

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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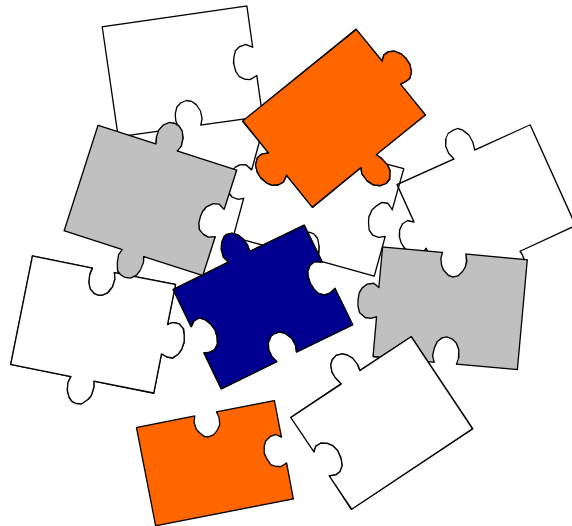
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SME Assistance & Subsidies: Overview

Definition	<ul style="list-style-type: none"> Measures that provide individual support for founders, entrepreneurs and small and medium enterprises
German Experience	<ul style="list-style-type: none"> Approx. 1,000 different SME support programmes Mixed experiences regarding efficiency and effectiveness of instruments <ul style="list-style-type: none"> -> Focus shift towards innovative and growth-oriented SME -> Co-payment by companies required (up to 50%, depending on region and industry sector)
EU Policy	<ul style="list-style-type: none"> Focus shift towards innovative and growth-oriented SME
Opportunities for Belarus	<ul style="list-style-type: none"> Broad variety of best practice instruments Experiences (positive and negative) from other countries: help to prevent making same mistakes again
Challenges for Belarus	<ul style="list-style-type: none"> Ensure non-discrimination in access to state support Introduce cap for subsidies per company High costs = negative impact on public finances in the short term Danger of misuse and structural distortions Institutional capacity for implementation

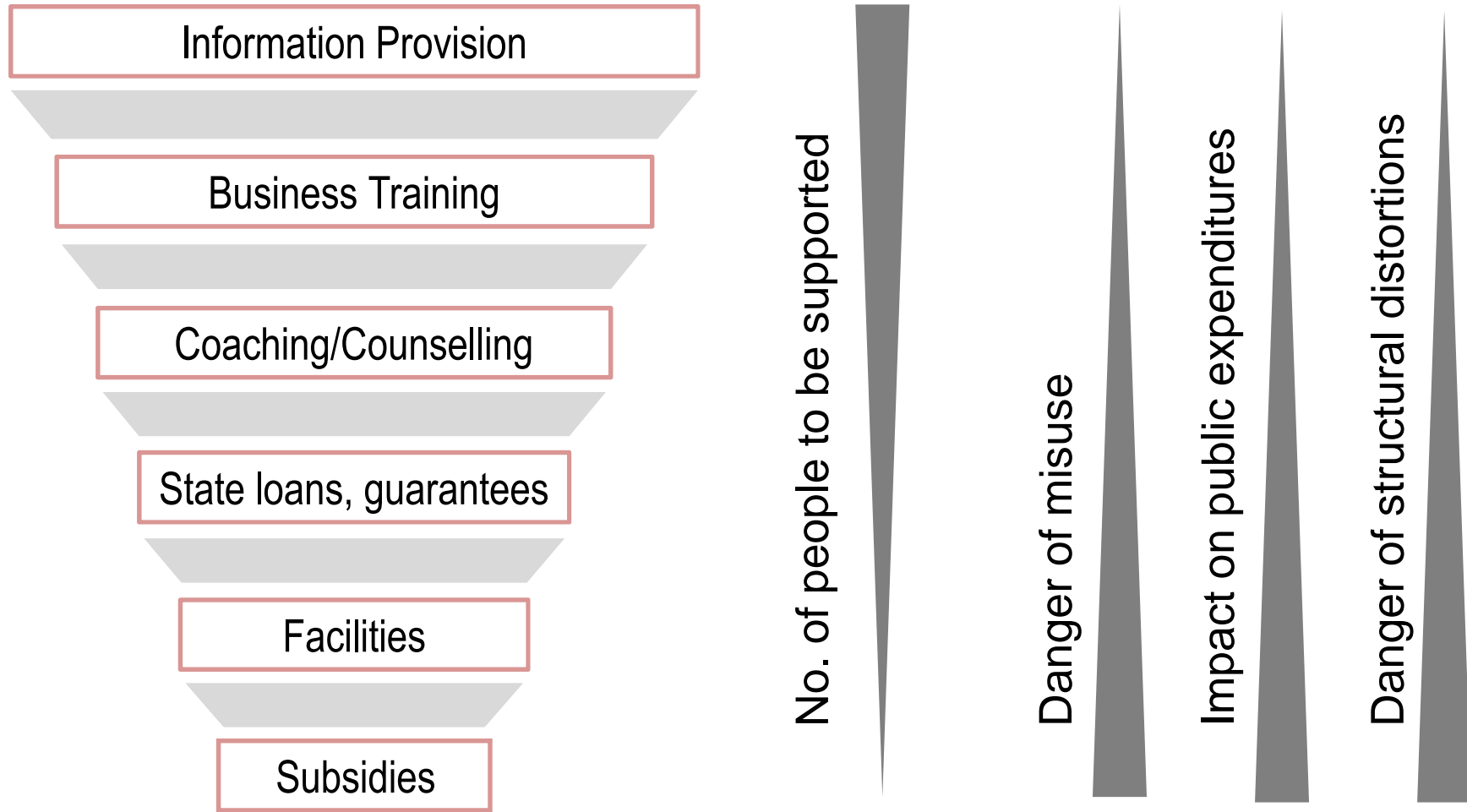
SME Assistance & Subsidies: Instrument Overview (1)



