SME Support System in Germany: Overview and Relevance for Belarus

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Introduction (1)

The German SME sector is very strong in terms of international competitiveness, innovative strength and job creation

• 1,307 world market leader are from German “Mittelstand”

• 54% of German SME have developed a product or process innovation between 2008 and 2010 (EU average is 34%)

• German SME sector has currently 900,000 job vacancies

• German SME sector will create 250,000 new jobs in 2014
Introduction (2)

- The German state SME support system contributes to this positive SME sector development to a significant degree

- German policy makers can draw on several decades of SME policy experience. Thus, German experience might be of relevance for the further development of the Belarusian SME support system

- The German SME support system is based on two major pillars:
  1. Programs for individual assistance and subsidies
  2. Measures of regulatory easing for SME

- The objective of this policy briefing is to explain the German SME support system, highlight its main components, and draw some preliminary conclusions for Belarus
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# SME Assistance & Subsidies: Overview

<table>
<thead>
<tr>
<th>Definition</th>
<th>• Measures that provide individual support for founders, entrepreneurs and small and medium enterprises</th>
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<tbody>
<tr>
<td>German Experience</td>
<td>• Approx. 1,000 different SME support programmes</td>
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<td>• Mixed experiences regarding efficiency and effectiveness of instruments</td>
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<td></td>
<td>-&gt; Focus shift towards innovative and growth-oriented SME</td>
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<td></td>
<td>-&gt; Co-payment by companies required (up to 50%, depending on region and industry sector)</td>
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<tr>
<td>EU Policy</td>
<td>• Focus shift towards innovative and growth-oriented SME</td>
</tr>
<tr>
<td>Opportunities for Belarus</td>
<td>• Broad variety of best practice instruments</td>
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<td></td>
<td>• Experiences (positive and negative) from other countries: help to prevent making same mistakes again</td>
</tr>
<tr>
<td>Challenges for Belarus</td>
<td>• Ensure non-discrimination in access to state support</td>
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<td>• Introduce cap for subsidies per company</td>
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<td></td>
<td>• High costs = negative impact on public finances in the short term</td>
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<td></td>
<td>• Danger of misuse and structural distortions</td>
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<td></td>
<td>• Institutional capacity for implementation</td>
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</table>
SME support instruments are more and more integrated, but there are still approx. 1,000 different policy programmes in Germany (for specific target groups, regions, industries, growth stages etc.), resulting in some overlap and inefficiency.
SME Assistance & Subsidies: Instrument Overview (2)

Information Provision
Business Training
Coaching/Counselling
State loans, guarantees
Facilities
Subsidies

No. of people to be supported

Danger of misuse
Impact on public expenditures
Danger of structural distortions
Information Provision

SME Support Center

Acts as First-Stop-Shop or One-Stop-Shop
Provides basic information about regional markets and establishing a business (registration, licensing…)

Provides information about and connects to …

Advisory Services

Trainings

Premises

Subsidies

Loans, guarantees

Source: Own, simplified display
## Training, Counselling, Coaching

<table>
<thead>
<tr>
<th>Objectives</th>
<th>• Support SME managers and entrepreneurs with building up knowledge and skills</th>
</tr>
</thead>
</table>
| Instruments (Germany) | • Basic training in business planning and business administration  
• Vouchers for business counselling and advisory services  
• Vouchers for business coaching  
• Conditions: Co-payment by the supported SME from its own budget (up to 50%) |
| Opportunities for Belarus | • Positive impact on human capital stock  
• Rather flexible instrument  
• Best practice experiences available |
| Challenges for Belarus | • Some danger of misuse  
• Institutions that manage and monitor the programmes?  
• Availability of skilled and experienced trainers/counsellors/coaches? |
# State Loans

<table>
<thead>
<tr>
<th>Objectives</th>
<th>• Overcome financing shortages</th>
</tr>
</thead>
</table>
| Instruments (Germany) | • Loans with lower interest rates and/or lower level of collateral  
• Preconditions  
  • Used for long-term investments (machinery etc.)  
  • Long-term profitable business concept  
• Funding: Budget + EU funds + European Recovery Program Assets  
• Implementation: Development banks (national development bank KfW and 16 state development banks) in coop. with commercial banks |
| Opportunities for Belarus | • Improvement in access to finance  
• Renew and expand real capital stock and production capacity |
| Challenges for Belarus | • Institution that carries out programme?  
• Selection criteria?  
• Insolvency law and collection of debts? How to prevent fraudulent insolvency? |
## State Loan Guarantee Schemes

