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Supporting Measures for Belarusian SMEs: the Context of the Covid-19 Pandemic

In the context of the evolving global economic crisis, governments are "competing" with each other in the complexity and scale of measures to support the economy and, in particular, small and medium-sized enterprise (hereafter SMEs). The main goal of these measures is, on the one hand, to prevent a significant increase in unemployment and a consequent social strain, and, on the other hand, to ensure economic recovery driven by the most efficient enterprises.

Belarusian SMEs, which currently employ more than 1.3 million people, usually respond faster and more extensively than the state companies to the downturn in the economy by laying off employees. At the same time, they are also expected to be more sensitive reacting to governmental support policies. In this regard, the policy brief discusses the role and response of SMEs in the period of crises and delineates short- and medium-term measures.

Why are SMEs in the Focus During Economic Downturns?

SMEs often become the focus of state policy in a period of adverse and unstable economic situations and the recent pandemic is not an exception. This special attention can be motivated by the following basic assumptions:

- 1) SMEs are more flexible and respond faster to both negative and positive trends in the economy (Muller et al., 2018);
- 2) the activity of SMEs is more labor-intensive compared to large enterprises (Beck et al., 2005; Cravo et al., 2012);
- 3) a period of economic uncertainty creates new opportunities (new niches, exits of competitors from the market) that can be used by the most proactive SMEs (Cowling et al., 2015).

Based on these assumptions, a large share of SMEs on the one hand makes the economy more resilient in crises and, on the other hand, contributes to the volatility of unemployment. As a result, governments try to support SMEs to prevent a rapid increase in unemployment due to staff cuts and bankruptcy and, simultaneously, to maintain a competitive environment that creates incentives for innovation.

Typically, governments have substantial experience and proven tools to uphold large public and too-big-to-fail private enterprises, while supporting a heterogeneous population of SMEs requires additional study and field tests.

At the same time, the design, the scope, and the coverage of support policies should be introduced having in mind the possible reactions of various types of SMEs to the economic hardship. Indeed, during an economic decline even in the worst hit

sectors, businesses and SMEs in particular may react by implementing three basic strategies:

- 1) reducing costs by firing employees, cutting wages and by increasing productivity;
- 2) increasing revenue by introducing innovations (product, process, organizational, marketing), diversification, and entering new markets;
- 3) suspension of activities or liquidation of an enterprise (OECD, 2009).

Definitely, any government aims for the largest possible share of enterprises that pursue the second strategy leading to job creation and significant added value.

Policy Responses in the Period of the Pandemic

Due to the urgency of adoption and the weak predictability of the epidemiological situation, most of the proposed SME-support packages around the world are designed for the short term and are poorly targeted. Based on the study of already announced measures, the OECD (2020) has developed a comprehensive classification and sequence of SME-support measures undertaken by governments:

1. Health measures, and information for SMEs on how to adhere to them;
2. Measures to address liquidity by deferring payments (taxes, social security & pension contribution, rental, utilities);
3. Measures to provide extra and more easily available credit to strengthen SME resilience;
4. Measures to mitigate the consequences of layoffs by extending possibilities for temporary redundancies and wage subsidies;



5. Structural policies (digitalization, training and education for SMEs, support in finding and entering new markets etc.).

Unfortunately, the government of Belarus has started discussing and implementing some of these measures only partially and in a rather non-specific way. Instead of this, we argue that all the measures should be targeted and adjusted to different sectors. To further expand and analyze our point, BEROC developed and commissioned an express random-sample survey of 100 Belarusian SMEs on April 13-27 in order to

elaborate and justify relevant support measures (BEROC, 2020).

Belarusian SMEs in the Pandemic

The financial situation of Belarusian SMEs by sector and their response to the crisis manifested in implementing innovative approaches and new business models are illustrated in Figure 1.