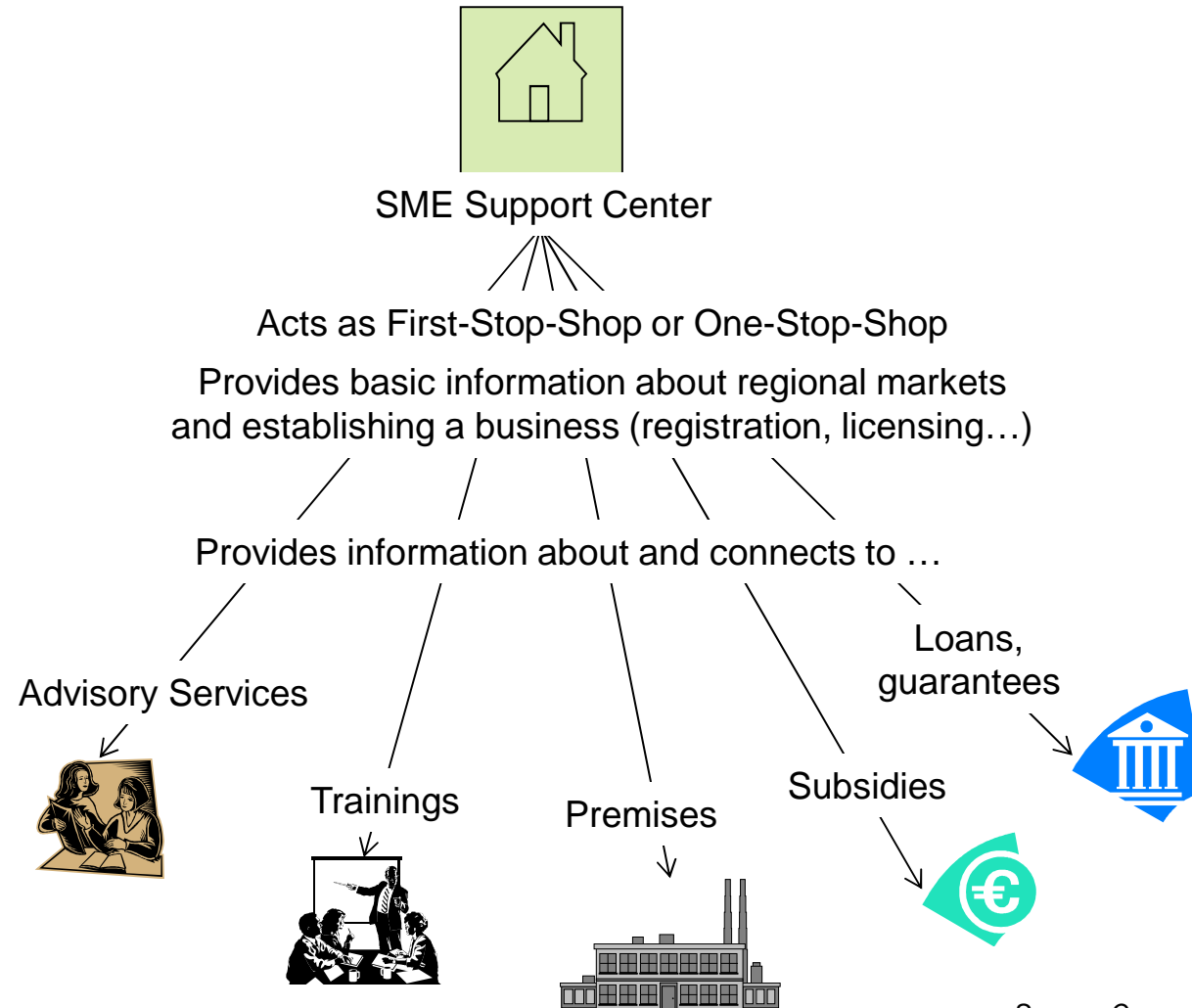
Training	Counselling	Coaching
State Loan Guarantees	State Loans	Venture Capital
Start-up Subsidies	Investment Subsidies	Innovation Subsidies
Incubator	Technology Park	Business Park

