



Effective Support Services for SME Competitiveness in Belarus



Policy Insights

Effective Support Services for SME Competitiveness in Belarus

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Foreword

In 2016, building on the results of the Small Business Act for Europe assessment, the OECD and the Ministry of Economy of Belarus agreed to work together on strengthening SME capabilities through improving the provision of business development services (BDS) in Belarus. Based on Working Group and Steering Group discussions in Minsk throughout 2016, participants identified the main challenges, and the OECD formulated a series of recommendations on how to develop a sustainable market for BDS in the country. The draft report “Strengthening SME Capabilities through a Sustainable Market for Business Development Services in Belarus” was peer reviewed at the OECD Eurasia Competitiveness Roundtable in November 2016 and published in March 2017.¹ The recommendations focused on three components:

- upgrading the institutional framework for the delivery of business development services;
- unlocking the latent demand for business development services; and
- promoting the market-oriented supply of business development services, in order to ensure sustainability of the services provided.

An SME development strategy to 2030 has since been adopted, an SME development agency is to be established in 2020, and the design of the next SME state support programme covering 2021-2025 is currently underway.

Belarus has requested OECD assistance in assessing the implementation status of the 2017 OECD recommendations and identifying any outstanding issues impeding the development of a sustainable BDS market. Accordingly, the overall objective of this note is to assess the progress Belarus has made in implementing the recommendations since 2017 in order to i) suggest appropriate actions for inclusion in the new SME state support programme and ii) guide the activities of the future SME development agency.

In addition to the results of the assessment (Part A), at the request of the government, the note includes a chapter on support programmes for high-growth enterprises (Part B). High-growth enterprises make a disproportionate contribution to output and employment growth, and many OECD countries have adopted targeted programmes to support these innovative and transformational enterprises. Part B lays out a framework for the establishment of a targeted support programme – a pilot programme that could be run by the future SME agency in Belarus, once sound macroeconomic conditions are in place and a level playing field for all enterprises is ensured.

This assistance is provided in the context of the multi-country project “EU4Business: From Policies to Action”, implemented by the OECD in the countries of the European Union’s Eastern Partnership region, with the financial support of the European Union under its EU4Business initiative.

This peer review note benefitted from inputs obtained through fact-finding missions in March and December 2019. This note was peer reviewed at the OECD Eurasia Competitiveness Roundtable on 25 June 2020.

¹ https://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Peer_Review_Note_Business_Development_Services_Belarus.pdf.

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Acronyms and abbreviations

BEEPS	Business Environment and Enterprise Performance Survey
BFFSE	Belarusian Fund for Financial Support of Entrepreneurs
BSC	business support centre
BDS	business development services
BSI	business support infrastructure
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GH	Growth House
GoB	Government of Belarus
HGE	high-growth enterprise
HR	human resources
ICT	information and communications technology
IFC	International Finance Corporation
IMF	International Monetary Fund
KPI	key performance indicator
MoE	Ministry of Economy
OECD	Organisation for Economic Co-operation and Development
R&D	research and development
RIA	regulatory impact assessment
SBA	Small Business Act
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise
UNECE	United Nations Economic Commission for Europe

Key indicators: Belarus

Country profile	2015	2019*
Population*	9.5 million	9.5 million
Surface area**	207 600 km ²	
GDP (USD, current prices)***	56.5 billion	59.7 billion (2018)
GDP per capita, (USD, current prices)***	5 949	6289 (2018)
Real GDP growth (y-o-y change)***	-3.8%	3% (2018)
Inflation (average consumer prices, y-o-y change)***	13.6%	4.9%
Exports of goods and services (% of GDP)***	59.8%	70.2% (2018)
Imports of goods and services (% of GDP)*	57.9%	69.1% (2018)
General government net lending / borrowing (% of GDP) ****	-0.26%	-4.2%
Unemployment (% of total labour force)*	1%	0.3%
Enterprises with state share of 50% and above (% of total enterprises)*	12.6%	11.3% (2018)
Employment in state-owned enterprises (% of total employment)* ²	39.3%	39.7% (2018)
State sector in value added (% of total value added)*	27.9%	27.5% (2018)
SME statistics		
SME ¹ share in business population (% of total active enterprises)*	75.9%	78.3% (2018)
SME share in total employment (% of total employment)*	30.5%	30.7% (2018)
SME share in value added (% of value added)*	28.1%	28.8% (2018)
State-owned medium-sized enterprises (of total medium-sized enterprises)*	24.8%	25.7% (2018)

Note: In this report, figures for SMEs refer to “subjects of small and medium enterprises”, which include individual entrepreneurs.

¹ This indicator is presented excluding individual entrepreneurs.

Source: * = Belstat, ** = National Bank of the Republic of Belarus (NBRB), *** = World Bank, **** = IMF

² In addition to fully state-owned enterprises, 18.2% of workers in 2019 worked in partially state-owned enterprises (20.8% in 2016)

Executive Summary

The Government of Belarus has increased its efforts to support the development of the private sector, particularly by paying more attention to the needs of small and medium-sized enterprises (SMEs). In 2016, based on joint work with the Ministry of Economy of Belarus, the OECD provided recommendations for developing a market for business development services (BDS), in order to improve SME skills and ultimately increase the competitiveness of SMEs.

Since then, noteworthy reforms have included the long-term SME development strategy for 2030 (adopted in late 2018),³ which sets broad goals and guidelines for creating a more favourable business environment; Presidential Decree No. 7, which presumes the good faith of all enterprises and minimises government interference in business operations; and the development of a concept note, that outlines key areas for improving state support for SMEs, including a dedicated entrepreneurship development agency.

These initiatives are important steps to improve conditions for SMEs, especially given the implications of the Covid-19 crisis, which is predicted to cause a recession and will disproportionately affect SMEs. The structural reforms aiming to reduce regulations, remove market entry barriers and promote fair competition remain incremental. Broader structural reforms should be undertaken as a basis for, and in tandem with, policies to promote private sector and SME development. In this regard, continued efforts to improve macroeconomic conditions and the general business environment would help maximise the effectiveness and sustainability of reforms in the areas described in this note – through broader liberalisation efforts, improved governance of state-owned enterprises, and a strengthened institutional framework for policy delivery. Such reforms would help create a level playing field for all firms, regardless of size and ownership status, thus fostering the competitiveness of the Belarusian economy.

Overall, to promote sustainable growth, three policy priorities should be addressed:

- First, there is a need to strengthen the institutional framework for SOE management,⁴ restructure larger SOEs and privatise SMEs. This would facilitate the exit of less efficient companies, while promoting entry of new firms and allowing for a shift in the growth model towards greater economic efficiency and market orientation (World Bank, 2019_[1]); (EBRD, 2020_[2]). Restructuring SOEs could furthermore unlock their demand for external strategic advice by outsourcing services such as accounting, financial planning, marketing and management, while concentrating internal resources on the companies' core businesses.
- Second, to increase the competitiveness of the Belarusian economy, there is a need to create a level playing field for all firms, regardless of size or ownership. The creation of a dedicated Ministry of Anti-Monopoly Regulation and Trade in 2016 represented a key step here; however, more independence from the government would be advisable, to intervene against public distortions of competition and instil trust of the private

³ The strategy is titled *Belarus is a country for successful entrepreneurship*. See <http://www.government.by/ru/content/8326>.

⁴ For more information, see the [OECD Guidelines on Corporate Governance of SOEs](#) (in Russian).

sector in the enforcement body and economy as a whole. In addition, the government might consider phasing out subsidies for SOEs, while at the same time instituting measures such as preferential tax rates for SMEs. This should help create an environment for enterprises with incentives to reduce costs, increase investment and become more profitable, and thus foster entrepreneurial initiatives.

- Third, there is a need to continue strengthening SME policy and private sector development. This would allow for a shift towards a stronger contribution of SMEs to the economy, in line with the targets set by the National Strategy for Sustainable Socio-Economic Development of Belarus 2030 (NSSD-2030), i.e. raising SMEs' share of GDP to 50% by 2030.

This note focuses on the last point and expands on ways to develop business capabilities through support services as part of mainstream SME support (Part A). These efforts would help remove an important obstacle to firm growth and lead to a more competitive SME sector. In this field, the OECD recommends Belarus to:

1. Establish a dedicated SME development agency
2. Undertake systemic studies of BDS supply and demand
3. Set up a portal of BDS providers (including private sector providers)
4. Develop tools for the SME development to carry out business diagnostics digitally
5. Develop co-financing mechanisms for SMEs to access BDS
6. Set up monitoring and evaluation mechanisms to assess the effectiveness of existing business support infrastructure
7. Promote market-orientated supply of BDS

Further down the line, Belarus could consider targeted efforts aimed high-growth enterprises (HGEs). Although HGEs represent a small subset of firms, they account for a disproportionately large share of employment and output growth. During the period of rapid scaling-up of the workforce and output, such firms would benefit from targeted support, which would be more tailored and dynamic than mainstream SME support, including BDS. In line with the good practices discussed in Part B of this report, the OECD recommends Belarus to:

8. Undertake systemic studies of high-growth enterprises in Belarus and improve data collection methods for a detailed understanding of their needs and characteristics
9. Together with private sector stakeholders, consider a targeted support programme for HGEs under the future SME development agency

Targeted support should be tailored to specific needs of high performing firms that are encountering bottlenecks in accessing finance, skilled workers or adapting management practices during rapid expansion. However, as with wider SME population, there is no shortcut to success. The emergence of high-growth enterprises is best maximised by creating a healthy business environment for *all* firms. Targeted support can act as a force multiplier that enables firms with high potential to seize success but is not a substitute for fundamental structural reforms. The findings presented are based on information received and analysed up to January 2020. Therefore, the assessment does not include policy measures and changes that arose after the outbreak of the Covid-19 pandemic.

Overview of Monitoring Assessment

Overall 2017 recommendation	Detailed 2017 recommendations	2019 monitoring assessment	
		Progress status	Way forward
Upgrade the institutional framework for the delivery of business development services	1. Adopt a strategic approach to SME development		Design the upcoming SME state support programme 2020-2024 in line with the objectives of the SME development strategy for 2030. Incorporate relevant key performance indicators into the action plan of the new SME state support programme to assess the effectiveness of BDS on SME performance.
	2. Strengthen institutions involved in the delivery of SME support policies		Take a decision on the establishment of a dedicated agency for SME development. Clarify the relationships between the agency, the Ministry of Economy, and other government bodies providing support to private enterprises and the local administrations.
Unlock latent demand for business development services	1. Carry out regular SME needs assessments		Undertake systematic studies of BDS demand and supply, including SME skills needs assessments, for more-tailored delivery of BDS.
	2. Help SMEs better understand their business needs		Develop a digital business diagnostic tool to be hosted on the website of the future SME agency and its regional co-ordination centres. Tailor BDS provision according to business diagnosis.
	3. Raise awareness of the benefits of business development services and increase trust in service providers		Set up a BDS portal, including a database of private BDS providers and services offered; add client satisfaction components (rating system). Conduct awareness-raising campaigns on the availability and benefits of BDS as part of general entrepreneurship promotion.
	4. Facilitate SME access to business development services		Design and propose a simple co-financing mechanism via the SME agency for first-time users of BDS, which would enable SMEs to choose a private BDS provider according to their preferences and needs.

Promote market-oriented supply of business development services	1. Improve the business environment for consultants		Decide whether to exempt staff retraining of managers and various advanced training services, aiming to increase qualifications, from licensing
	2. Ensure quality of public and private business support provision		Map the currently government-accredited business support infrastructure ⁵ (type, quality of services provided, goals achieved) and review the business support infrastructure (BSI) accreditation criteria. Set up a monitoring and evaluation mechanism to assess the quality and effectiveness of the BSI. Support private providers in introducing consultancy quality standards.
	3. Increase involvement of private providers in the delivery of BDS to SMEs		Enable the future SME agency to outsource BDS provision to private providers to create a sustainable market for BDS.



Completed



Close to completion



Being implemented



Initiated



Not started

⁵ Government-accredited business support infrastructure (BSI) includes business support centres and business incubators.

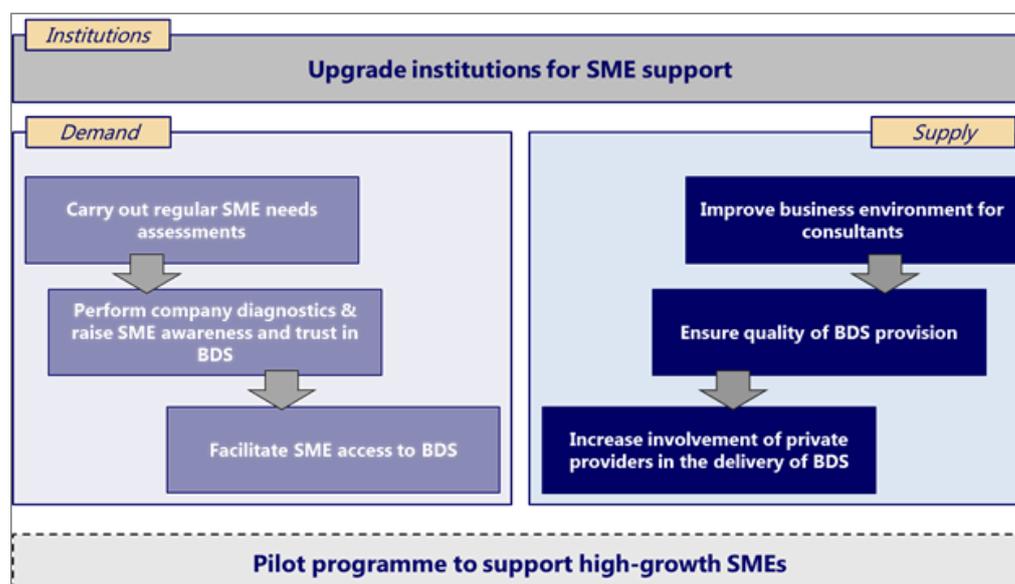
1. Introduction

1.1. OECD support for the SME sector in Belarus

In recent years, the Government of Belarus (GoB) has been increasing its efforts to promote private-sector development, strengthen the position of small and medium-sized enterprises (SMEs) and increase growth, employment and resilience. However, SMEs' contribution to value added and employment in the business sector remains limited, and state-owned enterprises (SOEs) continue to play a disproportionate role in the economy. Overall, SMEs account for 29% of value added and employ 31% of the workforce, compared to the EU average of 56% for value added and 66% of total employment (Eurostat, 2019^[3]). In contrast, state-owned enterprises employ 40% of the workforce but only account for 28% of total value added. Inefficient resource and labour allocation sets private firms at a disadvantage and harm Belarus's overall economic prospects. Efforts to increase the efficiency of the economic model have gathered pace following the recession in 2015/2016.

In 2016, the Ministry of Economy (MoE) embarked on an ambitious exercise to upgrade institutions for SME support and develop a market for business development services (BDS), with a view to increasing the competitiveness of SMEs and overcoming an important barrier to firm growth: lack of entrepreneurial skills and business capabilities. With the support of the OECD, the government organised a series of workshops in consultation with the private sector to identify policy challenges and develop concrete measures for action to support the development of a BDS market, backed by a robust institutional framework (Figure 1).

Figure 1. Framework for developing a market for business development services in Belarus



Source: (OECD, 2017^[4])

These steps have led to noteworthy achievements since 2016, including the adoption of the SME development strategy 20306 and the elaboration of provisions for the establishment of an SME development agency. In addition, the adoption of Presidential Decree No. 7 “On the Development of Entrepreneurship” substantially simplified regulations for doing business as it includes provisions for minimising state interference in business operations and banning the introduction of new taxes until 2020.

Following the adoption of the 2030 strategy, the Ministry of Economy started developing a new five-year support programme to be implemented from 2021. It is thus an appropriate moment to assess the implementation status of the recommendations given in 2017 and enable the GoB to update the upcoming programme based on OECD findings and recommendations.

This report assesses the extent to which OECD recommendations have translated into policy reforms, identifies outstanding gaps and proposes ways forward. It also proposes guidelines for the design of a support programme for high-growth enterprises (HGEs) – a programme that could be launched by the future SME development agency once it becomes operational.

