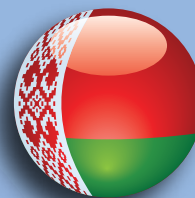


STRONGER ECONOMY

#eu4business



EU4Business

Investing in SMEs in the Eastern Partnership

Belarus

COUNTRY REPORT
JUNE 2019



10 YEARS 
EaP | Eastern
Partnership

1. Recent economic developments in the country

Real GDP growth in Belarus rose from 2.5 per cent in 2017 to 3.0 per cent in 2018. Growth was driven by an expansion of domestic demand and exports, although net exports were actually negative. A strong increase in real disposable income, underpinned by 11.6 per cent growth of real wages, boosted the acceleration of private consumption growth to 8.3 per cent. Fixed capital formation grew by a solid 4.9 per cent, slightly below the previous year's rate.

Exports and imports continued to recover from the slump in 2016, though both remain substantially below pre-crisis level. At the same time, strong net improvements in exports of goods and services as well as secondary income, the latter due to rising transfers of duties on energy resources in line with the agreement with Russia, brought the current account nearly to balance in 2018. As a result, the exchange rate remained stable and average inflation was 4.9 per cent in 2018.

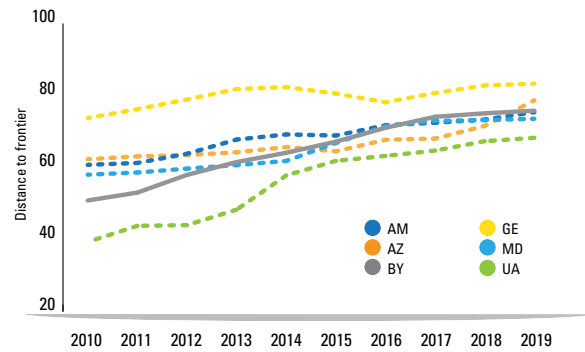
According to preliminary estimates, the economy grew by 0.8 per cent in the first two months of 2019. Without profound structural reforms, the economy has limited potential to build up on the recovery in the last two years and on the stable environment created by prudent macroeconomic policies. Having in mind such developments, GDP growth is forecast to slow down to 2.0 per cent in 2019 and further to 1.8 per cent in 2020. Risks to the outlook have increased. The new energy taxation system being introduced by Russia, the so-called "tax manoeuvre", could significantly reduce revenues of Belarus' oil refining industry, thus affecting the fiscal balance and reducing economic and export growth.

(<https://www.ebrd.com/where-we-are/belarus/overview.html>)

2. Business environment: Belarus and the EaP

The six Eastern Partner countries have been making steady progress in improving the business climate for SMEs. This overview of the Doing Business indicator of the World Bank shows how Belarus has improved over the years, gradually closing the wide gap with the best performing countries of the region and the world ('distance to frontier'). Belarus started off at 50% of that distance to frontier but stands now at 75%.

Doing Business - Distance to frontier, EaP

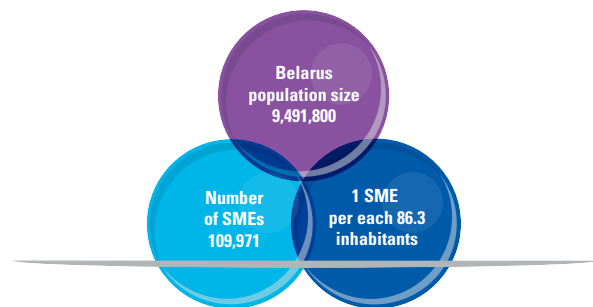


Source: Doing Business, World Bank, www.doingbusiness.org¹

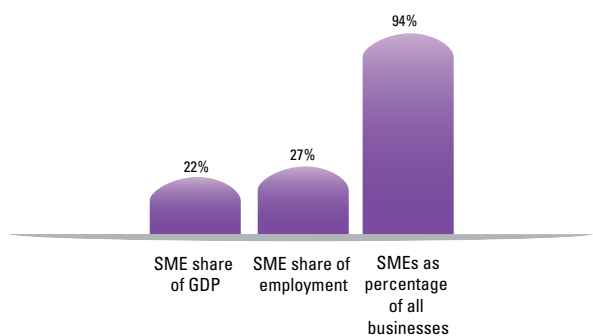
3. National SME performance

a. Share of SMEs in the economy

Belarus has one of the lowest number of SMEs per capita across the EaP, and lags behind in the share of employment generated by the SME sector. SMEs' share of GDP comes to less than a third of national economic output.



