits, were not issued.

As a side notice, the fund does not use the tool of loan guarantees. This is due to the insufficient funding of the Fund and to provisions of the Presidential Edict N° 255 on May 21, 2009, stipulating that guarantees can be issued only for special (subsidized) loans granted for the implementation of relevant target-oriented programs, projects and activities. The Ministry of Economy has already taken that into account and has prepared a draft of the Presidential Edict "On amendments to the Edict of the President of the Republic of Belarus N° 255 on May 21, 2009", which is currently under consideration. The draft of the Decree provides for the possibility of granting the Fund's guarantee for all types of banks' loans. It also stipulates the allocation to the Fund of a certain amount of financial resources from regional (local) budgets to support small businesses.

2.4. Assessment of the Fund's activities

The above analysis shows that the performance of the fund is rather poor. Considering the key performance criteria for SME support programs – output, outcome and impact -, the following picture emerges:

- Firstly, the output is very low. The number of supported projects per year is very low and does not grow. The average project size is quite low as well.
- Secondly, the outcome is very low, too. The number of created work places that can be attributed to the funds support is tiny in relation to the Belarusian workforce.
- Thirdly, the impact on the Belarusian economy is neglectable. There is some danger for negative impact when the public opinion about the fund harms the image of the overall SME policy.

To sum up, there is urgent need for redesigning the SME support organization.

3. Recommendations for a new SME Promotion Organization

3.1. Strategic Recommendations

The new organization, which is responsible and accountable for SME support in Belarus, must have the competency and accountability to define the strategic focus of the SME support. Budget and measures need to be focused in order to have a relevant impact on the SME sector. In order to do so the organization must intermediate between government policy and SME's needs. To make it very clear, the strategic focus is different from the responsibilities as stipulated by the law. According to good law making practice, the law would define a rather broad range of responsibilities for the organization, thus giving the organization flexibility. However, those responsibilities as stipulated by the law cannot be fulfilled all at once but rather in the long-term perspective. In the short and medium term, the organization needs to set priorities. The main criterion for prioritizing fields of action is the expected outcome respectively the expected impact. Therefore, the organization should focus on those tasks that can influence the SME sector's development most efficiently.

What kind of medium term <u>strategic focus</u> could be recommendable, taking into account the current specific situation in Belarus? There are several possibilities:

- A focus on certain industries could make sense, when it targets those industries that have an international competitive advantage. Strengthening SMEs in such industries could contribute to the overall international competitiveness of Belarus.
- A focus on certain regions could make sense, when regional disparities should be reduced. In that case it is necessary to find out how exactly SME could contribute to strengthen a region's capacity for economic growth.
- A combination of both regional and industry focus is known as regional economic cluster policy and could make sense when the promoted region has sufficient infrastructural capacity to attract and to absorb people, FDI, research institutions and professional services.

In any case, it would be recommendable to concentrate on one focus strategy only. International experience shows that all attempts to follow a very broad SME support approach have failed.

Having chosen a strategic focus, the next step would be to define the <u>target groups</u> and their needs. The SME sector is not a homogenous group. Quite the opposite, the SME's needs and problems differ tremendously. This is even the case within certain industries or regions, according to international experience and research. There is no SME policy measure that is "always and everywhere" good for SME. Especially financial support is less often needed than laymen would expect. Badly targeted SME support programs result in low demand. In the worst case, public expenditure is spent on support programs that no SME needs. In order to prevent such a situation, it is important to analyze the <u>SME's needs</u>. Having analyzed these needs, it is important to make a decision to focus on just some of the needs. This is also an issue of intermediating between the SME sector and the policy environment. Not all problems and needs of SME are relevant from a political point of view. The task is to identify those problems of SME, whose solutions have a positive impact on the entire economy resp. society.

To make it more complex, SME problems and needs will definitely change over time. As a consequence, it is impossible to define a SME support strategy which will be efficient for a long-term period.

As a consequence, it is important to implement a process that continuously monitors and adapts the strategic focus. This is as important as the strategic focus itself.

By defining strategic focus, target group and targeted needs, the integration with other policy measures must be considered, too:

- Firstly, any new SME support program should create value that is different from that of
 existing economic policy programmes. This is to prevent double support. Integration
 means to clearly define both distinctions from existing support programmes and interfaces
 with other support programmes.
 - o Example: Existing programmes such as the High Tech Park target (not exclusively) SME, too. It could be worth considering how to help SME without competing with the High Tech Park programme. Methods for integrating with existing support programmes are: targeting different development stages (e.g. a stage before entering the High Tech Park), targeting different qualities (e.g. those SME which have failed to pass the High Tech Park assessment), targeting complementary needs (e.g. those High Tech Park members that want to open a subsidiary in the countryside) etc.