<table>
<thead>
<tr>
<th>Objectives</th>
<th>• Overcome financing shortages</th>
</tr>
</thead>
</table>
| **Instruments (Germany)** | • Guarantees as substitute for collateral, used for loans of commercial banks, up to 90% of credit volume are guaranteed by state institutions  
• Funding: Budget + EU funds  
• Implementation: Development banks (national development bank KfW and 16 specialised guarantee banks) in cooperation with commercial banks |
| **Opportunities for Belarus** | • Improvement in access to finance  
• Positive impact on SME growth and development  
• Best practice experience from other countries available |
| **Challenges for Belarus** | • Is access to finance a major problem for SME sector currently?  
• Institution that carries out programme?  
• Selection criteria?  
• Monitoring and risk management?  
• Insolvency law and collection of debts? How to prevent fraudulent insolvency? |
## Facilities

| Objectives                                                                 | • Provide basic infrastructure for technology start-ups and young companies  
| • Foster specific industries  
| • Promote innovation |
|---------------------------|-----------------------------------------------------------------------------|
| **Instruments (Germany)** | • Incubator  
| • Business park, science park, technology park |
| **Opportunities for Belarus** | • Powerful instruments for innovation policy |
| **Challenges for Belarus** | • High costs, especially high sunk costs = negative impact on public finances in the short term  
| • Danger of misuse  
| • Danger of structural distortions  
| • Mixed experiences from other transition countries |
## Innovation Subsidies

| Objectives | • Increase competitiveness of SME sector  
|            | • Increase export capacity of SME sector  
|            | • Promote specific industries |
| Instruments (Germany) | • Grants for Research & Development  
|                     |   • Up to 45% of salaries of R&D staff and other related R&D expenditures  
|                     |   • Must be committed to specific R&D projects with commercial output, such as product development  
|                     |   • Grants for innovation commercializing business services  
|                     |     • 50% grant up to 25,000 EUR, voucher system |
| Opportunities for Belarus | • Positive impact on SME sector  
|                       | • Positive impact on innovation activity in entire economy |
| Challenges for Belarus | • Danger of misuse  
|                        | • Danger of structural distortions  
|                        | • Negative impact on public finances |
## Investment Subsidies

| Objectives | • Increase real capital stock  
• Overcome financing shortages  
• Promote specific industries |
|------------|--------------------------------------------------------------------------------|
| Instruments (Germany) | • Grants for investments  
  • Investment amount at least 30,000 €,  
  • Long-term investments only (machinery etc.)  
  • Up to 50% of investment, share depends on industry sector & region  
  • Grants for wages of newly created jobs that are bound to the investment  
    • Wages at least 25,000 €/year  
    • Up to 50% grant for two years  
    • Jobs must remain at least for 5 years |
| Opportunities for Belarus | • Positive impact on investment climate  
• Renew and expand investment stock and production capacity |
| Challenges for Belarus | • Danger of misuse  
• Danger of structural distortions  
• Negative impact on public expenditures |
## Start-up Subsidies for Innovative Start-ups

<table>
<thead>
<tr>
<th>Objectives</th>
<th>• Increase quantity and quality of start-ups</th>
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</table>
| Instruments (Germany) | • Grants for unemployed people that start a business  
• Up to 24,000 € per person + up to 5,000 € for equipment  
• Precondition: Long-term profitable business concept  
• Grants for start-ups from universities  
• Up to 30,000 € per person + up to 23,000 € grants for equipment and coaching  
• Precondition: Highly innovative business concept |
| Opportunities for Belarus | • Positive impact on investment climate and entrepreneurial spirit  
• Promote structural change |
| Challenges for Belarus | • Institutional: Assessment of business concepts requires sophisticated skills and long-term experiences; such competencies must be build up  
• Danger of misuse  
• Danger of structural distortions  
• Negative impact on public finances in the short term |
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# SME regulatory easing: Overview

