

## SME support policy: limited progress

The state support regarding investment loans for SMEs has improved since 2014. This development should certainly be positively acknowledged. Still, the SME state support in Belarus is mainly comprised of financial SME support programmes. The non-financial SME state support remains quasi non-existent. By international standards, this policy therefore presents a fairly one-sided support programme, whose potential of financial support, with respect to the volume of promotional loans available, for several reasons is not even fully utilised. Hence, it is recommended to re-structure the Belarussian SME support schemes in order to achieve a well-balanced composition of financial and non-financial support measures. The newly introduced programme for the SME support for 2016-2020 does not contain any significant changes to the current support structures. On a more positive note, the implementation of the programme leaves room for efficiency enhancing improvements.

### Overview of SME support measures

The already small number of support programmes for small and medium-sized enterprises (SMEs) in Belarus is almost solely limited to the financial support of SMEs through promotional loans. Some additional support is provided via preferential tax exemptions. Apart from very few exceptions, there is no access to grant programmes. Also, non-financial support programmes such as training or consulting services are de-facto unavailable.

Currently, there are three state promotional loan programmes in place accessible for SMEs. In 2016 the largest credit volume available is provided by the Development Bank of Belarus. In particular, the latter constitutes a lending facility for commercial banks. The corresponding interest rate for loans funded through this facility is subsidised; thus, commercial banks simply add a rather small mark-up when on lending these funds to SMEs. SMEs apply for an investment loan funded through this programme at their local bank, which in turn will refinance itself through the Development Bank. According to the experience gained over the previous years, ca. 600 investment projects per year can be financed through this fund.

The second largest loan volume amounting to EUR 4 m for 2016 available to SMEs is held by the oblast administrations. The third (largest) loan programme is the Belarussian Fund of Financial Support to Entrepreneurs

and offers EUR 1 m of financial support to SMEs for 2016. Again, the experience from previous years shows that another 200 investment projects per year can be funded through these last two loan programmes. The average loan volume of these two programmes amounts to EUR 25,000 and is therefore relatively smaller than the average loan volume provided through loan programme of the Development Bank.

Thus, the state financial resources for 2016 appear sufficient to finance ca. 800 investment projects. Compared to this contingent, there are currently 114,000 small and medium-sized companies and 250,000 individual entrepreneurs.

One of the most important promoters for SMEs' access to financial support is actually a non-state institution, the European Bank for Reconstruction and Development (EBRD). The EBRD places lending facilities of EUR 34 m at disposal. Contrary to the lending facility provided by the Belarussian Development Bank, the facility of the EBRD is fully utilised.

### Budgets of financial support programmes in 2016

	BYR bn	EUR m
Development Bank of Belarus: SME lending facility	800	35
Oblast administrations: loan programme	93	4
Belarussian Fund of Financial Support to Entrepreneurs	23	1
EBRD lending facility	--	34

Source: State Programme of State Support to Small and Medium-Sized Entrepreneurship 2016-2020, Decree of the Council of Ministers of the Republic of Belarus on 23.02.16; EBRD; Exchange rate as of 30.03.16.

Moreover, there are 111 incubators and SME support centres that were launched under the objective of providing information, training, consulting services, offices and technical support for SMEs. But these institutions receive nearly zero state funding; for 2016 the state budget considered to spend only EUR 0.44 m on all those institutions. This amount of funding equivalently translates into ca. EUR 4,000 per centre per year. Thus, this amount is insufficient to be classified as state funding of non-financial SME support and therefore, cannot be considered as serious (non-financial) SME support. Incubators and support centres are actually expected to generate surpluses in

Belarus. However, this is a contradiction to the idea of SME promotion per se.

#### Assessment of SME support measures

The one-sided state support of SMEs, i.e. limited to state financial support through loan programmes, is also a contradiction to the international best practice. There should be a well-balanced composition of financial and non-financial instruments.

The loan programme managed by the Oblast administrations and the Belarusian Fund of Financial Support to Entrepreneurs are to be assessed – if only for the way of their construction – inappropriate. Throughout these programmes, lending and portfolio management is carried out without a valid banking license, without state-of-the-art methods and tools, lacking proper risk-hedging as well as professional experience. This should point out the pitfalls inherent due to the respective construction features, not criticising the work of the employees. However, the programme of the Belarussian Development Bank is much more aligned with international best practice. Of course, this applies also to the EBRD programme.

The SME do not fully exhaust the state support programmes, particularly the loan programmes. In 2015, only 75% of the lending facility of the Development Bank had been utilised. Over the previous years, roughly only 50% of the financial means of both the Oblast administrations and the Fund had been utilised as well. This is due to the following reasons.

Those state support programmes are quite often unknown to SMEs. In a recent survey, 30% of those SMEs surveyed have responded that they are having no notice about any state support programmes for SMEs at all.

Moreover, the programmes are partially quite incomprehensible as their application requires rather complex side conditions to be fulfilled. For example, the loan application for funds from the Oblast administrations requires proof of an import-substitution or a multiplier effect.

Thus, the trade-off between the bureaucratic cost of the application and the (financial) benefit obtained from such a programme appears quite unfavourable to SMEs. Also, the processing time of a loan application at the Oblast administrations amounts to 4 to 6 months. Similarly, in order to benefit from tax reliefs and benefits, a new additional accounting system is fully required incurring significant additional costs which nearly outweigh those financial benefits.

Additionally, and of particular importance, it should be noted that, according to several experts and market

indicators, access to investment loans is currently not the major hurdle for the business development of SMEs. As state loan programmes do not meet the SMEs' needs, those financial programmes remain under-utilised.

#### Conclusion and policy recommendations

The SMEs' access to investment loan facilities can still be considered satisfactory. Currently, the SME lending facilities of the Development Bank and the EBRD appear to fully cover the SMEs' demand for financial state support. It is therefore recommended to gradually transform the (not fully utilised) funds of the Oblast administrations and the government, both financed from the state budget, into non-financial SME support measures. In this manner, it would be possible to achieve a well-balanced composition of support and funding measures in line with international best practice. In this regard, the governmental SME programme surely could have been more progressive. Until a broader restructuring has been implemented, there is sufficient leeway to increase the efficiency and the market coverage of the existing support measures. This includes increasing the level of awareness of these programmes, reducing bureaucratic hurdles and costs and promoting a better interaction and interlinking of the existing programmes.

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#### Note:

A more comprehensive analysis of the topic is provided in our Policy Paper PP/02/2016 "Improving the integration of financial and non-financial SME support in Belarus"

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