This is especially the case for defining the distinction between national and regional SME programs. We recommend a clear division of tasks for the different programs and institutions.

- Example: In Germany, the division of tasks is as follows: The regional governments are responsible for the support of nascent entrepreneurs, i.e. to support all preparations of founding a business before it is incorporated, the Federal government is responsible for supporting the start-ups after they have been established.
- Secondly, the SME support strategy must be integrated with regulatory reforms. In other words, regulation and promotion need to function hand in hand.
 - o Example: In case the SME's international competitiveness should be strengthened, then easing the regulatory burden on exports must flank export promotion

measures. Support measures can only function when the regulatory framework conditions lays a fruitful ground.

With respect to the organizational strategy, the following strategic success factors are result of international best practice and research:

- The SME support organization must be flexible enough to respond fast to lessons learned. That means it must continuously monitor its own performance and be able to change strategy and measures according to performance issues or changing SME's needs.
- The SME support organization must have an efficient administration. The administrative burden for SME should be very low, because high administration costs such as long and complex application procedures form hurdles for accessing the support program.

When designing the organizational strategy, the role of foreign donors should be considered, too. International donors usually prefer institutions that have the following characteristics:

- The SME support organization is transparent and reliable, which has implications for the governance.
- The SME support organization assures equal access for all SME to its support measures. There are no privileges for any kind of SME within the target group. The target group is defined by economic reasoning only and the criteria for the target group are transparent.
- The SME support organization builds up long-term capacity. Therefore, it should not be tied to a short-term policy goal but rather be able to intermediate between policy goals and SME's needs.

In case the new SME support organization aims to attract financial support from international donors, then the latter three criteria might be worth considering.

3.2. Recommendations on Structure & Governance

We recommend a three tier organizational structure. Such a structure is able to fulfill many of the requirements as identified in chapter 3.1. The German Federal SME support uses a similar system (see Box 1) with long term good experience.

The first tier is the Ministry of Economy, of course. The first tier defines long-term policy goals and the expected impact of the SME policy on the SME sector and the entire economy. The first tier also assigns the budget.

The second tier is an institution that operates on behalf of the ministry but with great operational freedom. Its task is not the execution of the support measures, but the administration of the SME support. The duties of the second tier institution include:

- Translating long-term policy goals into indicators that can be measured
- Defining strategic focus, target groups and targeted needs
- Deriving short and medium term goals and indicators from the strategy
- Implementing a process of tender for the third tier (executional level)
- Administrating the contracts with the third-tier institutions
- Monitoring and strategic controlling of output and outcome of contracted third-tier partners

- Reporting to the government
- Intermediating between government and SME sector
- Attracting budgets from other institutions, such as international donors

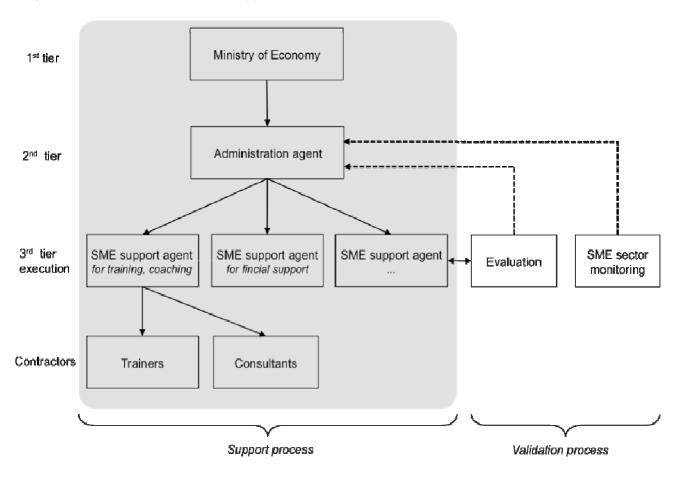
The second-tier institution will not design any specific support programs or measures. It will concentrate exclusively on strategy and supervising.