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



Source: Own, simplified display

Training, Counselling, Coaching

Objectives	<ul style="list-style-type: none"> • Support SME managers and entrepreneurs with building up knowledge and skills
Instruments (Germany)	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Positive impact on human capital stock • Rather flexible instrument • Best practice experiences available
Challenges for Belarus	<ul style="list-style-type: none"> • Some danger of misuse • Institutions that manage and monitor the programmes? • Availability of skilled and experienced trainers/counsellors/coaches?

State Loans

Objectives	<ul style="list-style-type: none"> • Overcome financing shortages
Instruments (Germany)	<ul style="list-style-type: none"> • Loans with lower interest rates and/or lower level of collateral • Preconditions <ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Improvement in access to finance • Renew and expand real capital stock and production capacity
Challenges for Belarus	<ul style="list-style-type: none"> • Institution that carries out programme? • Selection criteria? • Insolvency law and collection of debts? How to prevent fraudulent insolvency?

State Loan Guarantee Schemes

Objectives	<ul style="list-style-type: none"> • Overcome financing shortages
Instruments (Germany)	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Improvement in access to finance • Positive impact on SME growth and development • Best practice experience from other countries available
Challenges for Belarus	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Provide basic infrastructure for technology start-ups and young companies • Foster specific industries • Promote innovation
Instruments (Germany)	<ul style="list-style-type: none"> • Incubator • Business park, science park, technology park
Opportunities for Belarus	<ul style="list-style-type: none"> • Powerful instruments for innovation policy
Challenges for Belarus	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Increase competitiveness of SME sector • Increase export capacity of SME sector • Promote specific industries
Instruments (Germany)	<ul style="list-style-type: none"> • Grants for Research & Development <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • 50% grant up to 25.000 EUR, voucher system
Opportunities for Belarus	<ul style="list-style-type: none"> • Positive impact on SME sector • Positive impact on innovation activity in entire economy
Challenges for Belarus	<ul style="list-style-type: none"> • Danger of misuse • Danger of structural distortions • Negative impact on public finances

Investment Subsidies

Objectives	<ul style="list-style-type: none"> • Increase real capital stock • Overcome financing shortages • Promote specific industries
Instruments (Germany)	<ul style="list-style-type: none"> • Grants for investments <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • Wages at least 25,000 €/year • Up to 50% grant for two years • Jobs must remain at least for 5 years
Opportunities for Belarus	<ul style="list-style-type: none"> • Positive impact on investment climate • Renew and expand investment stock and production capacity
Challenges for Belarus	<ul style="list-style-type: none"> • Danger of misuse • Danger of structural distortions • Negative impact on public expenditures