The assessment presented in this report is based on a number of sources, including: an initial fact-finding mission to Belarus in December 2018; an in-depth analysis of the annual progress reports on the SME state support programme 2016-2020 prepared by the MoE; analysis of the inputs received from relevant line ministries and SME stakeholders on the OECD monitoring matrix based on the 2017 recommendations; an analysis of the questionnaire submitted by GoB in the framework of the third round of the Small Business Act for Europe assessment; two Working Group meetings held in 2019, with expert interventions and good practices on how to design a support programme for HGEs; work by UNECE on innovative high-growth enterprises in Belarus; and an analysis of official statistical sources.

1.2. Economic developments since 2016

The Belarusian economy remains largely state-controlled and its economic model is oriented towards maintaining full employment. Although there are fewer state-owned companies than private businesses, fully and partially state-owned enterprises (SOEs) are estimated to account for up to half of total employment and gross value added. Estimates of the overall size of the state sector in the economy vary widely. According to Belstat’s statistics, state-owned enterprises account for 27.5% of value-added, while the EBRD estimates the state share of the economy to be up to 70% of GDP. What complicates the task of assessing the size of the state sector is that official statistics do not draw clear boundaries between the private and the state-owned sectors. Only communal or state unitary enterprises are classified as belonging to the public sector, while even fully state-owned joint-stock companies, like the MTZ tractor manufacturer, are listed as private (Kozarzewski and Papko, 2020^[6]). Yet state-owned enterprises benefit from a preferential regime in terms of financial resources, lower energy prices, and limited regulatory obligations, leaving the private sector at a competitive disadvantage (IMF, 2019^[5]). The system has minimised unemployment but relies on state subsidies and is rife with inefficiency. The SOEs’ return on equity and assets are three to four times lower than those

⁶ The development strategy is titled *Belarus is a country for successful entrepreneurship*. See <http://www.government.by/ru/content/8326>.

of private companies (IMF, 2019^[7]). The development of the SME sector is vital in the move towards a more efficient economic system, where all firms can compete on a level playing field.

According to the 2018-2019 EBRD-EIB-World Bank Enterprise Survey, the percentage of firms with at least 10% of government/state ownership is 8.7%, considerably higher than the Europe and Central Asia average of 1.2% (World Bank, 2020^[8]). In addition, increasing inefficiencies in the SOE sector, which dominates key industries such as machinery and chemicals, are limiting the country's growth potential by causing a suboptimal allocation of capital, labour and resources, thereby distorting competition and price mechanisms. The government has shown increasing commitment to the development of the private sector and is planning to implement gradual structural reforms, including SOE reforms and further relaxation of remaining price controls.

Belarus is very trade-dependent, with exports and imports representing 139% of GDP in 2018 (IMF, 2019^[5]). The main export are refined petroleum products, which have long relied on preferential rates on Russian crude oil, which is imported to Belarus and refined at two Soviet-era oil refineries. Since 2015, Belarus has been a part of the Eurasian Economic Union, which still accounts for almost half of exports. Russia remains the main export destination, accounting for 39% of Belarus's exports in 2018, followed by Ukraine (12%) and the United Kingdom (9%). Efforts have been made to diversify export markets, with exports to the EU rising from 26.8% of GDP in 2017 to 30.2% in 2018 (EIU, 2019^[9]). Foreign direct investment inflows could improve product quality and export competitiveness but FDI inflows are very low, at 2.3% of GDP, and they have been on a downward trend since 2015. As reported in the Enterprise Survey, the percentage of firms using material inputs and/or supplies of foreign origin and the proportion of total inputs that are of foreign origin in the manufacturing sector are 81.7% and 51.5% respectively, substantially higher than the averages in Europe and Central Asia (65.6% and 39.4%) (World Bank, 2020^[8]).

With the Covid-19 crisis, Belarus is facing the second economic downturn in five years. After two years of contraction in 2015-16, the country returned to growth in 2017, but real GDP in 2018 remained slightly below the level of 2014. Joint efforts by the government and the National Bank of the Republic of Belarus have been instrumental in delivering greater exchange rate stability, as well as bringing inflation down to historically low levels. In December 2019, consumer prices were 4.7% higher than year earlier (Belstat, 2019^[10]). However, the risks to growth and fiscal balance started to mount even before the onset of the Covid-19 crisis. Russia introduced a new oil-taxation regime in 2019, which will abolish duty-free imports of Russian crude oil. The Belarussian state budget is heavily reliant on export of oil products, and the ongoing disputes over transit fees halted oil exports from Belarus in January 2020. The problem has been further exacerbated by the fall in oil prices due to lower global demand and the first-quarter price war between Russia and Saudi Arabia. The ensuing losses reduce medium-term growth prospects, and the wider uncertainty about the future of the Belarus-Russia relationship is having a negative effect on investor confidence (Kudrytski, 2020^[11]) (EIU, 2019^[9]).

Box 1. Economic Policy Responses to the Covid-19 crisis

The Belarussian economy is expected to contract by 6% in 2020 due to the Covid-19 crisis before recovering by 3.5% in 2021, according to IMF estimates. By end of April, the

Government of Belarus had adopted economic support packages, amounting to BYN 5 to 6 billion (USD 2 to 2.5 billion). The measures include:

- moratoriums on financial obligations: payment holidays, rent payment holidays, delays to loan an interest payments;
- price ceilings on essential products; and
- simplified regulations regarding procurement, business permits and licenses.

The GoB is also negotiating with international lenders, notably the IMF, the World Bank, the EBRD, the European Investment Bank, and the Development Bank of China, for an estimated total of USD 2 to 2.5 billion.

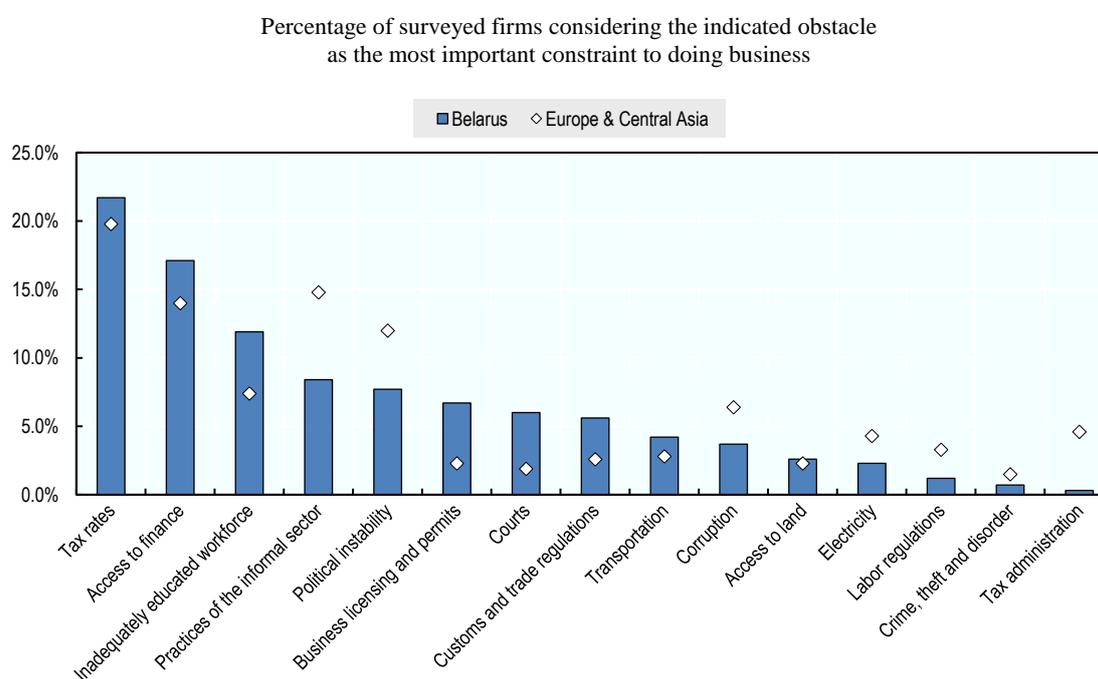
Source: (OECD, 2020^[12]), COVID-19 crisis response in Eastern Partner countries, <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eu-eastern-partner-countries-7759afa3/>.

1.3. Recent business environment and policy trends

Since 2010, the government has taken significant steps to improve the policy environment for private enterprises and especially SMEs. Presidential Decree No. 4 “On the Development of Entrepreneurship and Stimulation of Business Activity in Belarus”, adopted in 2010, remains the core document that focuses on improving the business climate and maintaining an open dialogue between the private sector and the government. It has been complemented by Presidential Decree No. 7 (2017) “On the Development of Entrepreneurship”, which substantially simplifies regulations for doing business in Belarus, bans the introduction of new taxes until 2020, and minimises state interference in business operations with the assumption of “good faith” of enterprises. The latter radically changes government-business relations: firms can now conduct business operations in a more independent way, without being subject to frequent and unjustified scrutiny from state authorities.

The preferential regime that SOEs enjoy in terms of financial resources, raw materials, lower energy prices and softer treatment by regulatory authorities is a constraint on the development of a vibrant private sector. The World Bank Enterprise survey results for Belarus in 2018-19 demonstrate the importance of the private sector in the creation of new jobs. Of the 440 companies with at least 10 employees at the start of a three-year period, 22% are at least half-owned by the state, with SOEs accounting for only 7.9% of the companies that have increased employment by at least 10% during a three-year period.

The disproportionate role of the SOEs is not the only element hindering the development of a healthy business environment. The survey results show that the firms identify high taxes, lack of access to finance, and an inadequately educated workforce as the most significant obstacles to doing business (Figure 2) (World Bank, 2019^[13]).

Figure 2. Business environment constraints

Source: EBRD/World Bank (2020), *Enterprise Survey: Belarus*.

The Belarusian government is committed to introducing reforms that will also improve the country's position in the World Bank "Doing Business" rankings. An action plan to improve the rating of the country is an integral part of Belarus's five-year SME state support programme for 2016-2020. The plan includes timeframes for every activity, responsible bodies and expected impact. Since 2015, Belarus's position has risen by five places; it currently ranks 49th, with considerable improvements in the "getting credit", "resolving insolvency" and "getting electricity" indicators (World Bank, 2019_[13]). Belarus's progress is positive, but it should be noted that the focus of reforms should not be too strongly in improving the country's standing in international rankings. Rankings such as the "Doing Business" use different indicators as proxies for an overall healthy business environment. Narrowly focused reforms can successfully boost a country's position in the ranking by prioritising the measured indicators without broader improvements that would substantially affect the overall quality of the business environment.

However, the increasingly proactive measures adopted by the government to enhance the business environment have proved particularly successful in the IT sector, which is taking advantage of the knowledge base of the country's workforce, coupled with the strategic choice to introduce a highly preferential tax and regulatory regime for the sector (IMF, 2019_[5]). The Hi-Tech Park in Minsk has emerged as an internationally notable cluster of IT businesses. Over 100,000 people work in the IT sector nationwide, and average salaries in the sector are up to four-and-a-half times above the national average. Importantly, many of the firms have attracted notable foreign venture capital, and international tech giants like Google have acquired some of the firms (Hillary, 2019_[14]) (Belarus.by, 2017_[15]).

High-growth enterprises (HGEs) are not, however, only concentrated in the booming IT sector but operate in all spheres of the economy. The HGEs are the spearhead of the

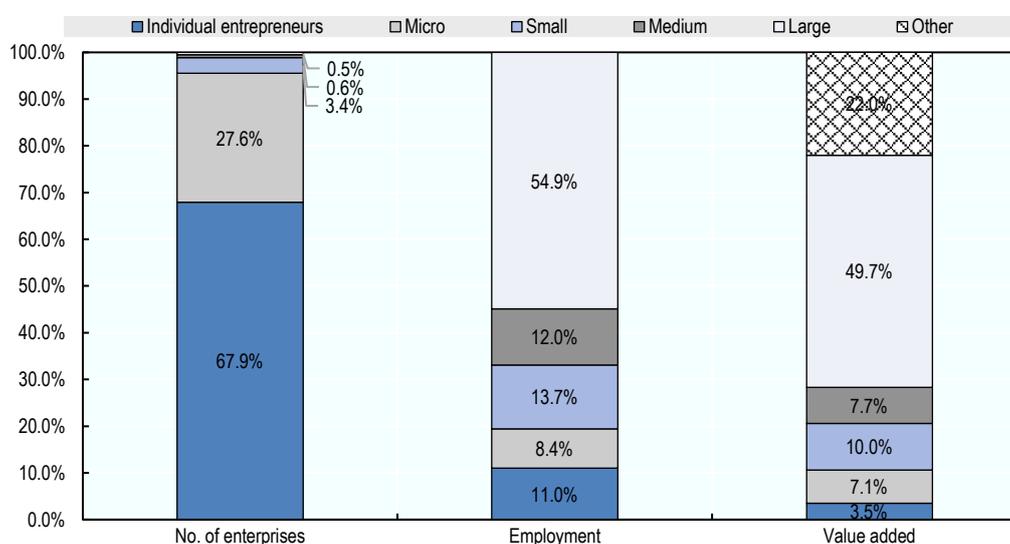
enterprise population, paving the way forward for other firms towards more innovative and efficient practices. The data on HGEs in Belarus are limited, but the World Bank Enterprise Surveys show that a subset of firms, operating in retail, garments and food sector, account for a significant share of output and employment growth. The high performers tend to be younger and more innovative than other firms and almost exclusively privately owned. During a period of rapid growth, HGEs can face significant constraints in accessing finance and recruiting new workers. While the key prerequisite for their success is a healthy business environment, the future SME agency could in the future build a targeted support programme aimed at HGEs to maximise the performance of high potential firms (see Section B).

1.4. The SME sector in Belarus

The role of SMEs in Belarus remains limited. In 2018, the share of SMEs, including individual entrepreneurs, in the total business population was 78.3%. The number of individual micro, small and medium-sized enterprises has declined to 111 214 in 2018 from 114 208 in 2014 (drop of 2.6%). The reduction in the number of individual entrepreneurs is to a degree due to a Presidential Decree No.222, which allows individual entrepreneurs to hire individuals regardless of kinship. In 2017, individual enterprises represented 67.9% of all business entities, micro enterprises 27.6%, small enterprises 3.4%, medium enterprises 0.6% and large enterprises 0.5%. All size categories of business entities, including large ones, displayed a decrease of registered companies.

SMEs accounted for 28.4% of gross value added in 2017, up from 27.6% three years earlier. Most of this growth stems from micro and medium-sized enterprises. The share of SMEs in goods exports has fluctuated over the last four years. The 2017 level of 47.2% remains clearly above the 41.8% observed in 2014. At the same time, the number of employees working for SMEs (including individual entrepreneurs) has declined from 1 477 300 in 2014 to 1 442 100 in 2017. This corresponds to 46.1% of the total number of employees in Belarus, up from 43% in 2014. Most of this increase is due to the relative stability of employment in micro enterprises and individual entrepreneurs while total employment declined (Figure 3).

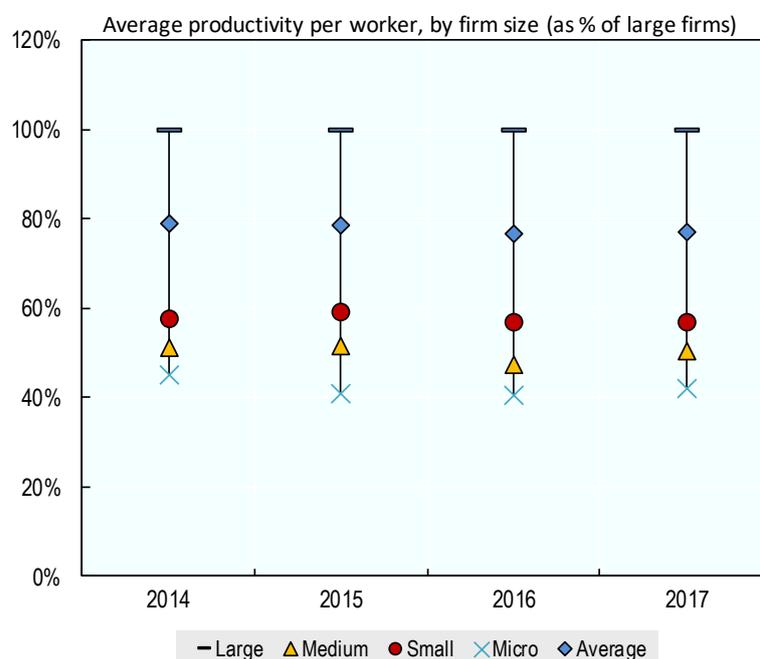
Figure 3. Business demography indicators in Belarus by company size, 2017



Note: 'Other' includes non-commercial entities' and non-observed economies' contribution to value added.