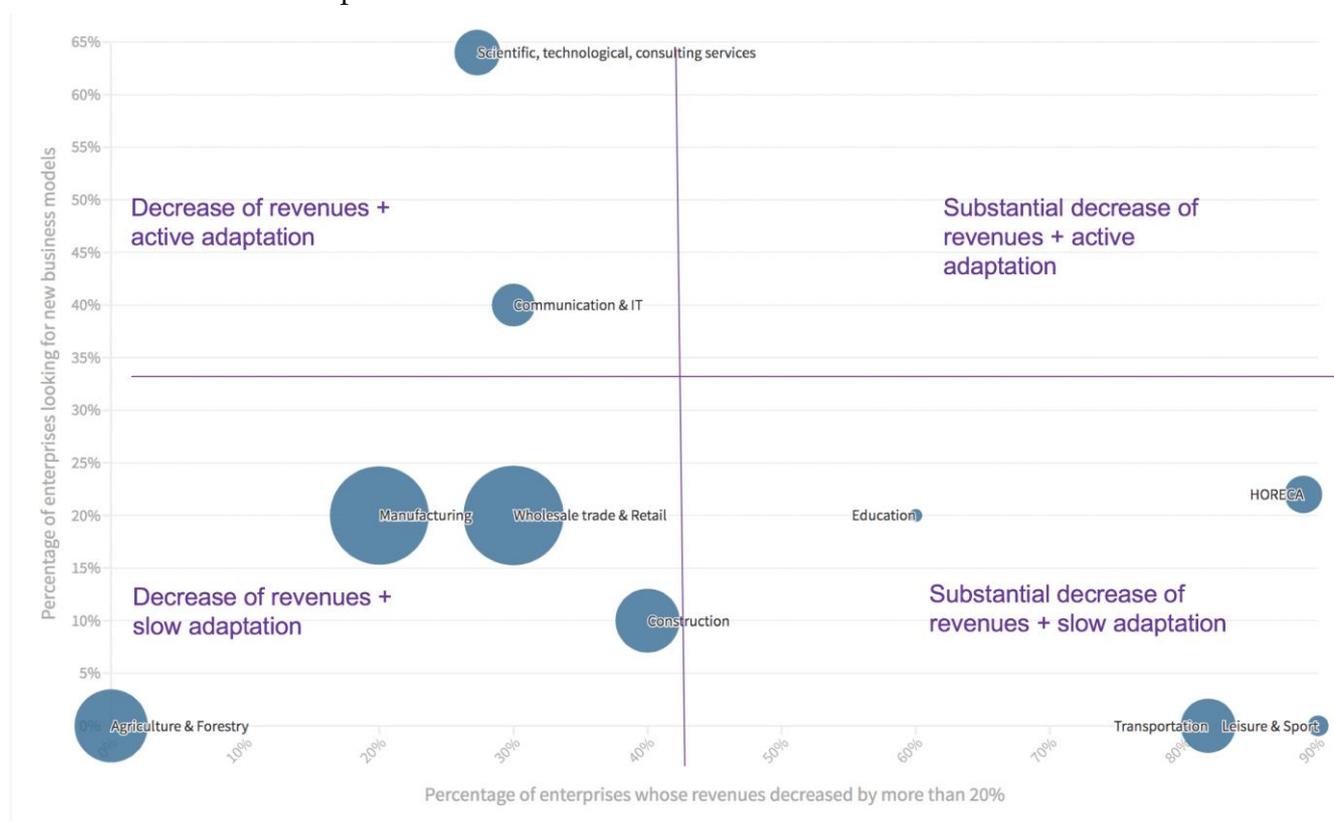


Figure 1. Decrease of revenues and response of SMEs

Note: Area of circles is proportional to the number of SME employees in a sector.

Source: Own elaboration based on the survey.

SMEs operating in hotels, restaurants, catering (HoReCa), education, sport & leisure as well as transportation (the right lower rectangle) are characterized by a substantial decrease of revenues and low adaptability. At the same time SMEs in the communication and IT sector and

scientific, technological and consulting sectors demonstrate a high degree of adaptability that may be related to some extent to managerial competencies and human capital in general which is concentrated in these sectors.



As an implication for policy makers and SMEs' leaders, possible support measures (based on

OECD classification) and business strategies are summed up in Table 1.

Table 1. Support measures and business strategies for Belarusian SMEs

Group	Sectors	Recommended strategy	Relevant Measure (number in the OECD classification)
A. Decrease of revenues + slow adaptation	Construction, wholesale trade & retail manufacturing	Re-configuring supply chains, entering new niches, business process optimization	2,3,5
B. Decrease of revenues + active adaptation	Communication & IT Scientific, technological, consulting services	Focusing on development of anti-crisis solutions in B2B and B2C segments	2,4
C. Substantial decrease of revenues + slow adaptation	Transportation HoReCa Education Leisure, beauty & sport	«Conservation» or liquidation of a business	2,3,5
D. Substantial decrease of revenues + active adaptation	Not identified in the survey	Diversification to adjacent market segments	2,4,5
E. No changes or growth of revenue	Agriculture & Forestry E-commerce, pharmacy, online services, online games...	Expansion to new markets while competitors are on quarantine.	5

Source: Own elaboration based on the survey.

The main measure to support SMEs in the short term (items 2-4 in the OECD classification) can be:

- Deferral, reduction or suspension of contributions to the social security fund (groups B, C) - this will save jobs in the short term;
- Wage subsidies that will allow paying minimum wages and keeping staff (groups A, C)
- Rent and utility deferrals or at least payment in arrears - for groups A, C - combined with the support of building owners. This will significantly reduce costs in the face of falling revenues instead of reducing labor costs;
- Loan holidays and preferential conditions for SMEs (group D). This will provide liquidity for

enterprises that according to banks' estimates will be able to develop in the medium term;

- Temporary repeal of fines for late payment of taxes and contribution to the social security fund (groups A-D).

As for the medium-term measures, the most relevant ones are as follows:

- Expanding the coverage and improving the quality of business education (including digitalization of business) by means of providing vouchers and/or grants;
- Subsidies to unemployed people for starting up a business combined with basic training on entrepreneurship;



- Export support by developing infrastructure for certification and international marketing as well as providing export loans (Marozau et. al., 2020).

Conclusion

The Belarusian government is substantially restricted in terms of financial resources, fiscal and external debt opportunities to extensively support businesses suffering from the economic crisis. Therefore, formal and economically justified criteria for selecting sectors, as well as individual businesses and individual entrepreneurs should be developed. Meanwhile, the beneficiaries of the state support should not be the most affected businesses, but rather the most forward-looking ones. This so-called "picking winners" approach (Gonzalez-Pernia et al., 2018) would conduce to faster economic recovery and job creation driven by the private sector and, particularly, by SMEs. This is probably the main argument in favor of supporting small and medium-sized businesses in the crisis.

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