Start-up Subsidies for Innovative Start-ups

Objectives	<ul style="list-style-type: none"> • Increase quantity and quality of start-ups
Instruments (Germany)	<ul style="list-style-type: none"> • Grants for unemployed people that start a business <ul style="list-style-type: none"> • Up to 24,000 € per person + up to 5,000 € for equipment • Precondition: Long-term profitable business concept • Grants for start-ups from universities <ul style="list-style-type: none"> • Up to 30,000 € per person + up to 23,000 € grants for equipment and coaching • Precondition: Highly innovative business concept
Opportunities for Belarus	<ul style="list-style-type: none"> • Positive impact on investment climate and entrepreneurial spirit • Promote structural change
Challenges for Belarus	<ul style="list-style-type: none"> • 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

Definition	<ul style="list-style-type: none"> Measures that aim to improve regulatory framework for the development of the SME sector
Instruments (Germany)	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Highest priority on EU policy agenda: "Small Business Act"
Opportunities for Belarus	<ul style="list-style-type: none"> High impact on SME development No significant economic and structural distortions No major losses in public revenues (medium- and long-term)
Challenges for Belarus	<ul style="list-style-type: none"> Implementation, enforcement, monitoring and adjustment of reforms

Reduced Administrative Burden of Tax Regulation

Objectives	<ul style="list-style-type: none"> • Strengthen SME competitiveness
Instruments in Germany	<ul style="list-style-type: none"> • Simplified primary documentation • Simplified financial accounting and reporting • Simplified tax accounting and preparing reports • Simplified reporting requirement • Simplified tax inspection
Opportunities for Belarus	<ul style="list-style-type: none"> • Advantages for SME: <ul style="list-style-type: none"> • Lower administrative costs • Higher returns on investment • Improved international competitiveness • Advantages for public administration: <ul style="list-style-type: none"> • Lower costs of tax collection • Lower work burden for public officials (free resources for other activities) • Higher tax revenues through higher economic growth
Challenges for Belarus	<ul style="list-style-type: none"> • Transforming the current accounting system • Prevent misuse of regulatory easing