State of affairs of SMEs in 2017



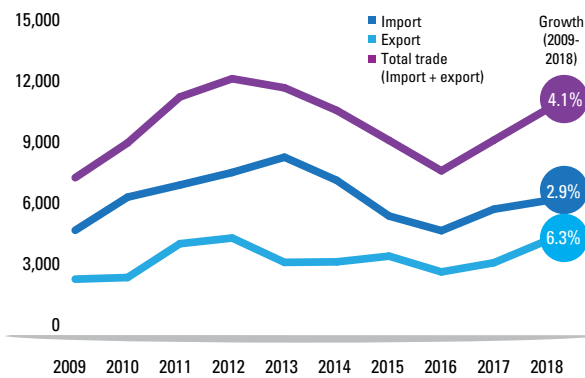
Source: Data Book Belarus in figures, 2019; Small and Medium-Sized Entrepreneurship in the Republic of Belarus, 2018

¹ An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. For example, an ease of doing business score of 75 in Doing Business 2018 means an economy was 25 percentage points away from the best regulatory performance constructed across all economies and across time.

b. Trade with the EU

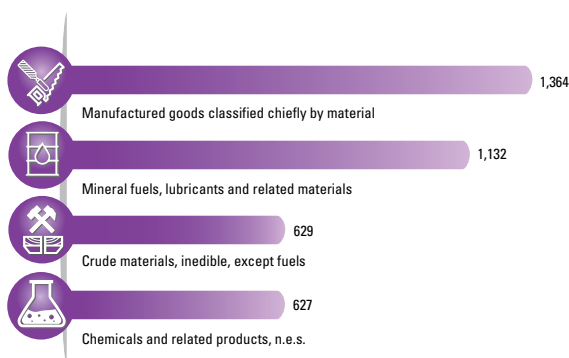
There has been a faster growth in exports to the EU than imports from it, although trade in both directions has been on the rise. Belarus currently imports EUR 6.5 billion and exports 4.5 billion worth of goods from and to the EU respectively.

Trade figures (EUR million)

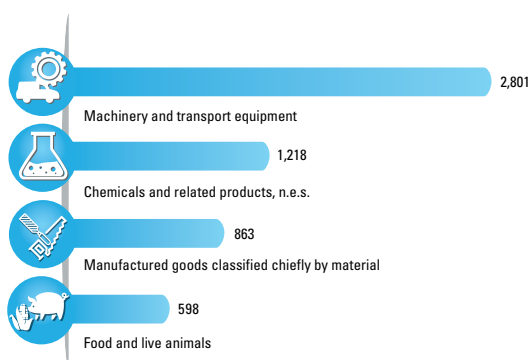


Below are the top products exported from Belarus to the EU and those imported the other way.

Top exported products in 2018 (EUR million)



Top imported products in 2018 (EUR million)



All trade data from DG trade

(https://webgate.ec.europa.eu/isdb_results/factsheets/country/).

4. SME legislation and institutional framework

Building on the findings and recommendations of the SME Policy Index 2016, the Government of Belarus has taken important steps to improve the policy environment for small and medium-sized enterprises. A major development is the Presidential Decree no.7 “On the development of entrepreneurship”, adopted in late 2017, which substantially simplifies regulations for doing business in Belarus, including provisions minimising state interference in business operations and a ban on the introduction of new taxes until the end of 2019.