Source: Belarus State Statistical Committee.

Belarusian SMEs mostly operate on very small scales in non-innovative, low-productivity industries, which explains their limited contribution to value added. Their productivity is also low relative to large firms (**Error! Reference source not found.**). In 2017, the largest share of SMEs operated in trade and repair of motor vehicles (38%), followed by construction (17.3%), manufacturing (14%), real estate and business services (13%), and transportation (12%) (EU4Business, 2017_[16]). The rise of the ICT sector is a notable success story. Exports of IT services increased by more than 30-fold 2005 and 2016, and the share of IT exports in Belarus's total exports has increased from 0.16% to 3.25% (EY, 2017_[17]).

Figure 4. Productivity of Belarusian firms by size

Note: Productivity is calculated as value added divided by the total number of employees for each size class.
Source: Data provided to OECD for SBA assessment 2020 by GoB and local consultant.

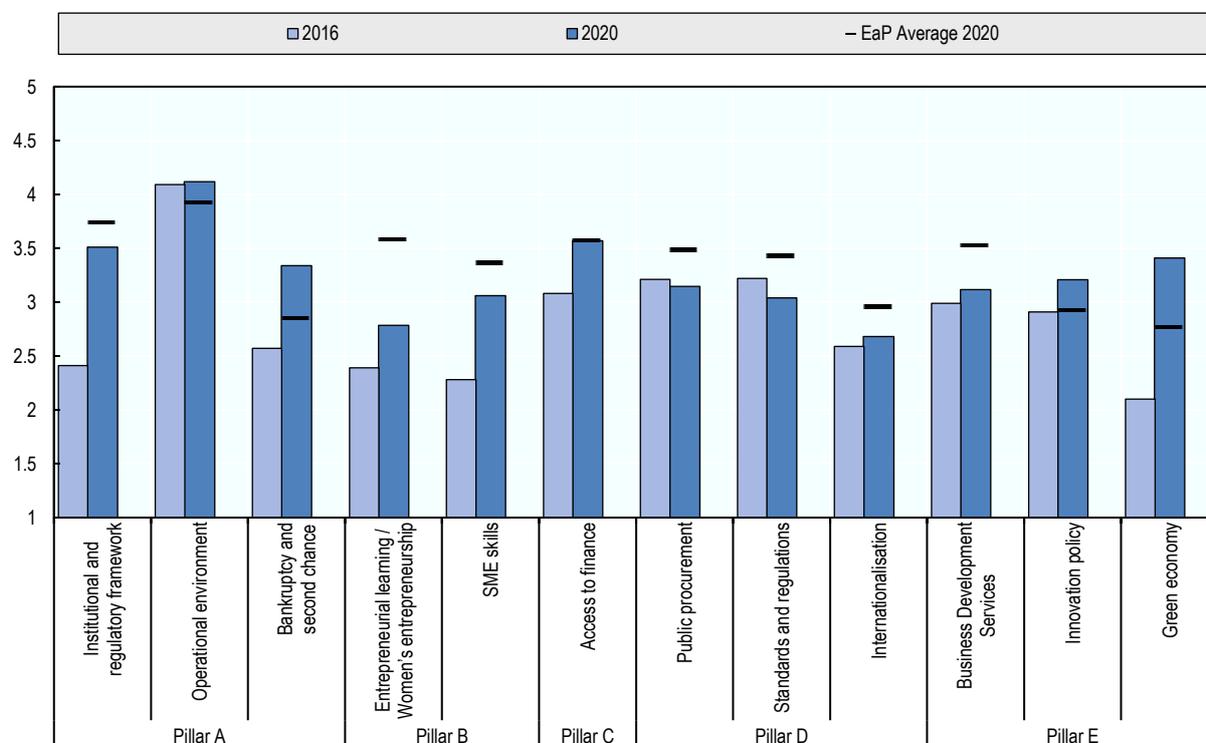
Despite their limited participation in innovative and high-productivity industries, according to the World Bank's Enterprise Surveys, 36.8% of small and 46.1% of medium-sized enterprises introduced a new product and/or service during a three-year period (compared to the considerably lower Europe and Central Asia averages of 25.7% and 30.8%). For 61.1% of small and 68.2% of medium enterprises, the product/service introduced was also new in the main market (Europe and Central Asia averages are in this case higher, namely 66.5% and 70%). Finally, the percentages of firms that introduced a process innovation are also higher than average, accounting for 21.7% for small enterprises and 32.2% for medium enterprises (Europe and Central Asia averages are 19.2% and 25.3%) (World Bank, 2020^[81]), demonstrating untapped potential for further growth opportunities.

1.5. Rationale for BDS development and status of the business support infrastructure

The OECD has supported the process of improving Belarus's business environment by assessing SME policies since 2012 in the framework of the Small Business Act (SBA) for Europe assessment and recommending further reforms. The SME Policy Index: Eastern Partner Countries 2020 findings converge with the firm-level data of the World Bank's Enterprise surveys, where the following are considered the most significant constraints to SME development in Belarus: low levels of entrepreneurial learning; limited enterprise skills; and nascent stages of SME internationalisation (Figure 5).

Figure 5. SME Policy Index scores for Belarus

Country scores by dimension, 2020 vs. 2016.



Source: (OECD, 2020^[18]), *SME Policy Index: Eastern Partner Countries 2020* (forthcoming).

Lack of management and technical skills, the use of suboptimal technology, limited access to markets and information, and a lacking entrepreneurial mind-set hindered the further development and expansion of the SME sector in Belarus. Tackling these barriers could boost company creation, improve SME competitiveness and contribute to export promotion.

It is therefore crucial to focus on the development of a market for business development services, as an instrument to strengthen business capabilities. BDS provide businesses with the necessary know-how and skills to seek growth opportunities, become more competitive and internationalise. Business capabilities also include knowledge about networks and the overall business environment – including resources for expanding the business, physical infrastructure, governmental regulations, and financial and non-financial support services.

For the purposes of this note, business development services will be considered a comprehensive term, covering both services and physical facilities for entrepreneurs to develop their business capabilities. As shown in Figure 6, the concept may be illustrated by a matrix comparing three service types – general information, training and consulting – with various topic areas ranging from sales and marketing, ICT, HR, and financial and strategic management to legal issues and regulations. BDS also include physical infrastructure such as business incubators, providing a mix of infrastructure (premises) and services.

Figure 6. Business development services matrix

Type of services	Topic areas					
	Sales and marketing	Production, operations, ICT	HR management	Financial management	Strategic management	Legal issues and regulations
General information	<ul style="list-style-type: none"> Market overview Foreign markets Procurement Exhibitions Trade fairs 	<ul style="list-style-type: none"> Suppliers Warehousing ICT Technology suppliers 	<ul style="list-style-type: none"> HR management good practice Labour regulation Training options 	<ul style="list-style-type: none"> Grants Export financial support Financing opportunities 	<ul style="list-style-type: none"> First assessment of business feasibility 	<ul style="list-style-type: none"> Standards (Certification, quality, export regulations) Legislation (Patents, copyright, IP rights)
Training	<ul style="list-style-type: none"> Sales and marketing positioning Presentation and networking skills Export intelligence 	<ul style="list-style-type: none"> Process re-engineering ICT training Energy/resource efficiency 	<ul style="list-style-type: none"> Leadership training Career progress Team building 	<ul style="list-style-type: none"> Financial planning Credit orientations Trading 	<ul style="list-style-type: none"> Business plans Business development Policy advocacy 	<ul style="list-style-type: none"> Bookkeeping and accounting standards Quality / safety standards Export regulations
Mentoring & consulting	<ul style="list-style-type: none"> Advertising & PR Design Pricing Packaging Distribution Access to clusters 	<ul style="list-style-type: none"> Quality management R&D Engineering solutions ICT 	<ul style="list-style-type: none"> Recruiting techniques Workforce skills development Reward plans 	<ul style="list-style-type: none"> Short, medium, long term finance Auditing Loan applications Investment Tax advice 	<ul style="list-style-type: none"> Long term business strategy Market entry Customer relationship management 	<ul style="list-style-type: none"> Analysis of policy constraints and opportunities
Physical infrastructure	Technology parks and business incubators providing a mix of services					
	Basic services typically provided by public business support network			Advanced services typically provided by private sector / third parties		

Source: (OECD, 2017^[4])

In general terms, a four-level distinction can be made in order to guide government policy interventions (Autio, Kronlund and Kovalainen, 2007^[19]). Belarus should be building up to targeted SME measures gradually, focusing on providing the necessary macro-economic conditions and framework (such as improving the level-playing-field conditions) prior to dedicating resources to targeted measures, such as support for HGEs:

- Macro-economic conditions:** These conditions set the national context for business development and include issues related to economic stability and growth, national legislative frameworks, and social and political stability, as well as structural issues such as the extent of market openness, competition and entry barriers for firms.
- Framework conditions:** These provide more-specific context for entrepreneurship and SME development in particular. They address resource and factor availability, regulations, legislation and property rights as well as transport, environmental and legislative systems.
- Mainstream SME support:** This relates to broadly based policy initiatives intended to support entrepreneurship and SME development. This would include measures to support entrepreneurship education and culture; enterprise creation (e.g. portals with basic information and access to government services); access to finance for SMEs via grants, loans or guarantees; and the availability of business development services (*Part A of this report*).
- Targeted measures:** These are narrowly focused initiatives intended to support the development of particular groups of entrepreneurs or SMEs, such as support for high-growth firms. In any business ecosystem, a minority of firms account for a disproportionately high share of output and employment growth. These leading HGEs often face special challenges in accessing adequate levels of finance and

adapting management practices during the scaling-up process (*Part B of this report*).

What unites these four policy interventions – especially the latter two – is the need for a solid monitoring system to assess the effectiveness of government support. Such a monitoring system is currently at a nascent stage in Belarus.

More emphasis should be put on the development of robust monitoring and evaluation frameworks in order to increase the effectiveness of SME policy and high quality of BDS provision (see Box 1). Furthermore, if the future SME agency chooses to design a targeted support programme for high-growth enterprises (see Part B), monitoring and evaluation mechanisms should be integral to project design from the beginning. The monitoring frameworks should go beyond quantitative indicators that measure the amount of support delivered, and include assessments by experts in the field to measure the quality of services provided.

A few indicators are collected on the current business support infrastructure (BSI), which is co-ordinated by regional and district executive committees, and consist of incubators (24 in 2019, up from 16 in 2016) and business support centres (103, up from 95 in 2016), of which 77% are privately owned. They have been registered by the state and are eligible for government support. The finance ministry provides subsidies, including for the acquisition of fixed assets and expenditure on events. In 2017, 14 BSI entities received around EUR 330 000, corresponding to 79% of the resources foreseen for the BSI by the SME state support programme 2016-2020 from regional and Minsk city budgets. In 2018, this amount rose to EUR 500 000 for 17 BSI entities, corresponding to 143% of planned expenditures. A considerable amount of public resources are therefore spent on the BSI – although, crucially, it is not attributed on the basis of quality criteria.

The BSI mainly provides SMEs and start-ups with basic consulting services, training and seminars, mostly free of charge. Incubators also provide office space at below-market price to small businesses and start-ups. More tailored services such as accounting, business plan development, or preparation of a marketing strategy are provided for a fee. Moreover, city executive committees and regional administrations provide legal consultations to SMEs free of charge. In 2017, BSI entities provided 4290 training courses against a target of 3290. In 2018, 712 start-up events took place in Belarus (compared to 375 in 2016), with more than 30 000 participants. Again, however, more could be done to monitor the services and activities provided, to assure the quality and effectiveness of the BSI.

2. Part A: Monitoring of OECD 2017 Recommendations

Part A comprises three chapters based on OECD's monitoring of the framework for developing a market for business development services (BDS) in Belarus. The chapters address the government's efforts to 1) upgrade the institutional framework for the delivery of BDS, 2) unlock latent demand for BDS and 3) promote the market-oriented supply of BDS. Each chapter contains a brief overview of recommendations (i.e. actions) provided in 2017, a 2019 assessment of each, and recommendations for the way forward. A summary table of recommendations is provided in Annex A, outlining short-, medium- and long-term implementation priorities.

Chapter 2.

2.1. Upgrade the institutional framework for the delivery of business development services

2017 recommendations

- Adopt a strategic approach to SME development, to allow for better policy design and co-ordination.
- Strengthen the institutions involved in the delivery of SME support policies, for more effective service and support delivery.

Findings of the 2019 assessment

Action 1: Adopt a strategic approach to SME development

As outlined in the programme “Socio-economic Development of the Republic of Belarus for 2016–2020” and the state programme “Small and Medium Entrepreneurship in the Republic of Belarus 2016–2020” (henceforth the “five-year SME state support programme (2016–2020)”), the government approved in late 2018 an SME development strategy “Belarus – country of successful entrepreneurship” for the period until 2030 (henceforth “SME strategy 2030”). This document defines objectives and priorities for SME development in the medium-to-long term.

To achieve an internationally competitive, dynamic and regionally balanced SME sector, the SME strategy 2030 serves as basis for the development of future SME state support programmes on the national as well as regional levels, and constitutes a coherent and comprehensive strategy for SME policy. It takes up and develops SME-related actions of the programme of “Socio-economic Development of the Republic of Belarus for 2016 – 2020”, such as the establishment of a credit guarantee fund and regulatory impact assessments, and mentions some planned actions of the five-year SME state support programme 2016-2020.

Various outlined reforms – such as simplifying administrative procedures, decreasing licensing requirements, creating equal conditions for businesses independent of ownership status, improving access to finance and extending the business and innovation support infrastructure – are aimed at creating a level playing field for SMEs. Further focus of the SME strategy until 2030 lies on investment attraction, skills development of managers, as well as general entrepreneurship training, promoting the image of entrepreneurship and increasing the competitiveness of exports. Moreover, the SME strategy 2030 recognises the importance of business development services for SME development. It stresses both the need for access to basic information on business creation and management and the satisfaction of business demands for more sophisticated consulting services on financial, legal, technological, technical and export issues, as well as service quality.

While the SME strategy 2030 remains broad, the documents “Socio-economic development of the Republic of Belarus for 2016–2020” and the five-year SME state support programme (2016–2020) feature some details and list concrete measures in their respective action plans. The action plan of the latter features responsible institutions, implementation timeframes and budget lines, but only limited indicators for evaluation of

the action plan. A new SME state support programme for 2021–2025 is currently under preparation.

Action 2: Strengthen institutions involved in the delivery of SME support policies

The recently approved SME strategy 2030 foresees the creation of a specialised SME development agency as the main institution for the execution of entrepreneurship policy. A detailed concept note, developed by the Ministry of Economy with World Bank/IFC support and summarising the main functions, activities and objectives of the future agency, is currently under approval by the Council of Ministers. Co-ordinated by the Ministry of Economy, the future agency will execute the policies outlined in the SME strategy 2030 and the SME state-support programme in close co-operation with national and regional authorities, business associations, entities of the SME support and innovation infrastructure, innovation funds, financial institutions as well as international organisations and other relevant stakeholders. The SME strategy 2030 also foresees the creation of a network of regional SME agency branches providing a vast array of services to SMEs at the local level and co-ordinating the activities of the SME support infrastructure.

It is expected that the main tasks of the future SME agency would include:

- the provision of a vast array of business development services to established SMEs and start-ups;
- the implementation of projects and programmes stimulating entrepreneurship;
- monitoring of the business environment and assessment of SME needs as well as demand for services and their quality; and
- the attraction of international and other sources of financing for i) the implementation of SME support measures and ii) the promotion of entrepreneurship and self-employment among the population.