<table>
<thead>
<tr>
<th>Definition</th>
<th>Measures that aim to improve regulatory framework for the development of the SME sector</th>
</tr>
</thead>
</table>
| **Instruments (Germany)**                                                 | • Easing regulatory burden and reducing compliance costs, especially reduced administrative burden of tax regulation  
  • Non-discrimination of SME, especially access to state procurement  
  • Easing employment protection legislation for SME |
| **German Experience**                                                     | • Positive experience with reduced administrative burden of tax regulation  
  • Positive experience with access to state procurement  
  • Positive experience with exempting small entrepreneurs from dismissal protection law |
| **EU Policy**                                                             | • Highest priority on EU policy agenda: “Small Business Act” |
| **Opportunities for Belarus**                                             | • High impact on SME development  
  • No significant economic and structural distortions  
  • No major losses in public revenues (medium- and long-term) |
| **Challenges for Belarus**                                                | • Implementation, enforcement, monitoring and adjustment of reforms |
# Reduced Administrative Burden of Tax Regulation

<table>
<thead>
<tr>
<th>Objectives</th>
<th>• Strengthen SME competitiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruments in Germany</td>
<td>• Simplified primary documentation</td>
</tr>
<tr>
<td></td>
<td>• Simplified financial accounting and reporting</td>
</tr>
<tr>
<td></td>
<td>• Simplified tax accounting and preparing reports</td>
</tr>
<tr>
<td></td>
<td>• Simplified reporting requirement</td>
</tr>
<tr>
<td></td>
<td>• Simplified tax inspection</td>
</tr>
<tr>
<td>Opportunities for Belarus</td>
<td>• Advantages for SME:</td>
</tr>
<tr>
<td></td>
<td>• Lower administrative costs</td>
</tr>
<tr>
<td></td>
<td>• Higher returns on investment</td>
</tr>
<tr>
<td></td>
<td>• Improved international competitiveness</td>
</tr>
<tr>
<td></td>
<td>• Advantages for public administration:</td>
</tr>
<tr>
<td></td>
<td>• Lower costs of tax collection</td>
</tr>
<tr>
<td></td>
<td>• Lower work burden for public officials (free resources for other activities)</td>
</tr>
<tr>
<td></td>
<td>• Higher tax revenues through higher economic growth</td>
</tr>
<tr>
<td>Challenges for Belarus</td>
<td>• Transforming the current accounting system</td>
</tr>
<tr>
<td></td>
<td>• Prevent misuse of regulatory easing</td>
</tr>
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SME support in Germany: Policy Formulation

- In Germany: SME policy formulation is a joint task of relevant policy making institutions at national level, federal state level and regional level.
- Policy makers at different levels can develop instruments. This is due to the EU principle of subsidiarity; as a result there are approx. 1,000 SME policy programmes in Germany.
- Instruments are aligned with European SME policy guidelines and are co-financed by European funds.
SME support in Germany: Implementation

• SME policy makers appoint specialised institutions to apply the instruments
• For such tenders, private companies, state agencies, non-profit-organisations and state-owned enterprises can apply („level playing field“)
• Institutions are required to coordinate their actions with each other
• Tenders are renewed after some years; in that way, policy makers intend to foster competition between potential institutions and thus to continuously improve effectiveness and efficiency

Source: Own, simplified display
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Summary & Outlook

• The main success factor of the German SME support system is its own innovative strength:
  – Constant monitoring and assessment of impact and efficiency of support programs
  – Constant improvement of already successful support programs
  – Abolishment of inefficient support programs
  – Developing and testing new support approaches

• Over time, some major development trends in the German SME support system have been observed

• The first major development trend of the German SME support system is the move away from broad support towards a clear focus on innovative SME

• The second major development trend of the German SME support system is the preference of regulatory easing, because of the positive experience associated with it

• The main recommendation for the further development of the Belarusian SME support system is to implement a systematic process for the instrument development, as the next slide briefly sketches.
Steps for developing and implementing effective and efficient SME support instruments

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysing current specific problems of SME in Belarus,</td>
<td>identifying target groups with specific needs</td>
</tr>
<tr>
<td>Designing specific instruments for target groups</td>
<td></td>
</tr>
<tr>
<td>Create or select institutions that implement these instruments,</td>
<td>prevent misuse</td>
</tr>
<tr>
<td>Coordination of institutions and authorities that are involved on</td>
<td>national, regional and local level</td>
</tr>
<tr>
<td>Monitoring implementation progress</td>
<td></td>
</tr>
<tr>
<td>Analysing impact regularly, adjusting the instruments accordingly</td>
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