Key SME legislation in the country

SME development strategy ‘Belarus – the country of successful entrepreneurship’ until 2030, adopted in October 2018

Name and date of establishment of the SME agency

Department for Entrepreneurship under the Ministry of Economy acting as SME agency, 24 September 2001

Achievements in improving the SME climate

- The SME strategy to 2030 sets clear priorities: level the playing field for businesses, develop the SME support infrastructure, and increase access to finance. It also includes provisions for new institutional arrangements and for building effective monitoring and evaluation systems. An Action Plan is currently being developed, as well as a concept note for the development of a future SME agency.
- Public-private dialogue has been strengthened by expanding the mandate of the Council for Entrepreneurship Development of Belarus. Chaired by the First Deputy Prime Minister, the Council brings together high-level government officials and representatives of the private sector (20 members of the Council represent interests of the business community), and has a mandate to review and propose amendments to existing and draft legislation, and to government support programmes for entrepreneurs.
- With regards to access to finance for SMEs, the mandate of the Development Bank of Belarus is being expanded to provide preferential SME loans through partner banks. The Belarusian Fund for Financial Support of Entrepreneurs is being substantially reconfigured and has started functioning as a Credit Guarantee Fund as of March 2019, providing an additional financing mechanism for SMEs and guaranteeing up to 60% of the credit extended to borrowers.

EU4Business: From Policies to Action progress (OECD)

The OECD is providing significant support in these fields to the Government of Belarus, working primarily with the Ministry of Economy and the Council for Entrepreneurship Development in the context of the project 'EU4Business: from Policies to Action'. The project is structured around country-level and regional-level activities.

At the **country level**, the OECD assists the Government of Belarus to design support programmes for high-growth enterprises and strengthen SME capabilities through improved Business Development Services (BDS). In order to meet these objectives, the OECD project focuses on the following activities:

- Provide technical assistance and capacity building to policy makers together with a network of international experts to design support programmes for SMEs;
- Strengthen public-private dialogue through regular Working Group meetings involving international experts, Belarusian stakeholders and the OECD;
- Monitor progress in the implementation of policy reforms to improve BDS for SMEs.

The OECD will summarise project findings in a policy paper, which will provide a basis for discussion during a peer review of Belarus at the next meeting of the OECD Eurasia Competitiveness Roundtable, which will take place in Tbilisi in March 2020.

In addition, the OECD has assisted the Ministry of Economy and the National Bank of Belarus in developing SME financing statistics. As a result, Belarus joined the OECD Scoreboard on Financing SMEs and Entrepreneurs, which will monitor trends in SME financing on an annual basis.

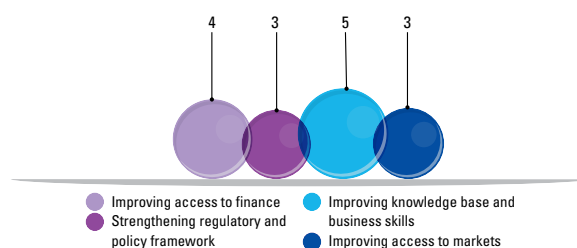
At the **regional level**, Belarus participates in the third round of the SBA Assessment, which will result in a regional benchmark to be published by March 2020. The new exercise will capture overall business environment conditions, including core elements in the areas of competition, business integrity and contract enforcement. For this activity, the OECD is working closely with the Council for Entrepreneurship Development of Belarus to support the government in strengthening its public-private dialogue activities.

5. EU4Business portfolio for the country

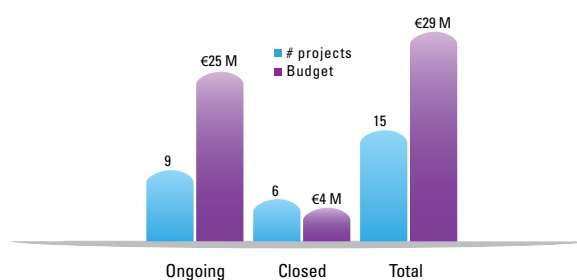
The total number of projects in Belarus is 15, of which the largest group focuses on improving the knowledge base and business skills. Of the 15 projects, six have now closed and the others are ongoing, with a total value of just over EUR 29.1 million.