Important features yet to be determined are the structure of the SME development agency, including its operational freedom, its role in the development and co-ordination of the SME support system, and the exact services to be provided. A draft version of concept note for the SME agency included a provision for the agency to certify private BDS providers. These plans should be approached with utmost. In some cases, public entities may yet lack the requisite capacities, while in others such certification may constitute an unnecessary burden to entry and competition. Furthermore, the involvement of the private sector should also be of utmost importance when determining the structure of the agency; one way to ensure private sector representation at a strategic level would be to include private sector representatives on the agency' board.

Another key institution in the delivery of SME support policies is the Belarusian Fund for Financial Support of Entrepreneurs (BFFSE). Besides offering basic information on starting a business and financial support to SMEs, such as credits and loans at preferential rates, the BFFSE now operates as a Credit Guarantee Fund, offering guarantees on bank loans of up to 60% of the debt.

Since the end of 2016, the Development Bank of Belarus has further developed its offer of financial support to SMEs, granting credits via 11 partner banks and additional leasing companies at preferential rates. Financial support is offered to SMEs based on government priorities in line with the SME Strategy 2030, including the financing of start-ups, exporting and innovative enterprises.

Since 2018, public-private dialogue has grown stronger, with the expansion of the mandate of the Council for Entrepreneurship Development of Belarus, an advisory body under the President. Chaired by the First Deputy Prime Minister, the Council brings together private sector representatives (of the 20 members of the Council, 19 are heads of the most prominent and successful businesses). It meets on a quarterly basis and has a mandate to review and propose amendments to existing and draft legislation, and to propose government support programmes for entrepreneurs.

2.2. Way forward

Recommendation 1: Build a monitoring and evaluation system, with result-oriented key performance indicators

A next step in the implementation of the SME strategy 2030 is the elaboration of the SME state support programme 2021-2025, in line with the priorities of the SME strategy. While developing the former and the respective action plan, Belarus should consider further expanding the monitoring and evaluation system, complementing it with key performance indicators. It would also benefit from clearly identified and concrete policy approaches for each outlined activity, specifying for each initiative a timeframe for completion, responsible institutions and allocated financial means. A robust monitoring system would give the government a better foundation for rapid policy adjustments.

The current SME state support programme (2016-2020) lists only nine indicators for the monitoring of mostly macro-level outcomes, including indicators aimed at improving the ranking of Belarus in the World Bank Doing Business report or the number of training courses conducted by the SME support infrastructure. Results are summarised in yearly reports and published online.

The reports contain a small number of activity-oriented indicators pertaining to the delivery of BDS (number of business support centres, number of incubators, number of training courses, consultations and seminars conducted). These indicators are based on more detailed information provided by the BSI, which could be used to complement the state support programme implementation report. Additional indicators could include quality and client satisfaction components, as well as the impact of BDS on SME revenues, productivity and other performance criteria (Table 1).

Table 1. KPIs for monitoring the SME state support programme 2021-2025

Focus on Business Development Services

Key performance indicator (KPI)	Description/rationale	Source of data
Annual growth of investment by SMEs	One approach to assessing the impact of institutional improvements is through the observed behaviour of economic agents. Investment decisions by enterprises are sensitive to the level of perceived risk and uncertainty. Therefore, a predictable, transparent and simple institutional environment reduces one of the risks to investments. By this reasoning, the annual growth of investment by SMEs could be used as a proxy indicator for improvements in the overall institutional framework.	Belstat
Share of respondents identifying “Inadequately educated workforce” as most problematic factor for doing business	An inadequately educated workforce is often ranked as one of the most problematic factors for doing business in Belarus, based on a survey of local enterprises by the World Bank. This survey is carried out annually and it would be of interest to observe the evolution of responses over time. It can also be complemented by surveys carried out by local research institutions such as IPM.	World Bank Enterprise Surveys (can be complemented by IPM survey)
SME revenues; SME productivity	Indicators of growth and competitiveness could be collected as part of the tracking system of the future SME agency to monitor effect of services provided.	Not yet available
Client satisfaction	A rating mechanism could be included as part of the web portal of the future SME agency so that clients of BDS providers can rate the service received and assess their quality/effectiveness.	Not yet available
Share of SMEs introducing product or process innovations	Companies' introduction of a new or significantly improved good or service is an informative indicator of innovation activities.	Belstat
Annual growth rate of SME exports	External merchandise trade data (broken down by enterprise size) is available from Belstat, linking external trade data with data from the Belarusian business register to characterise the volume of exports by enterprise size.	Belstat

Box 2. OECD Framework for Monitoring and Evaluation

A transparent monitoring and evaluation system is essential to guarantee that SME support has the intended impact. The key principles, underlying rigorous evaluation processes, are clarity, consistency and impact. Policies should have clearly stated, specific objectives to make it possible to determine whether they have been successful or not. Evaluations should be carried out throughout the policy process: prospective evaluations should be carried out when policy options are formulated; formative evaluations as the policy is in operation; and summative evaluations when the policy impact can be judged. Findings from evaluations should impact policymaking, and if a policy is not working, it should be amended or terminated despite the potential political cost of doing so.

The evaluation of SME programmes is often a difficult task. Objectives of SME policy are not always clear or easy to assess. It is always a complicated task to assess the counterfactual of what would have happened without the policy. Data can be scarce, and the actual impacts of a policy can be lower than what politicians would want to accept. The integrity of the evaluation process must be secured to guarantee objectivity. The evaluations should be carried out by experts. They can be either internal or external, but the independence of

the reviewers is important, and the effectiveness of the process can be bolstered by peer reviews.

Source: OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes (OECD, 2008_[20])

Recommendation 2: Improve the structure of SME institutions

An SME agency that acts as an implementing agency on behalf of the Ministry of Economy and co-ordinates its activities with other institutions involved in the delivery of BDS contributes, among other things, to a better and more efficient delivery of BDS to SMEs. However, the current intended setup of the future SME agency does not clarify responsibilities regarding the design of SME support programmes and the administration of the allocated budget. Granting the SME agency independence in these areas is recommended.

The main task of the SME agency would be the design and co-ordination of SME support programmes. This would include the administration of the allocated budget; collection and dissemination of market information, including monitoring and assessment of SME needs and support programmes (see Chapter 2, recommendation 1); and gathering and provision of information on existing support schemes for SMEs. The agency would also take on the task of promoting a sound monitoring system among the regional branches of the agency.

Furthermore, the government should define the range of services provided by the SME agency and its regional branches and consider distinguishing between basic and more sophisticated consulting services. Regional SME agency branches, in co-operation with the private sector, could specialise in initial company diagnostics, basic services provision and referral to best-suited private providers, while private providers would be involved in the delivery of sophisticated programmes and services via public tenders, thus contributing to the development of a market for BDS. The government should also consider including measures to foster the private BDS market in its action plan.

Responsibility for the oversight and strategic co-ordination of SME support is assigned to the Department of Entrepreneurship of the Ministry of Economy. The Ministry could include representatives of relevant line ministries. The respective expert and consultative councils (34 as of January 2020), and the private sector, as well as relevant existing SME support bodies (e.g. Development Bank of Belarus, BFFSE, BSI) to act in the spirit of an inclusive council of stakeholders (see Figure 8).

Box 3. Facilitating access to BDS: The Philippines' Negosyo Centres

The Philippines established its Negosyo Centres in order to strengthen MSMEs by facilitating job creation, production and trade. The centres are responsible for promoting ease of doing business by integrating a single business processing system for registration, permits, set-ups and management of MSMEs. They were established under the 2014 “Go Negosyo Act” (Republic Act No. 10644) and are governed by the Department of Industry and Trade (DTI).

The centres provide services such as business registration facilitation, business consultancy and business information and advocacy. Registered Barangay Micro-Business Enterprises (BMBEs) can benefit from incentives including an income-tax exemption on operations

income, exemption from the minimum wage law, and a special credit window of government financing institutions serving such enterprises.

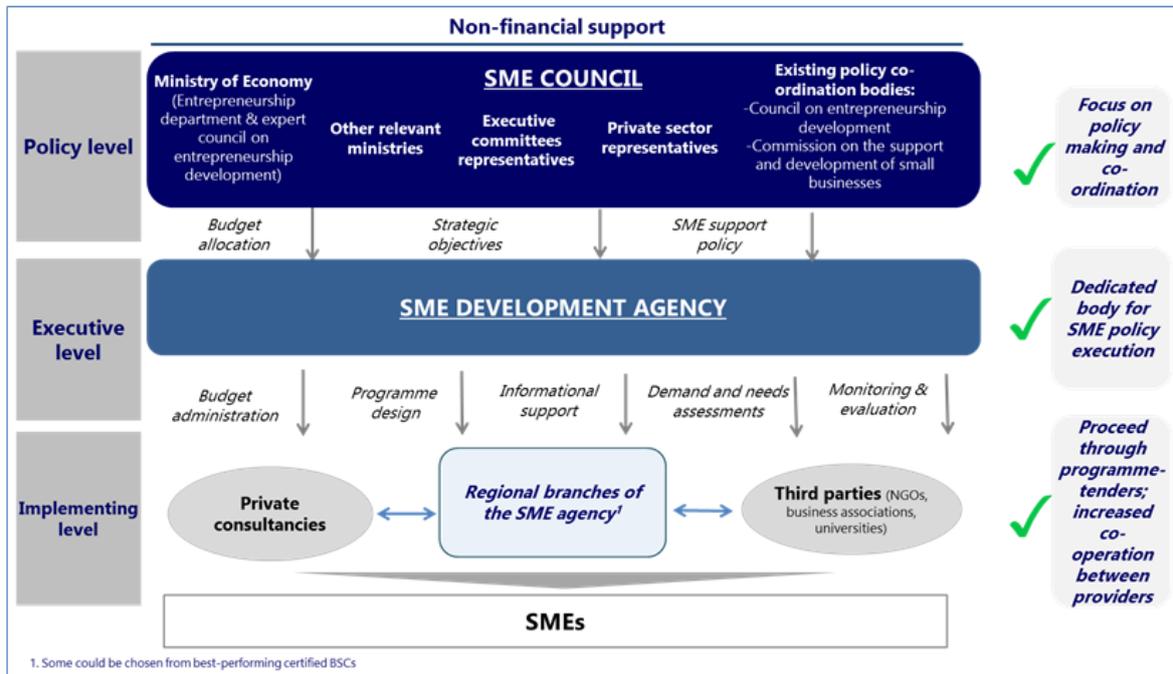
Negosyo Centres are classified into three operating models that differ in terms of the level of services offered. Full-Service Centres are equipped with staff who are able to deliver all the services offered at any given time and who conduct activities independently. Advanced Centres are similar, but need the support of the DTI or the nearest Full-Service Centre to execute programmes, activities and consulting. Basic Centres mainly process documentation and disseminate business-related information, and can provide only minimal forms of consulting or advisory work without the full support of the DTI.

With the implementation of the “Go Negosyo Act”, there was a rapid increase in the number of centres. By 2017, a total of 789 Negosyo Centres had been established nationwide – a significant increase from just 5 in 2014 – and the centres had assisted nearly 636 000 clients and helped more than 300 000 businesses to register. The centres have considerably facilitated the provision of BDS and registration of micro enterprises. The DTI plans to establish 526 more centres by the end of 2022.

The “Go Negosyo Act” also provides an opportunity for DTI business counsellors and staff to develop their competency for providing development services to the public. Personnel who are assigned to the Negosyo Centres take a Small Business Counselling Course that covers several modules on business management and operations. The training aims to deepen their knowledge and skills on coaching, consultation and mentoring services for MSMEs.

Source: SME Policy Index ASEAN 2018: Boosting Competitiveness and Inclusive Growth (OECD, 2018_[21])

Figure 7. Institutional framework for the delivery of BDS to SMEs



Source: OECD analysis.

Figure 8. Stakeholder roles to create a sustainable business-support infrastructure

Suggested structure	Role
<p>Policy level: SME COUNCIL</p>	<p><i>Role can be taken up by existing policy co-ordinating bodies</i> Set strategic objectives for SME development</p> <ul style="list-style-type: none"> Ministry of Economy's Entrepreneurship department to act as chair of SME Council Define long-term goals for the SME sector and strategic directions for policy intervention Allocate budget for SME support programmes
<p>Executive level: SME DEVELOPMENT AGENCY</p>	<p>Design and coordinate SME support programmes</p> <ul style="list-style-type: none"> Design targeted programmes for SMEs and administer allocated budget Hold tenders for potential implementers of governmental support programs <p>Gather and provide information on existing support schemes for SMEs</p> <ul style="list-style-type: none"> Provide information and assistance on financial support to SMEs (e.g. Development Bank, EBRD) <p>Ensure quality and co-ordinate activities for BDS provision at the regional level</p> <ul style="list-style-type: none"> Set criteria and quality standards for potential regional branches of the SME agency Provide financial resources, information, build capacity of regional branches <p>Monitor activities in the regions</p> <ul style="list-style-type: none"> Coordinate, monitor and evaluate assessments of SME needs, regional economic activity and demand for business development services Monitor and evaluate governmental support programmes <p>Organise public-private dialogue at the regional level</p> <ul style="list-style-type: none"> Facilitate co-ordination between private and public providers of BDS
<p>Implementing level: Regional SME agency branches; private providers; third parties</p>	<p>Compete for programmes designed by SME agency and increase co-operation among providers</p> <ul style="list-style-type: none"> Ensuring target groups and priority sectors are met <p>Regional branches as first-stop shops for SMEs</p> <ul style="list-style-type: none"> Regional branches could be selected from best-performing current certified providers Distribute information on local BDS providers and national SME support programs Offer basic informational support to SMEs Carry out initial company diagnostics <p>Private and third party providers to provide more tailored services and spur demand</p> <ul style="list-style-type: none"> Business associations to increase trust in providers; private providers to offer sophisticated services

Source: OECD analysis.

2.3. Unlock latent demand for business development services

2017 recommendations

- Carry out regular SME needs assessments and help SMEs better understand their business needs, for a targeted and demand-driven provision of BDS.
- Raise awareness of the benefits of BDS and increase trust in service providers, to remedy the information gap and the perception of overall poor quality of services offered.
- Facilitate SME access to BDS by offering financial assistance.

Findings of the 2019 assessment

Actions 1 & 2: Carry out regular SME needs assessments and help SMEs better understand their business needs

The SME strategy 2030 recognises the importance of SME needs assessments. Correspondingly, the future SME agency counts as one of its four main tasks the assessment of SME needs, as well as the demand for and quality of services provided. The current SME state support programme also lists the assessment of SME needs for BDS as well as yearly evaluations of the work of SME support entities, including the definition of new targets for the following year, as planned activities. However, no further information is available on the kind of assessment to be performed, i.e. whether the assessment refers to market failures affecting the SME sector in general or to firm-level company diagnostics.

In order to assess SME needs, government bodies regularly organise and conduct roundtables, seminars and conferences on issues related to the development and support of SMEs and the improvement of the business environment. Business associations and representatives of the SME support infrastructure participate in these events. Forty public advisory (expert) councils have been established under state bodies; three were created in the first half of 2018. Members of these councils include representatives of the regional executive committees and business associations and unions, as well as experts and other interested parties. The public advisory councils held 220 in 2018. In 2019, the activities of the council were reassessed and to eliminate duplicate functions, the number of councils was cut to the current 34. In 2019, the councils held 155 meetings, raising issues such as draft legislation that might influence conditions for business activity, the activity of the business support infrastructure and challenges for individual entrepreneurs. Recommendations of advisory council meetings then inform the preparation of draft legislation, which is submitted for feedback and approval to the Council for Entrepreneurship Development.

Opinions and results obtained from such meetings are complemented by online surveys, scientific work and reviews of the SME sector carried out by business associations, (state) research institutions and BFFSE, among others. These reflect the state of the SME sector, the business environment and external barriers to the sector's further development. Reports like the 'Belarus National Business Platform', produced by the Republican Confederation of Entrepreneurship, gather recommendations from the private sector on reforms of the business environment and wield considerable influence on law making.

However, none of these assessments and surveys analyse barriers to development or business needs beyond the legal or macroeconomic environment. Little action has been taken on establishing company diagnostics systems enabling SMEs to assess their own

business needs. Since the availability of adequately skilled workforce is one of the main challenges for Belarusian SMEs, the benefits of training needs analysis assessing SMEs' skills and training needs in various sectors would be considerable in terms of informing SME support programmes as well as the development of national education programmes.