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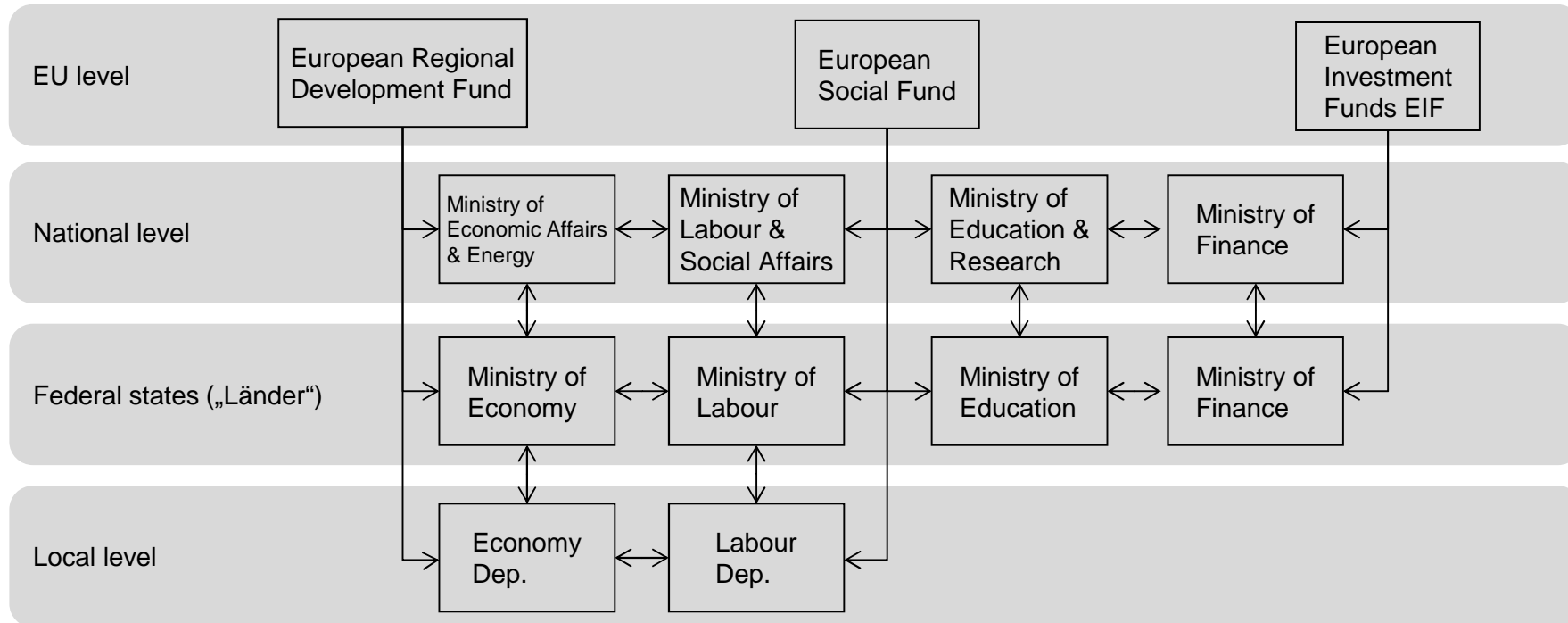
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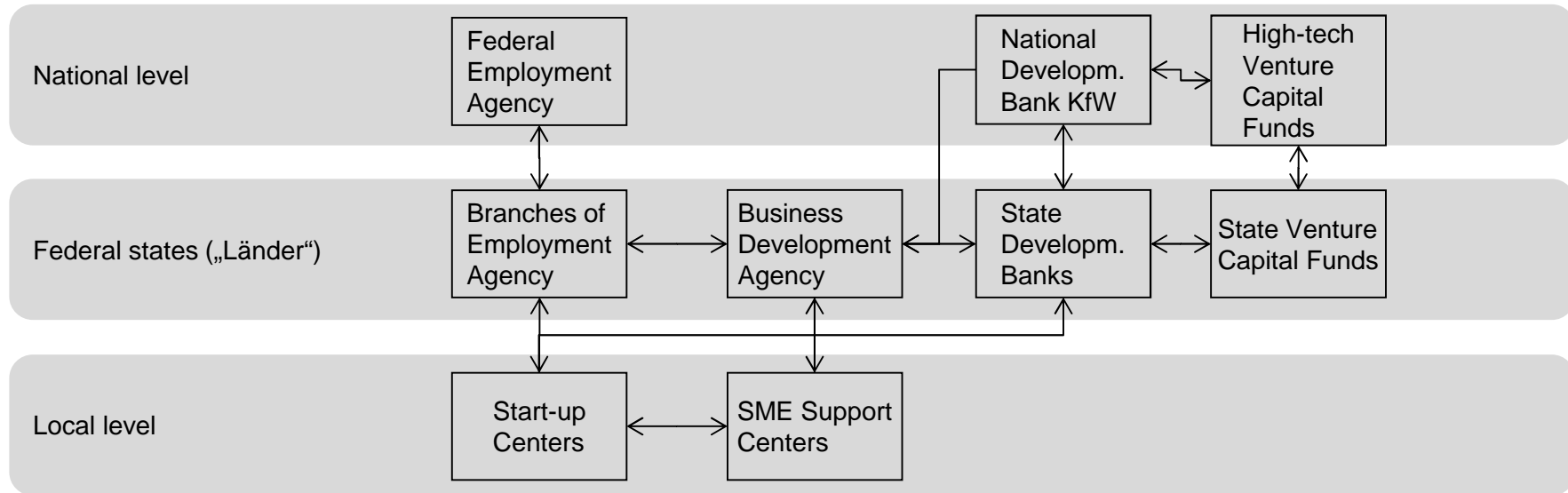
SME support in Germany: Policy Formulation



Source: Own, simplified display

- 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



Source: Own, simplified display

- 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

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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

Analysing current specific problems of SME in Belarus,
identifying target groups with specific needs

Designing specific instruments for target groups

Create or select institutions that implement these instruments,
prevent misuse

Coordination of institutions and authorities that are involved on national,
regional and local level

Monitoring implementation progress

Analysing impact regularly, adjusting the instruments accordingly

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