a. Impact to date

Projects by priority area - Belarus



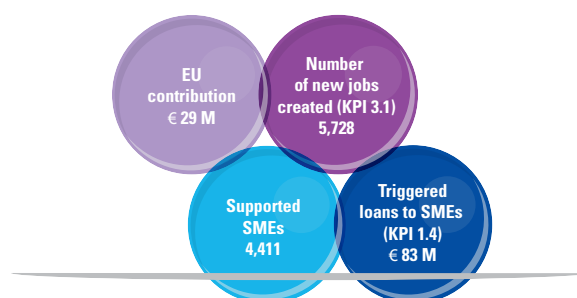
Belarus country portfolio



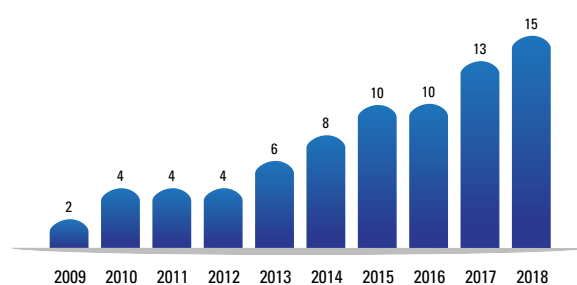
b. Implementation progress - 10 years of EU4Business in the country

The funds invested by the European Union have triggered additional loans and financial assistance in Belarus, effectively tripling the assistance. This benefitted 4,411 SMEs and created an estimated 5,728 jobs, beyond the jobs that were sustained. The number of projects in the country, and with it the EU's assistance, has been on a steady rise over the ten years of EU4Business's operation.

Implementation progress



Number of projects in Belarus



Source: EU4Business Secretariat project database

6. Stakeholder assessment

a. Findings from the SMEs - Focus group assessment, Minsk, 25 March 2019

i. Key issues

The SMEs agreed on the importance and benefits of consulting support for growth and competitiveness of their businesses. The cost-sharing approach, in which grants were provided to cover up to 60% of the project costs, was highly appreciated by SMEs, as it makes such technical support more affordable to them. Such consulting projects allow the SMEs to access best industrial practices and modern management technics, and to incorporate this newly acquired knowledge into their business culture. The majority managed to increase their turnover, exports and number of employees as a result of the support provided. Many of the recipients have used these services twice or more, and were interested in participating again.

The recipients noted the important role of the choice of consultant for the project's success. For many it was difficult to select the right expert for themselves as they needed very targeted knowledge and experience, but there was a low number of consultants available. Also lack of feedback from consultants' clients made it difficult to make an informed decision about which consultants to choose.

ii. SMEs' own needs assessment/priorities

The SMEs reiterated their demand for an expanded range of financial support instruments and better lending terms compared to the financial instruments available on the market.

A diversification of consulting products (tailored approach instead of one-size-fits-all) offered by EU4Business programmes in Belarus would allow SMEs with different needs to find the right expert or advice. Support is most needed in obtaining access to new (EU) markets by means of assistance with the following aspects of SME operations:

- Facilitating the creation of an online repository with key trade information for SMEs;
- Access to (experts in) market research and analytics, including practical guides and on-demand custom research;
- Tailored knowhow courses on certification, registration of trademarks and patents;
- Database of potential business contacts across the EU by type of industry;
- Enabling participation in exhibitions and showrooms where potential partners can be met in person.

Any kind of reputation or ranking system or feedback sharing on the technical assistance consultants, based on their record with previous clients, would make selection easier for the new programme participants.