The efforts to inform the business community of the advantages and availability of BDS should be integrated in wider efforts to promote entrepreneurship in the society. Notable progress has already been achieved in respect to increasing entrepreneurship training at universities. In 2018, 52.9% of university students had attended entrepreneurship courses compared to 46.2% in 2016. In an interesting example of wider public engagement, the Belarusian state television ran a reality show "My Business" in 2016 and 2017, showcasing entrepreneurs across the country. Awareness campaigns about support mechanisms for SMEs could be coupled with these wider efforts to promote entrepreneurship.

Action 3: Raise awareness of the benefits of business development services and increase trust in service providers

The action plan elaborated for the state programme on social and economic development (2016-2020) provides for the creation of a specialised electronic portal, containing exhaustive information on starting a business and managing it. The module "your business" on the BFFSE website includes a step-by-step guide for opening a business, a register of all entities of the registered SME support infrastructure, tips on how to develop competitive business ideas and more. The website also offers an overview of sources of financial support from government sources, the fund itself, and donors such as international organisations. It further provides entrepreneurs with the basic legal information for conducting a business activity.

However, it does not list types of services provided by the different entities of the registered SME support infrastructure, nor their qualifications and experience. It also omits private BDS providers that are external to the accredited BSI, some of which are highly qualified and provide sophisticated services (e.g. consultants as part of the EBRD Advice for Small Businesses Programme database).

Currently, the government is about to elaborate a package of basic information services that will be provided to SMEs and start-ups through the registered BSI on a preferential and/or gratuitous basis. Depending on what type of services this package contains, such initial and basic consulting services can trigger the uptake of more sophisticated services. For this to materialise, the provided services need to be of good quality and clearly underline the additional value of specialised services.

More could also be done in the area of awareness raising for BDS beyond the online web portal, systematically integrating BDS and their benefits as part of general entrepreneurship promotion activities. A first step in this direction has been made with the plan, stipulated by the SME strategy 2030, to strengthen the role of business associations in BDS provision; but their exact role is yet to be defined.

Action 4: Facilitate SME access to business development services

Several measures listed in strategic documents aim at facilitating SME access to BDS, mainly by lowering their cost. For instance, the SME strategy until 2030 envisages the elaboration of mechanisms to lower the cost of informational and consulting services provided by BSI entities compared to their market price. For both types of services, it also foresees the creation of a basic package of services offered for a preferential fee or

gratuitously. These initiatives should be cautiously thought through, however, so as not to crowd out private sector providers and hamper the development of a BDS market. An analysis of market failures should be conducted before resorting to any state action.

The main instruments that have been put in place by the GoB to facilitate SME access to finance and, thus, to BDS are the SME targeted programmes of Belarus's Development Bank and the Credit Guarantee Fund established in early 2019 under BFFSE. Since early 2017, the Development Bank of Belarus has further developed its offer of financial support to SMEs by granting credits at preferential rates via partner banks. The guarantee mechanism offered by BFFSE provides for the issuance of guarantees vis-à-vis commercial banks, ensuring the fulfilment by SMEs of debt obligations or leasing agreements and thus lowering interest rates for SMEs. However, no specific small-scale loans or matching grants are yet provided to specifically incentivise BDS uptake.

Demand could further be unlocked through amendments to Edict No. 255 "On some measures of state support for SMEs". The edict does not currently provide for loans or other financial support from public institutions for the purchase of BDS, alongside current eligible activities such as participation in fairs. Moreover, no systematic approaches have been undertaken to unlock demand for external services from state-owned SMEs. However, since state-owned enterprises constitute a sizeable share of the economy, encouraging SOEs to buy external services would have significant positive effects on BDS market development.

2.4. Way forward

Recommendation 1: Develop a countrywide system for analysing SME skills and training needs, complemented by initial company diagnostics

While much is known about general barriers pertaining to the business and macroeconomic environment, far less is known about companies' internal capacities and skills needs. A clear understanding of the gap between skills supply and skills demand is a prerequisite to any policies aiming to address one of the main barriers to further enterprise development: inadequate workforce skills. Regular, countrywide surveys of the SME sector would help the government ascertain which internal capacities and skills are lacking within companies and which support services could remedy these deficiencies. Such surveys should be carried out in co-operation with local research centres and also assess the use and accessibility of different types of services, as well as the perception of currently offered BDS to identify market failures.

Assessments – such as the one on the matching of existing labour force skills to employers' expectations conducted in 2016 by the IPM Research Centre, for which 400 SMEs were interviewed – are a good starting point and should be taken up and expanded by the government. Another good practice comes from Georgia, where the Ministry of Economy and Sustainable Development is regularly carrying out skills needs surveys among 6000 enterprises (see Box 3).

Box 4. Needs analysis based on countrywide surveys of SME skills: The case of Georgia

Since 2017, the Ministry of Economy and Sustainable Development of Georgia regularly carries out an *Establishment Skills Survey* among 6000 companies, to better meet the revealed demand of enterprises for human capital and increase the involvement of the

private sector in education and professional training. A report based on survey results is compiled yearly and is used to increase public awareness on identified skills mismatches in the labour market and, at a later stage, inform training providers.

In a more specialised survey, Enterprise Georgia, in close co-operation with the European Training Foundation (ETF), has set up relevant mechanisms to assess SMEs' training needs by carrying out sector-specific assessments. In a pilot project launched in 2016, Enterprise Georgia carried out qualitative and quantitative surveys of 132 companies in the hospitality and paper/paper processing/printing and publishing sectors. The survey results were disseminated at various events dedicated to the development of professional education.

Source: (OECD, 2008_[20])

As one of the first tasks carried out by the future SME agency, a large-scale survey, followed by regular updates and consultations, could be carried out, providing a robust evidence base from which to develop targeted support programmes. The survey could have two parts. The first part would examine SMEs' current internal barriers to growth, i.e. those that could be addressed through BDS, and determine the necessary consulting, capacity-building and skills-upgrading measures needed to overcome these barriers. The second part could be dedicated to a BDS market study, ascertaining market failures emerging from the demand for and offer of services aimed at solving issues highlighted in the first part. The second part would survey both the current accredited SME support infrastructure and other BDS providers.

Surveys should be complemented by initial company diagnostics, which would become another central activity for the future SME agency and its regional branches, which are better positioned to reach out to SMEs throughout the country. Carried out online (see Box 4) or in-person with a trained expert of the SME agency, the company diagnostics process would help SMEs better understand their business needs by having business performance, current resources and future ambitions externally assessed. SMEs could further be directed to consulting companies of proven quality, which would help them access relevant services to solve specific needs while at the same time reducing search costs for appropriate providers.

Box 5. French Chambers of Commerce: IT platform for business diagnostics

Online business diagnostic tools represent a low-cost approach to encouraging and supporting SMEs to benchmark their business performance and to identify potential areas for improvement. However, they mostly require relatively codified information for their operation and produce generic advice. The impacts are also likely to be low unless combined with additional face-to-face diagnostic support and advice. Although digital business diagnostic tools may appear in the private market, public agencies can have a significant role to play in their development because of the importance of firm-level benchmarking data from official sources and the need for data protection.

One of the key uses of digital diagnostic tools can therefore be as an entry point to other business advice services, through self-referral by SME managers. Upon completion of the digital diagnostic, the tools can point the managers and entrepreneurs to further information, advice and resources that they can use to help improve their firm's performance in priority areas identified.

In France, the Permanent Assembly of Chambers of Commerce and Industry has developed an IT platform that automatically draws up a summary report on the situation of any given SME, based on its answers to a questionnaire. Using the results of this diagnostic, the SME can revise its priorities and identify areas requiring further support or resources, in one or more of the following domains: i) administrative and financial management; ii) commercial and marketing aspects; iii) production, purchasing and supplies; iv) human resources management; and v) the future of the business. The success of this initiative derives from its ease of use, the fact that it can be adapted to the requirements of very small businesses, and the “bottom-up” approach adopted.

To date, it has been expanded to cover more than half of the 104 Chambers of Commerce and Industry in France’s 26 regions. So far, more than 10 000 diagnostics have already been carried out, but it is expected that, once this approach expands and becomes increasingly available and better known across France, this digital diagnostic tool will support the assessment of an additional 10 000 SMEs every year.

Source: Leveraging Business Development Services for SME productivity growth: International Experience and Implications for United Kingdom Policy (OECD, 2018^[22])

Recommendation 2: Set up a unified BDS web portal

In a similar vein, the future SME agency should also be responsible for setting up and maintaining a BDS web portal. This would guarantee an efficient link between initial company diagnostics, the maintenance of a directory of qualified consultants beyond the currently accredited BSI, and BDS promotion. Information on the web portal could be further classified by the types of services provided and the qualifications and experience of providers, and the portal could provide a guide to the use of BDS, support programmes and success stories of companies having resorted to BDS for their development. It could also integrate the database of consultants that are accredited by the EBRD’s Advice for Small Businesses Programme (Box 5).

Box 6. EBRD’s Advice for Small Business Programme

In the framework of its Advice for Small Businesses Programme, the EBRD offers SMEs initial company diagnostics to help them understand their development needs as well as the benefits of professional business consulting services. Using matching grants, the EBRD provides grants of between 25% and 75% of the cost of ensuing consulting projects. A vast array of consulting services – such as marketing, strategy, organisation, operations, engineering solutions, energy efficiency and quality management – are eligible for financing. For companies looking to compete internationally or attract investment, the programme offers the opportunity to work with an international industry advisor. In most cases, however, the Programme will link SMEs to local consultants, with a view to building a strong, competitive market for business advice in Belarus. By doing so, the Advice for Small Businesses Programme helps SMEs solve specific business problems and reduce their search costs for the appropriate provider.

The Programme’s managing team evaluates the qualifications of local consultants and certifies them for the provision of certain BDS in defined sectors. The consultants involved must have sufficient experience, capabilities and resources for the successful implementation of the tasks assigned. Currently, the programme works with 180 local consultants. After determining the needs of the enterprise and the technical specifications

of a project, the EBRD team can decide to hold a tender among approved consulting providers to carry out the project. In general, however, companies are free to choose among approved service providers, and some service providers advertise their services as being eligible for subsidies from the EBRD programme. While 84 percent of client SMEs have never worked with a consultant before, at the time of the project evaluation (i.e. one year after project completion), almost 95% say they would hire a consultant again. This testifies to the impact professional consulting services can have on business development.

Source: (EBRD, 2016^[23])

The resulting portal could resemble the subcontracting database currently hosted by BFFSE, which lists services and products offered by each company. It could also incorporate a reputational mechanism allowing SMEs that have benefitted from training and consultancy services to rate their experience and make it visible to other firms (Box 6).

Box 7. Rating mechanisms for BDS provision: ODIMM Moldova

In Moldova, ODIMM – the Organisation for Small and Medium Enterprises Sector Development of the Ministry of Economy – is the main institution in charge of the development and implementation of SME support programmes. ODIMM offers a list of BDS on two portals (<https://businessportal.md> and <https://odimm.md>). While the Ministry of Economy does not carry out independent impact evaluation of government-provided BDS, annual reports on strategy implementation are published. Furthermore, ODIMM publishes data on SME participation in BDS programmes – and, crucially, on SMEs' *perception* of available programmes. Moldova has yet to adopt more-comprehensive key performance indicators to better capture programme impact (such as the number of training events, budget size, and materials distributed); nevertheless, the Moldavian example sets an example for the GoB of the first steps in offering a transparent evaluation of available BDS provision.

(OECD, 2016^[24])

Moreover, stressing the benefits of BDS in information campaigns, workshops and roundtables, as well as enshrining their importance in strategic documents and in different levels of SME support, is crucial to reaching those firms that would benefit most from them. With the development of the SME strategy until 2030, a first step in this proposed direction has been taken, with the planned creation of an information registry on the SME support infrastructure – a registry that will also include BDS providers external to the current BSI.

Recommendation 3: Develop a co-financing mechanism for specialised BDS

Currently, public support is only available to the registered BSI entities, and SMEs are not eligible to receive financial support for BDS purchased from external providers. This has the effect of capping the demand for more-sophisticated services. To overcome this challenge, the government should provide financial support for more sophisticated and specialised services in the form of vouchers for first-time use and co-financing mechanisms, as proposed in the SME strategy.

A simple co-financing mechanism offered by the future SME agency, which would enable firms to choose their preferred BDS provider, could help develop a sustainable market for consulting and other support services. The company would co-finance a certain percentage of consultancy/training costs, while the government settles the rest of the fee directly with the BDS provider. The co-financing mechanism could be gradually phased out after a few initial encounters between SMEs and private BDS providers, contributing to the sustainability of demand for more sophisticated services. (See Box 7 for an example of such a co-financing mechanism in Georgia.)

Box 8. Georgia's co-financing mechanism to promote a market for business development services

In Georgia, a co-financing mechanism implemented by Enterprise Georgia in the framework of the *Produce in Georgia* programme covers part of the costs of participating SMEs that contract private consultants.

Produce in Georgia programmes are designed after extensive formal and non-formal consultations with stakeholders, as well as research on market failures and SME needs. Data on programme implementation is systematically collected by the implementing organisations and presented in regular progress reports.

Produce in Georgia programmes are composed of various sub-programmes such as the industrial component, Host in Georgia or the Micro and Small Business Support component. Sub-programmes include financial support and a mandatory technical assistance component, which warrants entrepreneurs' access to BDS related to the introduction of technologies, training and consultations on management, productivity, sales and marketing, financial accounting, and the introduction of technical standards.

Companies co-finance up to 20% of the consultancy/training costs, while the state pays up to GEL 10 000 (~ EUR 3 280) directly to BDS providers. To obtain state support, companies must provide a written analysis of current operations combined with the rationale for the interest in consulting services, a detailed description of the project, projected results and credentials of the selected consultants. Hence, SMEs are free in their choice of BDS providers, representing a best practice among the Eastern Partner countries.

Source: (OECD, 2018_[25])

At the same time, state-accredited, quality-certified BSI entities could concentrate on providing initial diagnostics and basic advice (in co-operation with the private sector) and on redirecting SMEs to the best-suited private providers.

2.5. Promote market-oriented supply of business development services

2017 recommendations

- Improve the business environment for consultants, for a better recognition of the consultancy profession and easier market entry.
- Ensure quality of public and private business support provision, to improve the effectiveness of services provided.
- Ultimately, increase involvement of private providers in the delivery of services, to contribute to a demand-driven and diversified provision of BDS to SMEs.

Findings of the 2019 assessment

Action 1: Improve the business environment for consultants

Along with the SME strategy 2030 – which sets the long-term goal of limiting activities requiring licensing to areas immediately influencing national security, law and order, the environment, and the health of the population, among others – the recent approval of the presidential decree No.236 “On improving licensing requirements” in September 2019 can be considered a major breakthrough in this area. The government elaborated a new, conceptual approach to licensing that drastically reduces the number of activities requiring a license. Furthermore, the decree provides for the simplification of requirements and reduction in fees for obtaining licenses, as well as stipulating the creation by mid-2020 of a “single license register” – an online system maintained by the Ministry of Economy through which licenses will be delivered after the phasing out of the current blanks-based system.

In addition, the decree provides for amendments in licensing regulations regarding several categories of activity. In particular, it is no longer necessary to obtain a license to give legal advice on issues related to business activity. Changes also affect the licensing of activities related to education, real estate services, insurance and financial instruments. However, it is still unclear which specific education services will be exempt from licensing, and whether they will include staff retraining of managers and various advanced training services aiming to increase qualifications, considered as BDS.

According to estimates, this decree, along with the approval of Decree No. 7, which has already abolished the licensing of activities for which around 15 000 licenses have been issued, reduces the number of active licenses by about 30%.

Action 2: Ensure quality of public and private business support provision

Two specific points of the current SME state support programme 2016-2020 provide for improvement of the criteria used for the attribution of the status of “business support centre” and “incubator”, as well as for the creation of a permanent monitoring system regarding the effectiveness of BSI entities.