The third tier consists of institutions that are responsible for designing and executing the SME support. The scope of the support program usually embraces several modules. We recommend at least three different third-tier partners for three distinctive modules:

- 1. SME sector monitoring. The responsible institution will have to
 - Monitor and analyse the economic situation of the SME sector
 - Monitor and analyse needs and problems of the SME and their change over time
 - Monitor the impact of the SME policy on the SME sector
 - Derive recommendations for the SME support strategy
- 2. SME Support programmes. The responsible institution will have to
 - Design specific support programs according to the SME support strategy
 - Execute and manage the support programs
 - Contract with private partners such as consultant, trainers etc.
- 3. Evaluation. The responsible institution will have to
 - Evaluate the support programs (see above No. 2)
 - Evaluate the SME sector monitoring (see above No. 1)

For a start, the entire new SME support organization would accordingly consists of at least four different institutions below the ministry, one institution for the second tier, one for the SME sector monitoring, one for designing and executing the support programs and one for evaluating the SME support. The three third-tier partners should be selected via public procurement processes (tenders). Tenders are restricted in time, which means that after a certain period, third-tier institutions must apply again in a tender process. The Chart 1 sketches the proposed structure briefly.

Figure 1Organizational structure of SME support



Note: Downwards the levels: delegation of tasks and responsibilities. Upwards the levels: reporting and accountability.

Such a structure has several advantages

- 1. It is a clear task division between the execution of programs, the evaluation and the impact monitoring. This increases efficiency, because institutions can specialize. At the same time it provides reliable information for policy makers and thus contributes to increasing the efficiency of policy decision making.
- 2. Administration costs on the Ministry level are reduced to a minimum. Policy makers can concentrate on political issues. All operations are delegated to lower levels.
- 3. The second-tier institution will build up competencies in administering state policy and can thus in the future act as agency for other ministries, too.
- 4. The SME support can respond fast to changing conditions such as changing SME's needs or lessons learned from program evaluation.

- 5. Inefficient third-tier partners can be replaced without destabilizing the entire system. In the future, even more third-tier partners can be contracted.
- 6. It is favorable for innovations within the SME support. As the third-tiers partners have to apply in tenders, they compete with each in other with respect to innovative support programs. The second-tier institution can chose such third-tier partners who prove to use State-of-the-Art or even Cutting-Edge support programs.
- 7. It helps to attract foreign donors for two reasons: on one hand such a system is very transparent. On the second hand, it provides the donor with several opportunities to allocate its funds, either on the second tier or on a any module on the third tier. This gives foreign donors greater flexibility, which is important for the donors' own accountability to their stakeholders.

Finally, such an organizational structure is superior to an organization that tries to embrace all responsibilities in one institution, because it allows the delegation of tasks to those partners who have the necessary know-how, experience and capacity. If a single institution wants to fulfill all responsibilities on their own, that institution would need to build up know-how in all fields, which is nearly impossible, as the tasks require very different skills. Instead it is more efficient to cooperate with partners that possess the necessary skills. The SME sector monitoring, for example, could be contracted out to an economic research institute; the provision of loans and loan guarantees could be contracted out to an institution that has experience, capacity and shows good performance in that field.

Box 1

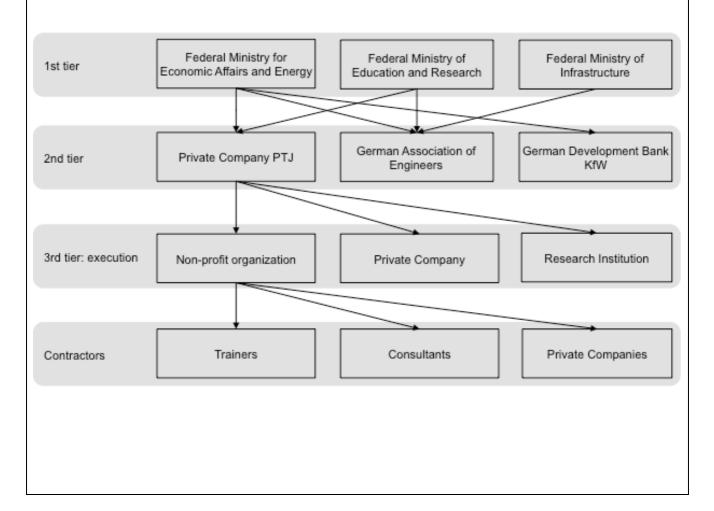
Organizational structure of the SME support of the German Federal Government

The organizational structure of the SME support of the German Federal Government consists of up to three tiers.