Strengthening the role and efficiency of business associations which represent the interests of SMEs and private businesses would not only help advocate their issues with the authorities, but also support the visibility of the available EU support among SMEs.

b. Views of the implementers - Belarus EU4Business Roundtable, Minsk, 26 March 2019

i. Key issues

Stakeholders expressed the need to expand the number and intensity of EU4Business projects in Belarus in order to strengthen support to SMEs, in particular in the regions outside Minsk. However, the current procedure for registration of international technical assistance in Belarus is seen as an ongoing complication that slows support down and makes the implementation of international projects unnecessarily difficult. It is seen as a complex and non-transparent process, which takes an unreasonably long time (up to a year in some cases) and requires significant efforts from the implementing organisations.

The implementing organisations spoke of the high costs of local currency hedging. Although financing is still among the major needs of SMEs and access to finance remains relevant, access to markets and access to knowledge were identified as areas where Belarusian SMEs need more support to sustain and grow their businesses. In general, widening the range of EU4Business products available and tailoring them to the needs of their ultimate audience will help to increase the number of the EU4Business beneficiaries and give more visibility to EU4Business. Participants noted the importance of combined financial and non-financial support to SMEs and the benefits of complementarity of technical assistance and access to finance programmes, e.g. SMEs learn to borrow and manage their debts in a smarter way, partner banks build the necessary capacity to attract additional funds and increase the amount of loans disbursed.

ii. Suggestions of the Roundtable going forward

Besides the government's easing of administrative requirements, consolidating information on EU projects in Belarus (in the form of a detailed online platform or database) for stakeholders could facilitate the exchange of experience and improve overall project coordination (fewer gaps and overlaps in the assistance delivered).

Access to finance could expand the range of instruments for financial support, and enhance their competitive advantages compared to market terms, both for existing SMEs and start-ups.

Assistance in understanding and compliance with EU trade regulations, certification and quality requirements needs to expand significantly. Companies would benefit from any efficient online search tool for partners abroad that would lead to establishing business relations. This high demand for consulting services and trainings could indeed be served by engaging modern learning technologies (online trainings, distance learning), and by facilitating access to market research (national, international, sector specific, etc.).

The Roundtable also agreed on the need to increasingly involve BSOs in project implementation and raise their efficiency. BSOs can serve as an intermediary both ways: by gathering business feedback to raise awareness of SME needs and priorities; but also advise on the support available to SMEs through promotion of the EU4Business and other programmes.

c. Summary of recommendations for next planning cycle

- Tailored consultancy services instead of one-size-fits-all to best match the required expertise. Availability of general online courses on certification and standards.
- Facilitate the creation of an online repository with key trade information for SMEs, including practical guides and on-demand custom research.
- Enable participation in exhibitions and showrooms where potential partners can be met in person.
- Experience-based feedback system on technical assistance received by participating SMEs made available to new clients.
- Strengthen the role and efficiency of business associations which represent the interests of SMEs in order to advocate their issues with the authorities, but also advise on available EU support to SMEs.
- Outreach and information sharing to SMEs beyond the capital must intensify.
- Government should ease the current procedures for registration of international technical assistance.



EU4Business

Belarus: Agricultural entrepreneurship



“We needed to understand what to do: to expand further or to improve the production facilities. We decided to expand, hire new people. The assistance we received from the programme helped us to move on.”

Dzmitry Krylou
Owner of DAK farm

Advice for Small Businesses

DAK farm, the only breeding goat farm in Belarus, received expert advice and support thanks to the 'Advice for Small Businesses' programme implemented by the EBRD as part of the EU4Business initiative. As a result of this cooperation, the farm owner decided to expand the farm twice, engaging in a project that is revolutionary, not only for Belarus, but for the whole region.



EU4Business

Belarus: 100% Natural products



“We have already felt the difference. Now we can give all our time to producing actual baskets rather than researching information.”

Aliaksandr Danilau
Director of EcoPak

Advice for Small Businesses

EcoPak, a Belarusian enterprise producing special packaging for fruit and vegetables, started using a new automated production management system known as 'Gulf Stream' thanks to support from the EBRD 'Advice for Small Businesses' programme, funded under the EU4Business initiative. As a result, the company has grown almost six-fold in the past three years.

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