Currently, the authorities are preparing amendments to the law “On the support of small and medium-sized businesses” and the corresponding implementing resolution, which aim to improve the criteria for affiliation to the BSI. There also plans for currently accredited BSI to undergo a rigorous mapping in terms of the type and quality of services provided and goals achieved, as well as of financial and technical capacity – a task that could be taken up by the future SME agency. The creation of a permanent monitoring system of entities belonging to the BSI is also planned. To date, however, none of the abovementioned changes have been implemented, and further activity will depend on the approval of the concept note for the SME agency.

Action 3: Increase the involvement of private providers in the delivery of BDS to SMEs

The SME strategy 2030 contains various provisions for stimulating private sector involvement in the delivery of BDS to SMEs. A chapter is dedicated to the forms and methods of governmental support for SMEs, listing the development of co-operation with business associations as one of the priorities for future BDS delivery and the development of a national business education system. The strategy also aims to establish a mentoring

institute on a voluntary basis (involving successful managers and qualified retired specialists) to stimulate the provision of and raise awareness about consulting services.

The delivery of services by private providers via a competitive tendering process is to be the main functioning mode of the future SME agency. However, details are yet to be clarified, awaiting the approval of the concept note for the SME agency.

2.6. Way forward

Recommendation 1: Assess and review the current status of the BSI; amend accreditation criteria

In general, there is a need to improve the criteria that makes business support centres (BSCs) and incubators eligible for state financial support.

In order to ensure the quality of public and private business-support provision, the future SME agency could therefore start by carrying out a mapping of the types and quality of services provided, their achievements and the available financial and technical capacity of the current BSI. New criteria for assessing BSI effectiveness could include requirements regarding academic qualifications and/or relevant experience of staff providing services; number of years of relevant experience in providing BDS to SMEs; and direct involvement in the provision of services to SMEs over the past year. Best-performing service providers could be selected as potential regional branches of the future SME agency.

Quality and effectiveness of the future BSI (including the regional branches of the future SME agency) should be ensured by regularly monitoring and evaluating the activities and programmes carried out. These assessments could be based on results achieved against pre-set objectives, such as number of SMEs reached, growth achieved by clients, satisfaction levels and increased use of advisory services paid by SMEs (also see Table 1 in Chapter 1).

Recommendation 2: Leverage business associations and ensure provision of BDS by private providers via competitive tendering

The increased involvement of private providers in the provision of BDS has many potential advantages, including a more efficient delivery of services (due to competition through tenders) and increased awareness of sophisticated BDS among SMEs. Moreover, by enhancing the co-operation between public and private providers, supply gaps can be reduced and the diversification of services improved. However, there is also a need to ensure coverage of basic support services throughout the country. Therefore, the following actions should be considered:

There is a need to identify appropriate providers by type of service delivered, be it for basic or more advanced/sophisticated services. Regional branches of the SME agency should concentrate on providing basic services in co-operation with the private sector – such as offering general information (e.g. on regulatory issues, tax legislation, existing support schemes) and performing initial company diagnostics – while facilitating SMEs' access to private consultancies, which offer more targeted and sophisticated services and could compete via tenders as the implementing bodies of SME agency programmes.

Furthermore, business associations should be leveraged not only as promoters of the benefits of BDS but also as direct providers of services to SMEs. In this regard, business associations could acquire sophisticated support services on behalf of their members – services that individual firms might otherwise struggle to pay for. Aggregated SME

demand would result from the collective purchasing power of association members, which would in turn raise the relevance of business associations for SMEs and increase their membership rate.

Regional branches of the SME agency should also act as “brokers” by referring SMEs i) to their database (which features private providers of proven quality for the delivery of more sophisticated services) and ii) to institutions of higher education (for services to improve the skills of administrative and managerial staff) and professional education institutions (for professional training, retraining and skills upgrade). This would help raise SMEs’ awareness of the availability of targeted services in the region and provide them with a minimum of quality assurance. In order to preserve competitive mechanisms in the market for BDS, and following an initial company diagnostic that would identify the type of support required, the ultimate selection of providers and purchasing decision should be left up to the company.

Furthermore, the SME agency should partner with private consulting companies to serve SMEs. After going through a tender process, private consultancies could carry out training courses and seminars on the premises of the SME agency and/or its regional branches, while also showcasing the availability and benefits of more advanced services to participating SMEs.

Targeted support programmes could be designed to pilot such public-private co-operation in Belarus. An example is presented in Part B, which tackles the unique needs of high-growth enterprises – innovative and transformational enterprises that account for a disproportionate share of output and employment growth.

3. PART B: SUPPORTING HIGH-GROWTH ENTERPRISES IN BELARUS

Belarus could consider targeted efforts aimed at the spearhead of the SME population: high-growth enterprises (HGEs). Although HGEs represent a small subset of firms, they account for a disproportionately large share of employment and output growth. During the period of rapid scaling-up of the workforce and output, such firms would benefit from targeted support, which would be more tailored than mainstream SME support, including BDS. Part B includes two chapters that 1) discuss the background of high-growth enterprises (HGEs) in Belarus and 2) suggest guidelines and good practices for designing a support programme for HGEs – a programme that could be launched by the future SME development agency once it becomes operational.

Chapter 3.

3.1. Background on HGEs

Within the SME sector, a small number of transformational, innovative, high-growth enterprises (HGEs) account for a disproportionate share of output and employment growth (OECD, 2010_[26]). Even if their share rarely exceeds 10% of all firms in the developed economies, they account for more than half of all new jobs. The OECD-Eurostat Entrepreneurship Indicators show that the share of HGEs among all firms varies between 3 and 6% across different OECD member states if we define them in terms of employment growth and between 8 and 12% if they are defined in terms of turnover growth. Especially in the manufacturing sector, turnover growth outpaces employment growth. The top-performing HGEs, known as “gazelles”, account for less than 2% of all enterprises (OECD, 2010_[26]). Using the broader Eurostat definition of HGEs, among the Central and East European member states, in 2017, Slovakia boasted the highest share of HGEs, 13% of all firms. In the rest of the Visegrád Group countries and the Baltic states, the share of HGEs varies between 10 and 12% of all firms (Eurostat, 2019_[27]).

The main effort of any government should be the creation of a healthy business environment for all firms. However, since HGEs make an outsized contribution to the economy, many governments have designed support programmes that seek to increase their number and performance. Unlike most SME support programmes, the goal is not to reach the largest possible number of beneficiaries but rather engage closely and intensively with the selected few.

Scaling up puts extra pressure on the financial, managerial, physical resources of any company. Targeted support can ensure that the firm does not get stuck in the bottlenecks of scaling up: insufficient finance, labour, knowledge, networks. Since only a small fraction of all firms enter the stage of rapid expansion, targeted support mechanisms should invest in quality over quantity. If efficiently implemented, they can help to support the firms best placed to drive the economy forward. In Belarus, support for HGEs, in particular for the SMEs among them, could help to increase the overall economic role of SMEs and support the spread of innovation. For the designers of support programmes, the hardest part is to identify the HGEs before they emerge.

Box 9. Definitions of *high-growth enterprises* and *gazelles*

There is no single, agreed definition of *high-growth enterprises* (HGEs). For example, the OECD and Eurostat use different definitions. The *OECD-Eurostat Manual on Business Demography Statistics* (OECD, 2007_[28]) defines *high-growth enterprises* as “all enterprises with average annualised growth greater than 20% per annum over a three-year period, and with ten or more employees at the beginning of the observation period. Growth is thus measured by the number of employees and by turnover.”

The same source defines *gazelles* as a subset of HGEs comprising “all enterprises up to five years old” that otherwise have the same characteristics.

Eurostat’s definition of HGEs is less strict; they are “enterprises with at least 10 employees in the beginning of their growth and having average annualised growth in number of employees greater than 10% per annum, over a three year period” (Eurostat, 2019_[29]).

High growth potential is not an attribute of a special type of company. Instead, high growth is usually a relatively short episode in the development of many companies in all spheres of economic activity. HGEs drive job creation; however, especially in the case of young firms, a period of high growth is not a guarantee of future success. Up to half of young HGEs exit the market within three years of the expansion, making them only slightly more likely to survive than other firms (Goswami, Medvedev and Olafsen, 2019_[30]). The episodic nature of the rapid expansion phase also means that the supportive measures (i.e. finance support, management training, networking) need to take into consideration the narrow time window during which the fastest growth occurs. The GoB should draw on recent research and our current understanding of HGEs when creating targeted policies. Misconceptions about the sectoral focus (i.e., an over-emphasis on the technology sector and R&D spending) have influenced support programmes in several countries – something Belarus should seek to avoid.

3.2. What do we know about HGEs?

Age and size: High-growth enterprises tend to be younger than the average firm, but the common perception of them as start-ups is misguided. A study of HGEs in the United States, the OECD country with the highest share of HGEs, found that in the early 2000s, even the smallest HGEs (20 employees or fewer) were on average around 17 years old. Medium-sized firms (i.e. those with between 20 and 499 employees) were on average 25 years old, and the largest firms (those with over 500 employees) were 34 years old (Audretsch, 2012_[31]). In post-communist countries, however, HGEs do tend to be younger. For example, a recent World Bank study concluded that only 40% of HGEs in Hungary were at least six years old. The Hungarian HGEs employed 51 workers or more on average. Generally, age is a better predictor of high growth than size (Goswami, Medvedev and Olafsen, 2019_[30]) (OECD, 2010_[26]).

Sectoral focus: HGEs operate in all sectors of the economy. The common perception that most high-growth firms are technology companies is wrong. One literature survey concluded that there was no evidence to support the claim that HGEs are over-represented in the technology sector (Henrekson and Johansson, 2010_[32]). Cross-country studies reveal that the concentration of HGEs in specific fields varies significantly across countries. In

the United States, HGEs are particularly prevalent in the construction sector and in services that require a high level of human capital, e.g. management consulting. In Hungary, HGEs are most common in the foods, beverages and motor-vehicle industries (Goswami, Medvedev and Olafsen, 2019_[30]). The importance of the technology sector is more apparent for the fastest-growing HGEs. The Financial Times list of the 1000 fastest-growing European companies in terms of revenue growth between 2014 and 2017 is led by technology firms (149), followed by support services (116) and construction (80). In addition, leading firms in other sectors, like e-commerce and financial technology, rely on disruptive and innovative use of technology-based solutions to offer products in non-technology sectors (Financial Times, 2019_[33]).

Innovation, agglomeration and global linkages drive growth: Firms can achieve high growth for many different reasons. Innovation is important, but it should not only be understood as cutting-edge research and development. Rather, successful firms are often those that utilise existing technologies or improved management practices to reach new customers or increase efficiency (see Box 9). Some studies have highlighted how in the EU-15, firms operate closer to the technological frontier, and hence product innovation and R&D play a more prominent role in determining firm growth than in Central and Eastern Europe, where HGEs are much more export-driven (Audretsch, Coad and Segarra, 2014_[34]). In Hungary, firms that export are 50% more likely to enter a period of high growth than other firms (Goswami, Medvedev and Olafsen, 2019_[30]). In Central and Eastern Europe, including Belarus, the development of national innovation systems will still require more proactive policies to facilitate greater connectivity between firms, universities and research centres (Segarra-Blasco, Teruel and Jove-Lopis, 2018_[35]).

Box 10. The Oslo Manual: The four types of innovation

Innovation occurs in all areas of business and is not confined only to product development. Especially young firms often boast talent in one area, but lack it in another. An innovative firm might have created an exciting new product but lack the marketing skills to sell it to a wide customer base.

Well-designed support programmes can help firms succeed by identifying the areas where they underperform. The *OECD-Eurostat Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data* (OECD, 2010_[26]) identifies four different types of innovation: product, process, organisational and marketing:

- A **product innovation** is the introduction of a new or significantly improved good or service. The new product includes significant improvements in technical specifications, components and materials, user friendliness, incorporated software or other notable functional characteristics.
- A **process innovation** is the implementation of a significantly improved delivery or production method, including substantial changes in equipment, software and/or techniques.
- A **marketing innovation** includes significant changes in the promotion, pricing, placement, packaging or design of the product.
- **Organisational innovation** includes changes in the firm's business practices, workplace organisation or external relations.

Source: (OECD, 2010_[36])

Global value chains also help to spread expertise as workers and managers with experience of successful firms elsewhere help to spread best practices. This highlights the role of good management practices. An OECD study in Japan found that factors that enabled higher growth rates included the introduction of outside shareholders to the firm, the development of a detailed business plan providing for positioning in the market, and training for employees and executives (OECD, 2010_[26]). The same study found that, in Switzerland, managers of HGEs were experienced and possessed strong leadership skills, character and ideas about how to grow the business (OECD, 2010_[26]). The last point indicates the importance of a desire to grow. Most firms do not achieve fast growth even in favourable conditions. Especially for small firms, the threshold of expanding business or hiring new employees is high when the risks are apparent, but returns are only potential (Brown and Mawson, 2015_[37]).

3.3. More data are needed to understand high-growth enterprises in Belarus

The theoretical discussion above illustrates the heterogeneity across countries in terms of the share, size, age and sectoral distribution of HGEs. A thorough assessment of Belarusian HGEs is a complicated task due to data limitations. Belstat does not collect data on HGEs. The GoB should expand the data collection methods related to Belarus's enterprise population to include an estimation of the share of HGEs. Currently, the best available way to estimate the share and key characteristics of the HGE population in Belarus is to use the firm-level data of the World Bank Enterprise Surveys (World Bank, 2020_[8]). If we use the Eurostat employment-based definition of HGEs (companies with at least ten employees and annual employment growth of over 10% over three years), we can draw conclusions based on 29 HGEs out of 441 firms, which puts the rate of HGEs at 6.6%. The very limited size of the sample and the relatively small number of HGEs places obvious limitations on the number and quality of conclusions that we can draw. However, the data still provide an indication of likely trends regarding high-growth enterprises in Belarus.

The data show that, on average, the Belarusian HGEs are similar in size to, but significantly younger than, other firms. On average, firms with over ten employees are 25 years old, whereas HGEs are 13 years old. The two most represented sectors among HGEs are garments (9 firms) and food (8 firms). The rest operate in retail (5 firms) and uncategorised manufacturing (4) or services (3). The results are comparable, for example, to Hungary, but it is also important to note that the employment-based definition over-emphasises labour-intensive industries. One of the HGEs in the garment industry has 3500 workers, while the others vary in size from 17 to 450, averaging 87 workers. The high rate of SMEs should be considered as an encouraging sign of the development of the SME ecosystem in Belarus.

Belarusian HGEs are more innovative than other firms: 62% of HGEs have introduced a new product during the last three years, and 38% have invested in research and development (44% and 24% of rest of the firms have). In terms of geographic location, five of the 29 HGEs are based in Minsk and ten in the surrounding region, which shows a relatively high concentration of HGEs in and around the capital (52% compared to the 38% of all firms). Importantly, the dataset reveals the importance of private enterprises in pioneering employment growth: all but three of the 29 HGEs are privately owned (24 by domestic and two by foreign entities). Only three state-owned enterprises make the list of HGEs, though their share of all firms in the dataset is 22%.

Regarding obstacles to doing business, the survey results highlight common inter-regional trends. As in most other European countries, Belarusian firms are most concerned with high taxes, access to finance, and access to skilled workers. In the full sample, the five most important issues that firms identify as major obstacles to business are high taxes (27.4%), inadequately educated workforce (18.3%), courts (16.6%), difficulty in accessing finance (15.6%), and corruption (12.9%). The survey results highlight some regional disparities. In Minsk, only 8.9% of firms considered lack of access to finance as a major obstacle to doing business, while in most areas outside of the capital, around one-fifth of the firms struggled to secure necessary financing. Most affected were the firms in Vitebsk, where 43.8% of firms identified access to finance as a major obstacle to doing business. In Belarus, the number of bank branches outside major urban centres remains low compared to the other countries in the region. Proximity and familiarity between banks and businesses would lower the threshold for companies to apply for and for the banks to grant financing to the firms in need. Therefore, the government should adopt policies that would promote the development of financial services across the country.