Below the first tier, which is the government itself, are the second-tier agencies. Those agencies act on behalf of the government, but they are no state agencies. Among those agencies are for instance some private companies, the German Association of Engineers and some other non-profit organizations. The agencies are chosen by public procurement procedures. That means, that the government regularly places tender. For such tenders, private companies, state agencies, non-profit-organizations and state-owned enterprises can apply. In other words, it is a "level playing field" for agencies.

The second-tier agencies administer and supervise the support programs, but do not carry out the support programs. The second-tier agencies place tenders and choose the third-tier agencies, administer the budgets, control the third-tier agencies and report to the government.

The third-tier agencies carry out the support program itself. Again, all kind of corporations can apply for a tender and act as a third-tier agency. The duties of the third-tier agencies include the responsibility and accountability for contracting with private cooperation partners such as private banks, private consultants and business trainers.



Such a system has several advantages:

- 1) The second-tier agencies are not tied to a specific ministry. In fact, several German Federal ministries are involved in SME support. Currently, the Ministry of Economic Affairs and Energy and the Ministry of Education and Research have the biggest budgets for SME support within the German Federal government. Both ministries contract with the same second-tier agencies.
- 2) This structure allows for task specification and for building up specific competencies. When second-tier agencies constantly improve their competencies on administration and strategic controlling, they become more efficient and increase their chances to win future tenders. The increased efficiency, in turn, reduces administration costs and has a positive effect on the state budget.
- 3) The competencies of second-tier agencies are independent of the content of the SME support measures. Therefore, this structure allows flexibility. Measures can be changed very fast, meaning that the third-tier agencies change without necessarily changing second-tier agencies. Example: The German Development Bank KfW acts as second-tier agency for several support programmes, of which one of them is a publicly-funded business-coaching programme for start-ups. A bank usually has no competencies in coaching. However, that is no contradiction, because KfW does not carry out the business coaching, but only administers the programmes, which means that the KfW places tenders for third-tier partners, controls the programme and reports to the government.
- 4) It is stable and at the same time flexible. The second-tier agencies stabilize the system; the third-tier agencies can be changed easily, allowing fast and flexible reactions to changing SME's needs.

4. Conclusions and Outlook

This policy paper contributes to the current debate on how to restructure the current system of SME support in Belarus, in order to make it more effective and efficient, and provide equal access for all SMEs to its support.

On a <u>strategic level</u>, it is of utmost important to define the strategic focus, target group(s) and targeted needs, and take into account the interactions with other policy programmes. At the same time, the SME support organization must be flexible and have an efficient administration.

At the <u>structure and governance level</u>, we recommend a three tier organizational structure, as it is able to fulfill many of the requirements previously identified. The first tier is the Ministry of Economy, which defines long-term policy goals and the expected impact of SME policy on the SME sector and the entire economy. The second tier is an institution that operates on behalf of the ministry but with great operational freedom. Its task is not the execution of the support measures, but the administration of the SME support. The third tier consists of the institutions that are actually responsible for designing and executing the SME support.

Once such a structure is up and running in a transparent and reliable way, this opens up a number of possible financial cooperation schemes with international donors. Financial support to the SME sector in transition countries is often a core component of the assistance provided by the international donor community (i.e. IFIs, or bilateral donors). Financial and accompanying technical assistance is often granted via the involvement of the local banking sector, which also benefits from this support. A very interesting example for such an institutional setting is the operations of the "German-Ukrainian Fund" for MSME support, which looks back at a 15-year history and is described further in Box 2:

Box 2

Case study: The "German-Ukrainian Fund" for MSME support

The "German-Ukrainian Fund" was founded in 1999 by the National Bank of Ukraine, the Ministry of Finance and German promotional bank KfW on a parity basis. The Fund is of a revolving nature, and its capital amounts to EUR 16.4 m. It on-lends its resources to MSMEs via selected partner banks (currently 6 banks) at market-oriented conditions. Loans to MSME clients can be issued up to EUR 250,000 in both Euro and Hryvnia, and at terms up to 3 (working capital) or 5 (investment loans) years.

The main goal of the Fund – a second-tier, non-bank financial institution – is to support the development of a competitive MSME sector in Ukraine, with associated employment and social benefits. At the same time, the Fund supports development of the local banking sector through its financial and technical cooperation.

The Fund operates different loan programmes: a micro-lending programme, a rural area programme and a lending in priority areas programme). To give an example of the success achieved so far, in the micro-lending programme there have been in total 161 ths. loans issued, worth over EUR 696 m (average EUR 25,000).