HGEs and other firms alike share the above concerns, but the survey results highlight diverging emphases. The most important point of difference is concern over the inadequately educated workforce. Of HGEs, 37% view it as an obstacle, while 18.3% of other firms do. This is hardly surprising if one uses the Eurostat employment-based definition: the selected HGEs are rapidly increasing employment and must attract qualified employees. In terms of other issues, HGEs view them as slightly less severe as other firms do, which could be explained through a selection bias whereby the less-successful firms are more likely attribute their difficulties to the issues in the operating environment. For example, only 6% of HGEs view corruption and 10% access to finance as major obstacles to doing business. Regarding taxes, there is not a notable difference between HGEs and other firms, with 24% of HGEs viewing them as a major obstacle. The results should, however, be taken with a grain of salt because of a small sample size. In any case, the results are no reason for complacency. The prevalence of HGEs in Belarus, according to the Enterprise Surveys data, is relatively low, and potentially successful firms are likely held back from seizing on their potential by flaws in the enabling environment.

3.4. Designing HGE support programmes: Guidelines for Belarus

The foregoing discussion highlights that the main challenge for designers of targeted support programmes for HGEs is the difficulty in spotting the potentially successful firms. Therefore, building an enabling environment through more-general SME policy lays the necessary foundation for targeted support. The GoB should continue its work in investing in the education of the workforce, reducing burdensome regulations and supporting the development of financial services. At the same time, it should seek to identify potential regulatory “cliffs” that might have an adverse effect by discouraging firms from investing into growth. For example, in France, firms with 49 or fewer employees benefit from certain tax exemptions, which has resulted in the unintended consequence of capping the employment growth of many firms precisely at that figure (Alderman, 2014_[38]). Drawing on the academic knowledge of HGEs and the importance of an enabling environment, the OECD’s report *High-Growth Enterprises: What Governments Can Do to Make a Difference* (OECD, 2010_[26]) concludes with a set of five recommendations for policies to promote HGEs:

- a) “Focus on improving the business environment, in particular by removing obstacles to growth and addressing disincentives to growth present in the regulation (for instance, administrative obligations related to entering a larger class size of the firm).”
- b) “Encourage entrepreneurial attitude in order to stimulate more growth ambitions in new and existing businesses.”
- c) “Support the provision of training in young and small enterprises, especially to facilitate the development of the management skills necessary to cope with the pressures on human, technical and financial resources created by the growth of the firm. Promote a culture of change that appears as a key element in the management of a growth process in a business of any age and size.”
- d) “Improve, when necessary, access to debt and equity finance for new and small firms in particular to fund investment in research and development and the acquisition of non-tangible assets. In the same way, the valuation of intellectual property and intangibles and their use as collateral for loans should be promoted.”
- e) “Promote innovation and internationalisation activities of new and small firms for their potential role as factors of enterprise growth, particularly when combined with other factors such as ambition to grow.”

Despite debates about the desirability of targeted support (see Box 10), well-designed targeted support can play a positive role in increasing the number of HGEs. The research on HGEs has resulted in a shift in the literature away from a resource-based view of growth to one that emphasises the role of dynamic skills. The resource-based view, which has informed many targeted support programmes, is built on the premise that firms that do not achieve growth lack tangible resources in some vital area of their business (Brown and Mawson, 2015^[37]). Therefore, HGE support programmes have often focused lopsidedly particularly on, for example, subsidising research and development activities (Goswami, Medvedev and Olafsen, 2019^[30]). The skill-based view emphasises the ability of some firms to seize growth opportunities over their competition because of their adaptability. Management and workers’ skills, rather than the tangible resources that they possess, often explain better why some firms can seize the momentum while others cannot. Rather than being inventors, fast-growing firms are often efficient adaptors of new technologies and practices.

So far the shift in the academic understanding of drivers of growth has not fully translated into changes in the design of support programmes. There remains a severe shortage of tailored assistance in skills like sales/marketing, business model development, an international networking with potential clients/investors for potential HGEs. Furthermore, when these skills are incorporated into the support programs, the focus is too often on the high-up, strategic level rather than on hands-on practical advice (Brown and Mawson, 2015^[37]) (Goswami, Medvedev and Olafsen, 2019^[30]). Positive counter-examples exist, as well. Britain’s Growth Accelerator and Scotland’s Companies of Scale put a strong emphasis on management development and sales coaching.

Box 11. The World Bank’s “ABC” framework to support firm dynamism and growth

Recognising the difficulty in identifying potential HGEs, many academics and organisations have become increasingly sceptical about the rationale for targeted support programmes. World Bank recommends a reorientation of public policy away from the search of high potential firms and calls on governments to concentrate on building an enabling environment (Goswami, Medvedev and Olafsen, 2019_[30]). They recommend that governments focus on the “ABCs” of growth entrepreneurship: improving Allocative efficiency, encouraging Business-to-business (B2B) spill-overs, and strengthening firm Capabilities:

- *Allocative efficiency*: Firms need to be able to access the resources (e.g. capital, labour, land) that they need. In dynamic economies, such as the United States, new firms emerge and inefficient ones exit the market swiftly, and workers move flexibly between different firms and sectors. Policies, boosting allocative efficiency, can be divided into three different categories: policies that make it easier for new firms to enter the market, policies that ensure that less productive firms release their resources for more efficient firms, and policies that improve the ability of firms to access resources through more flexible labour and financial markets.
- *B2B spill-overs*: increased connectivity through ownership networks, spatial clusters and value chains can increase the likelihood of firms benefitting from positive externalities to achieve faster growth.
- *Firm capabilities*: firm capabilities are the elements that a firm cannot buy but must rather learn (e.g. innovation and good management). Policy measures, such as support for BDS provision, incubators and accelerators can play a positive role in building firm capabilities.

Source: (Goswami, Medvedev and Olafsen, 2019_[30])

The main difference between targeted support programmes for potential HGEs and wider business support lies in selectivity. Instead of reach, the focus is on depth. SME policies, like support for the provision of BDS, are aimed at all SMEs, whereas HGE policies are targeted at those companies that show the potential and ambition to grow fast. More general SME policy lays the foundation by creating a level playing field for all firms, while HGE policies aim to increase the number of high-growth firms in the economy. The concentrated support for capacity building, growth strategy development, management advice, finance, etc. aims to help firms with high potential to achieve and sustain growth. Targeted interventions seek to address market failures and they can be categorised on the basis of the areas they address (OECD, 2010_[26]):

- a) *Firm capabilities*: Most targeted interventions are used to build firm capabilities. Business support and development services, mentoring, networking and access to technology are key focus areas. Business support services are often provided together with the provision of physical space through incubators and accelerators.
- b) *Access to finance*: High-growth episodes can create financing bottlenecks for HGEs as they struggle to obtain adequate financing on private markets. Private financiers are often unwilling to take up the high risks associated with HGEs. This risk aversion can create obstacles to accessing finance or result in excessively high-interest rates for firms. Governments support HGEs by offering loans at

concessional rates, backing private loans, providing public venture capital, establishing dedicated financing exchanges for SMEs, or by facilitating equity finance through associations and accreditation. Studies show that often the most successful firms are those that can combine public and private funding.

- c) *Access to markets*: To promote exports, governments often subsidise the participation of fast-growing SMEs in international trade fairs and facilitate access to international customers and investors.
- d) *Improving infrastructure*: Technology parks – free/special economic zones that benefit from investments in necessary infrastructure (road access, energy, high-speed internet) – are a common way to facilitate firm growth, particularly in developing economies.

Box 12. Financing high-growth SMEs through a pilot voucher scheme

A consensus among academics and policymakers suggests that high-growth SMEs should use equity rather than debt financing due to the high risk of loan default. However, evidence reviewed by the OECD shows that in most countries, high-growth SMEs nevertheless rely more on debt (OECD, 2010^[26]). Fast-growing and innovative SMEs are, in fact, less successful in obtaining loans than other SMEs. On the other hand, innovative SMEs are more successful in securing equity finance than other small firms, which in general make very little use of equity financing, especially from other sources than existing shareholders or family members.

Public support for funding of fast-growing SMEs usually takes two different forms. Most common are initiatives that centre on SME investment readiness, and measures that promote access to equity financing. Less attention is given to credit measures that would facilitate access to debt financing, which already is the prevalent form of outside funding for SMEs.

To respond to the financing needs fast-growing SMEs, the GoB could consider running a pilot *voucher scheme* involving small subsidies targeted at a broad range of companies. The rationale for a voucher scheme is based on the premise that high-growth SMEs are either unwilling or unable to pay for business support services at a market price despite their usefulness for firm development. Vouchers can encourage collaboration with consultants and other external knowledge providers to support selected activities such as innovation, research, and boosting the skills of the workforce/management.

Many OECD countries use vouchers to support the competitiveness of SMEs. For example, Slovenia used a voucher scheme in 2001-09 to address the low demand for consultancy services (OECD, 2013^[39]). In Ireland, a state-run entity called Enterprise Ireland (www.enterprise-ireland.com/en) supports SMEs' innovation activities through vouchers. Through the vouchers, a company can purchase innovative, academic, technical and knowledge support from 38 registered Knowledge Providers (Enterprise Ireland, 2019^[40]).

If pursued, a voucher scheme should be rooted in the needs of local SMEs, have clearly defined objectives and carefully determined voucher sizes, and solicit private sector participation.

3.5. Building a targeted support programme based on international best practices

In 2013, the OECD's Local Economic and Employment Development Programme carried out a benchmarking study of targeted support programmes aiming at high-growth enterprises in six countries (OECD, 2013^[41]). The exercise assessed the support programmes using 35 different indicators across seven different categories to establish best practices for the design of targeted programmes aimed at HGEs. An adapted list of the most relevant indicators can be found in Annex B.

The recommendations for the outline of a pilot programme to support Belarusian HGEs are based on indicators in five categories. The recommendations should not be considered as a template, but rather as critical components that should be considered and adapted to the local context. The key categories can be broken down to five key steps that should guide the design of the support programme:

1. **Context, objectives and governance of the support programmes:** Design the programme in co-operation with private stakeholders, business associations and regional governments.
2. **Selection of participating firms and firm-relationship:** Be highly selective in the choice of target companies (growth potential, motivation).
3. **Business diagnostics:** Conduct a business diagnostic exercise in key areas to identify the needs of the company with regard to its ambitions.
4. **Delivery of support services:** Closely co-operate with private sector service providers to carry tailored management development activities. External support should be selected through a competitive process, and should involve co-financing on the part of the SME.
5. **Monitoring and evaluation:** Carry out monitoring and evaluation procedures regularly. Assess growth of the client company's key business indicators (e.g. turnover, employment, export) and the satisfaction with the received support.

Figure 9 suggests a potential timeline for the pilot programme, breaking down actions in terms of the SME agency's role, tools, and activities.

Figure 9. Suggested timeline for a pilot programme for high-growth enterprises in Belarus

	Year 0	Year 1	Year 2-3	Year 4
Activities	Assess firm's eligibility <ul style="list-style-type: none"> Motivation to participate Growth potential Social spillovers 	Review company's status <ul style="list-style-type: none"> Identify barriers to growth Define growth plan <ul style="list-style-type: none"> Set strategic objectives Link plan's activities to expected rules Assessing funding sources 	Implementation of growth plan <ul style="list-style-type: none"> Develop workforce plan Enhance managerial capacity Adjust internal processes Develop links between firm and knowledge institutes Expand client base 	Evaluation of progress achieved <ul style="list-style-type: none"> Impact on firm's performance Provide further financial assistance
Tools	Recent growth indicators <ul style="list-style-type: none"> Past growth rates Organisational change Increase in staff Search of growth potential 	Business diagnostics <ul style="list-style-type: none"> Firm's business diagnosis <ul style="list-style-type: none"> Business concept Organisation Operations Customer relations Sector-specific diagnostics SWOT analysis 	Capacity building <ul style="list-style-type: none"> Specialist/managers coaching Core skills training/workshops Relational support <ul style="list-style-type: none"> Network of peers and mentors Trade and foreign fairs Financial assistance <ul style="list-style-type: none"> Matching grants to access BDS 	Assessment <ul style="list-style-type: none"> Company surveys, econometric studies Financial assistance <ul style="list-style-type: none"> Grants, e.g. for further R&D Soft loans
Role of SME Agency	<ul style="list-style-type: none"> Raise SME awareness about the programme Analyse recent growth performance Firms selection 	<ul style="list-style-type: none"> Perform initial business diagnostic Identify external advisors to provide training/consulting Provide financial support to SMEs (e.g. matching grants) Monitor progress in programme implementation 		<ul style="list-style-type: none"> Carry out impact assessment Provide further financial assistance

Source: Adapted from OECD (2013), *An International Benchmarking Analysis of Public Programmes for High-Growth Firms* (OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264048782-en>) and Brown, R. and C. Mason (2012), "Raising the battling average: Re-orientating regional industrial policy to generate more high growth firms", *Local Economy*, Vol. 27, No. 1 (SAGE Publications, Thousand Oaks, CA, pp. 33-49, <http://dx.doi.org/10.1177/0269094211424252>).

Step 1: Clear objectives, inclusive design, input from all stakeholders

Every successful support programme must be rooted in a clear understanding of its purpose, objectives and the operating environment. The GoB should start by carefully considering what kind of support would benefit local firms the most. The future SME agency should raise awareness of the programme among potential participants and include them in the design process from the start. The agency should play a leading role in the selection of the participants and act as the main coordinating body by connecting firms to (ideally) private-sector intermediaries that are responsible for the delivery of direct support. At the design stage, one of the key tasks is to find the appropriate balance between the breadth and depth of the programme. For example, the Denmark's "Growth Houses" (business development centres) serve over 2000 firms, which means that the programme has a broad reach but limited interactions with client firms. At the other end of the spectrum, Scotland's "Companies of Scale" Programme only has around 20 firms enrolled in its support programme, allowing for a much more concentrated and intensive support effort (OECD, 2013^[41]).

Regardless of the size of the programme, targeted support should not be a rationale for ad hoc interventions, which at best can result in the state unnecessarily offering low-value-added services that the private sector would develop on its own. At worst, poorly designed ad hoc measures can lead to corruption and the favouring of politically connected firms. The feedback and opinions of private sector actors and different ministries should be taken into account when designing a support programme so as to understand the specific areas

where the HGEs might benefit from a targeted intervention and how to best deliver it. For accountability, focus and optimal impact, the programme should set clear qualitative and quantitative objectives. Inclusivity should be one of the core values of the support programme from the start. The government could, as in Denmark's growth houses, set priorities based on feedback from both private sector actors and regional governments (including oblast executives and committees). The programme should be available to firms in all parts of the country.

Step 2: Set up a rigorous but inclusive selection process

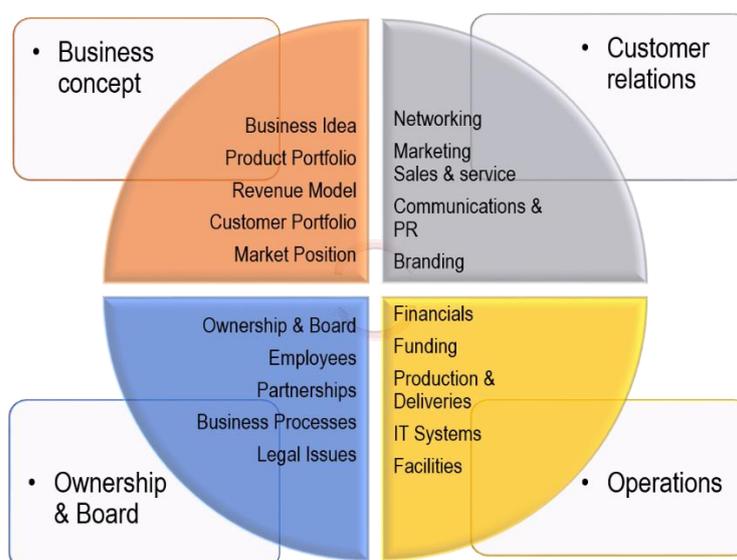
A targeted support programme is, by definition, selective and exclusive. Since there is no precise formula for picking out the high performers from the rest, the selection criteria should be based on a sufficiently flexible framework, while taking into account some of the broad characteristics of high-growth enterprises. A narrow sectoral focus, e.g. an exclusive focus on the technology sector, would unnecessarily exclude firms in the service sector.

A two-step selection process based on long lists and shortlists offers a compelling model. Long lists can establish broad eligibility criteria by focusing on indicators that loosely correlate with growth: internationalisation, export orientation, demand creation and innovation in a general sense. Shortlists should be based on a more rigorous assessment by seeking to identify trigger points, i.e. internal or external changes to the structure of the business model that could alter the firm's growth trajectory. Following the example of Scottish Enterprise (www.scottish-enterprise.com) and the OECD best practices, through shortlists, Belarus should, through interviews and assessment of business strategies, identify qualitative trigger points and an ambition to grow coupled with a credible capacity for growth. The emphasis on qualitative indicators is particularly important in the case of young firms for which there is only a limited amount of data based on previous performance. Their ambition and plans for growth should be assessed by professionals with extensive private sector experience.

Step 3: Understand the needs and ambitions of the client firms

The needs of the participating firms should be at the heart of any targeted support programme rather than any preordained policy toolkit of readily available solutions. The needs-based approach starts with accurately understanding how the participating businesses function. The diagnosis should ideally be a systematic evaluation of all aspects of the business, including the business concept (business idea, product portfolio, business model), the firm's organisation (ownership, management structure, staff organisation, internal business processes, formal partnerships), operations (accounting, business financing, production management, IT systems, facilities) and customer relations (sales, commercial networks, marketing, branding, communications and public relations). Without a comprehensive evaluation, the support cannot be targeted at the bottlenecks where insufficient resources, skills or flawed mode of operating impede the firm from achieving faster growth. Denmark's Growth Houses set a standard for methodological business diagnostics. Their "Growth Wheel" (Figure 10) offers a framework for dissecting the most critical aspects of firm operations. Belarus's SME agency could adopt a similar methodology to conduct a multidimensional assessment of the strengths and weaknesses of its client firms to identify the areas where the firm in question would most benefit from targeted support.

Figure 10. The ‘Growth Wheel’ Business Diagnostics Model



Source: Adapted from Danish Business Authority (<https://www.growthwheel.com/>).

Step 4: Competitive selection of private sector service providers

Private sector actors with business experience best understand the needs of growth-orientated entrepreneurs. Hence, the (OECD, 2013_[41]) benchmark grants a higher score to measures that are delivered with the help of intermediary organisations (i.e. consulting companies and other business development services providers). The SME agency should follow OECD best practice by acting mainly as a coordinating body between participating firms and intermediaries rather than providing most support services directly. For example, in an alternative to private sector intermediaries, the consultants of Denmark’s Growth Houses work directly with client firms but predominantly possess extensive private sector experience. Most of them have managed either their own business or have several years of management experience. As this example shows, the preference for private sector intermediaries should not be applied too rigidly as its main purpose is to act as a proxy for the delivery of services by staff with significant experience and understanding of the private sector. When private sector intermediaries are used, it is crucial to design a transparent and accountable system for the selection and evaluation of the intermediary organisations. In the Netherlands, the Growth Accelerator programme uses mainly the services of a consortium of five consulting firms, which are chosen through a public tender. In many countries, the Netherlands included, the programme offers participating firms matching grants and requires them to bear part of the external service cost. The Belarus SME agency should follow the example, particularly regarding the careful and continuous evaluation of intermediary organisations.

Step 5: Regular evaluation of the support programme and clients’ performance

Support programmes, like any public spending, should be held to a high standard. It is particularly important to consider how success is measured. If it is only done in terms of sales growth, the programme can be successful in identifying high performers without delivering added value that boosts firm performance. A well-performing firm can succeed without targeted support, while the programme can be successful in helping an under-

performing firm to realize its potential even if its performance does not increase to the level of a previously high-performing firm. Therefore, in addition to quantitative measures of firm performance, the SME agency should adopt rigorous econometric techniques that take into account the possibility of a selection bias. The participant firms should also be given an opportunity to give detailed feedback on all components of the programme. Ideally, the evaluation should be carried out by an independent external organisation. Following the highest standard, Denmark's Growth Houses use a combination of control group evaluations with matched groups of non-participants on a yearly basis. The evaluation measures performance across three dimensions: programme activity, client satisfaction and impact on business. The SME agency should similarly conduct annual reviews of the programme; it could also consider adopting a milestone-based approach to set performance goals that the participating firms must meet to remain in the programme.

Box 13. Support for HGEs as part of wider SME support: Examples from Denmark and Scotland

Broad support: Denmark's Growth Houses

Denmark's six regional business hubs, or "Growth Houses", act as the local entry point for state schemes for export, finance and innovation support. The Growth Houses help a large number of firms (2129 in 2017) to develop growth plans, while also offering them free business growth diagnostics. The downside of this approach is the limited number of interactions with client firms. The support programme starts with an assessment of the companies' business concept, organisation, customer relations and operations. The multidimensional evaluation forms the basis for tailor-made growth projects in capacity-building training, export promotion, and skills training. Consultants with significant private sector experience deliver the service or companies are referred to external BDS providers. The Growth Houses aim to redirect at least 80% of firms after the initial assessment to private service providers (89% in 2017; 75% redirected to private providers). The support programme undergoes an annual evaluation, which informs improvements in the delivery of the service. Client firms that entered the support programme in 2015 showed 4% higher employment growth and 10.8% higher turnover growth. In total, 8.7% of firms that were assessed by the Growth Houses became high-growth enterprises (OECD, 2013_[41]).

Intensive and highly selective support: Scotland's Companies of Scale

Scotland's "Companies of Scale" programme provides tailored, specialist support to companies whose turnover exceeds GBP 10 million and that have demonstrated ambitions to become GBP 100 million-plus businesses. The turnover requirement already makes the programme highly selective, which is further underscored by the qualitative measures (interviews, business strategy assessment) designed to measure the firms' ambition to grow. The 18-month programme brings together entrepreneurs with industry experts in masterclasses to facilitate peer-to-peer learning. In 2018, 19 businesses participated in the programme. In addition to masterclasses, the programme focuses on intensive account management to help client firms to upscale and achieve rapid growth (Symon, 2018_[42]). Although Companies of Scale is a highly selective and intensive programme, Scottish Enterprise (Scotland's national economic development agency) also operates an "account management" programme, where 2000 high-performing Scottish firms have a dedicated account manager to support firm growth (OECD, 2013_[41]).

3.6. Way forward

High-growth enterprises can be as challenging to identify as they are essential to the economy. They make an outsized contribution to output and employment growth and, through positive spill-over effects, contribute to the wider economy. However, it is difficult to predict which enterprises will enter a sustained period of high growth, and when. Even the most successful techniques at identifying top performers only have about a 20% success rate (McKenzie and Sansone, 2017^[43]). Therefore, the government should, first and foremost, continue its efforts to build a healthy business environment for all firms. In particular, the GoB should develop the local financial market and reduce the rigidity of the labour market to enable firms to hire new employees more easily and to expand their business. An enabling environment is the prerequisite for a more targeted support programme, which could be implemented by the new SME agency.

The possible future programme should focus on bottlenecks of finance, skills deficits and lack of networks that hold back high-potential enterprises. The support programme should follow the best international practices by setting clear objectives, maintaining transparency and accountability, and establishing clear evaluation criteria. The design of the programme should allow sufficient flexibility to meet the context-specific needs of a diverse field of HGEs.

In this first stage – which is recommended even if an HGE support programme is not yet in operation – the GoB should develop its ability to collect data on the prevalence of HGEs in Belarus. Since HGEs are likely to be SMEs, better data would support the wider SME support effort and the development of BDS. The existing indirect evidence in the World Bank Enterprise surveys shows a relatively low rate of HGEs in Belarus (at least in terms of employment growth) at roughly 6% of all enterprises with more than 10 employees.

Following the collection of improved data on the prevalence and characteristics of local HGEs, a feasibility assessment of a targeted support programme could be carried out. Targeted support programmes require significant investment, so if the GoB decides to implement one, it should do so by committing to sufficient funding

Annex A. Recommendations

Table A.1. The way forward: prioritisation of recommendation

	Timeline (S/M/L)
<i>Upgrade the institutional framework</i>	
• Build a monitoring and evaluation system, including result-oriented key performance indicators	S/M
• Improve the structure of SME institutions	M
<i>Unlock demand for BDS</i>	
• Develop a country-wide SME skills and training needs analysis system	S/M
• Set up and initial company diagnostics tool	S
• Set up a unified BDS web portal	M
• Develop a co-financing mechanism for specialised BDS	S/M
<i>Promote market-oriented supply of BDS</i>	
• Assess and review the current status of the business support infrastructure	S
• Amend accreditation criteria for support service providers	M
• Leverage business association and ensure provision of BDS by private providers via competitive tendering	S/M/L
<i>Support the emergence of high-growth enterprises</i>	
• Understand the specifics of Belarussian HGEs by developing data collection methods	S
• Develop a pilot programme for targeted support for HGEs following OECD best practices	M/L

Annex B. Targeted support for HGEs

In 2013, the OECD's Local Economic and Employment Development Programme carried out a benchmarking study of targeted support programmes aiming at high-growth enterprises in six countries (OECD, 2013^[41]). The exercise assessed the support programmes using 35 different indicators across seven different categories to establish best practices for the design of targeted programmes aimed at HGEs. This annex presents an adapted list of the most relevant indicators.

Table B.1. Context, objectives and governance of support programmes

Indicator	Baseline			Best practice	
Qualitative Objectives of the High-Growth Programme	No specific qualitative objectives set		Qualitative objectives set, but they do not appear clear and consistent	Qualitative objectives set and they appear clear and consistent	
Quantitative Objectives of the High-Growth Programme	No specific quantitative objectives set	Few quantitative objectives (less than 3) set, but they appear incoherent	Many quantitative objectives (3 or more) set, and they appear coherent	Few quantitative objectives (less than 3) set, and they appear coherent	Many quantitative objectives (3 or more) set, and they appear coherent
Governance in the design of the high-growth programme	Designed by one single ministry without any external inputs	Designed with inputs from different government ministries	Designed also with inputs from regional (if national programme) and local governments (if regional programme)	Designed also with inputs from business associations and other private stakeholders, but not from regional and local governments	Designed with inputs both from business associations, and private stakeholders and from regional and local governments
Geographical Scope of the High-Growth Programme	Available in only one region of the country	Available in more than one but not in most regions of the country		Available in most regions of the country	Available in all regions of the country

Table B.2. Selection of participating companies and firm relationship

Indicators	Baseline			Good practice	
Selection of client firms by the high-growth programme	No firm selection. 'First come, first served.'	Selection based exclusively on qualitative assessment of the firm	Selection mostly based on a qualitative assessment; some quantitative criteria used	Selection is based exclusively on a quantitative assessment	Based prevalently on quantitative assessment, qualitative criteria are also used
Sector concentration of the high-growth programme	Programme focused only on one specific industry or sector	Focused only on one transversal technology	Focused on more than one transversal technology	No sector or technology focus, but limited to either services or manufacturing	No sector or technology focus, includes both services and manufacturing
Market orientation of the high-growth programme	Less than 20% of client firms have an international market	More than 20% but less than 40% of client firms have an international market	More than 40% but less than 60% of client firms have an international market	More than 60% but less than 80% of client firms have an international market	More than 80% of client firms have an international market
Follow-up of client firms after the intervention	No follow-up of client firms	Follow-up is informal (no collection/storage of information) and erratic (less than once every 2 years)	Follow-up is informal (no collection and storage of information) but regular (at least once every 2 years)	Follow-up is formal (collection and storage of information) but erratic (less than once every 2 years)	Follow-up is formal (collection and storage of information) and regular (at least once every 2 years)

Table B.3. Business diagnostics

Indicator	Baseline				Good practice
Business diagnosis of client firms	Nor formal business diagnosis to assess strengths and weaknesses of client firms	Formal business diagnosis touching on one area of analysis	Formal business diagnosis touching on two areas	Formal business diagnosis touching on three areas	Formal business diagnosis touching on four or more areas
Analysis of 'business concept' and 'business organisation' as part of the business diagnosis	No dimension of 'business concept'/'business organisation' or only one is analysed	Only two dimensions of 'business concept'/'business organisation' are analysed	Three dimensions of 'business concept'/'business organisation' are analysed	Four dimensions of business 'business concept'/'business organisation' are analysed	Five or more dimensions of 'business concept'/'business organisation' are analysed
Analysis of 'customer relations' as part of the business diagnosis	No dimension of 'customer relations' or only one is analysed	Only two dimensions of 'customer relations' are analysed	Three dimensions of 'customer relations' are analysed	Four dimensions of business 'customer relations' are analysed	Five or more dimensions of 'customer relations' are analysed
Analysis of 'business operations' as part of the business diagnosis	No dimension of 'business operations' or only one is analysed	Only two dimensions of 'business operations' are analysed	Three dimensions of 'business operations' are analysed	Four dimensions of business 'business operations' are analysed	Five or more dimensions of 'business operations' are analysed

Table B.4. Delivery of Support Services

Indicator	Baseline				Good practice
Extent to which support delivery is internalised (by staff) or externalised (by intermediaries)	All support is internalised. No referral by the programme to intermediaries	Most support is internalised but some specialist advice is externalised to intermediaries	Support is approximately equally provided by programme staff and intermediaries	Most support is externalised to intermediaries but some specialised advice is internalised	All support is externalised except for a first business diagnosis of client firms
Selection of intermediary organisations by the programme	Restricted number of intermediaries (less than 10) that do not go through a competitive selection process	Large number of (more than 10) of intermediaries that do not go through a competitive selection process		Restricted number of intermediaries (less than 10) that go through a competitive selection process	Large number of intermediaries (more than 10) that go through a competitive selection process
Direct involvement of programme staff with client firms (in 12 months)	The programme staff meets with the client firms only once	The programme staff meets with the client firms twice	The programme staff meets with the client firms three times	The programme staff meets with the client firms four/five times	The programme staff meets with the client firms more than five times
Evaluation of the intermediary organisations	The programme does not evaluate the work of its intermediaries	Evaluation of intermediaries through ad-hoc surveys of the intermediaries themselves	Evaluation of intermediaries through regular surveys of the intermediaries themselves	Evaluation of intermediaries through ad-hoc surveys of client firms	Evaluation of intermediaries through regular surveys of client firms

Table B.5. Monitoring and Evaluation

Indicator	Baseline			Good practice	
Coverage of the evaluation of the high-growth programme	No component of the high-growth programme is evaluated	Only few components (the major ones) of are evaluated		Most components are evaluated	All components are evaluated
Type of evaluation of the high-growth programme	Evaluation is based on the measurement of activity (e.g. take up rate)	The opinions of client firms about the programme are also collected	Evaluation is also based on client firm views of outcomes	The performance of client firms is compared with a control group of typical or 'match firms'	Econometric techniques are used to assess the impact of selection bias Milestone-based support
Independence of the evaluation of the high-growth programme	The evaluation is produced exclusively internalised by programme staff		The evaluation is produced by programme staff together with an independent organisation	The evaluation of is produced exclusively by an independent organisation	
Frequency of the evaluation of the high-growth programme	The evaluation is not planned in a regular way and is ad hoc	The programme is evaluated every 5-6 years	The programme is evaluated every 3-4 years	The programme is evaluated every other year	The programme is evaluated each year
Use of the evaluation of the high-growth programme	The evaluation has been done in an ad-hoc manner and has not informed any change in the programme	The evaluation was planned at early stage but has not informed any change in the programme		The evaluation has been done in an ad-hoc manner, but has informed changes in the programme	The evaluation is was planned at early stage and has informed changes in the programme

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EFFECTIVE SUPPORT SERVICES FOR SME COMPETITIVENESS IN BELARUS

The OECD and the Ministry of Economy of Belarus have worked together on strengthening SME capabilities through better business development services (BDS). In 2017, the OECD made a series of recommendations that focused on upgrading the institutional framework for the delivery of BDS, unlocking the latent demand for them, and promoting their market-orientated supply. Based on joint work with the Ministry of Economy, this note summarises the key findings of the OECD assessment of Belarus's progress in implementing the 2017 recommendations, noting especially the progress in enhancing the institutional framework. Further, the note puts forward additional recommendations for the continued support of SMEs, including guidelines for a possible future programme to provide targeted support for high-growth SMEs.

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