



**ANNEX III**

of the Commission Implementing Decision on the Annual Action Programme 2016 in favour  
of the Republic of Belarus

**Action Document for Strengthening Private Initiative Growth in Belarus (SPRING)**

|  |   |                          |                                     |                                     |
|--|---|--------------------------|-------------------------------------|-------------------------------------|
| <b>1. Title/basic act/<br/>CRIS number</b>                                   | <b>Strengthening Private Initiative Growth in Belarus (SPRING)</b><br>CRIS number: ENI/2016/039-328<br>financed under European Neighbourhood Instrument   |                          |                                     |                                     |
| <b>2. Zone benefiting<br/>from the<br/>action/location</b>                   | Belarus<br>The action shall be carried out at the following location: whole country   |                          |                                     |                                     |
| <b>3. Programming<br/>document</b>   | Multiannual Indicative Programme for EU support to Belarus (2014-2017)  |                          |                                     |                                     |
| <b>4. Sector of<br/>concentration/<br/>thematic area</b>                     | Local / Regional economic<br>development  | DEV. Aid: YES            |                                     |                                     |
| <b>5. Amounts<br/>concerned</b>  | Total estimated cost: EUR 14.3 million<br>Total amount of EU budget contribution: EUR 14 million<br>This action is co-financed in joint co-financing by:<br>UNDP for an amount of EUR 0.3 million |                          |                                     |                                     |
| <b>6. Aid<br/>modality(ies)<br/>and<br/>implementation<br/>modality(ies)</b> | Project Modality<br>Indirect management with the European Bank for Reconstruction and<br>Development<br>Indirect management with the United Nations Development Programme                         |                          |                                     |                                     |
| <b>7 a) DAC code(s)</b>  | 32130 – Small and medium-sized enterprises (SME) development<br>25010 – Business support services and institutions<br>43040 – Rural development   |                          |                                     |                                     |
| <b>b) Main Delivery<br/>Channel</b>  | 46000 – European Bank for Reconstruction and Development<br>41000 – United Nations Development Programme  |                          |                                     |                                     |
| <b>8. Markers (from<br/>CRIS DAC form)</b>                                   | <b>General policy objective</b>   | <b>Not<br/>targeted</b>  | <b>Significant<br/>objective</b>    | <b>Main<br/>objective</b>           |
|  | Participation development/good<br>governance  | <input type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
|  | Aid to environment  | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |

|  |  |                                     |                                     |                                     |
|--|--|-------------------------------------|-------------------------------------|-------------------------------------|
|  | Gender equality (including Women In Development)   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
|  | Trade Development  | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
|  | Reproductive, Maternal, New born and child health  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
|  | <b>RIO Convention markers</b>  | <b>Not targeted</b>                 | <b>Significant objective</b>        | <b>Main objective</b>               |
|  | Biological diversity   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
|  | Combat desertification   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
|  | Climate change mitigation  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
|  | Climate change adaptation  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <b>9. Global Public Goods and Challenges (GPGC) thematic flagships</b> | Flagship 3. SWITCH TO GREEN – Supporting private sector-led inclusive green growth<br>Flagship 7. Trade integration for green and inclusive growth |                                     |                                     |                                     |

## SUMMARY

Belarus is gradually exhausting its state-oriented growth model. Development of private sector, private initiative and small and medium enterprises (SME) is seen as key contributor to further growth and increase of the economy's competitiveness and productivity.

While governmental structural reform agenda is still under elaboration with mixed implementation commitment, direct support to private sector initiatives and SME is the most viable option to contribute to inclusive growth and social development of the Republic of Belarus, focusing on the local level with immediate involvement of the population.

SME development and support to private initiatives and social enterprises on the local level should be considered as part of broader efforts to facilitate transition to new jobs during restructuring process, promote private sector development, liberalise the economy and improve competitiveness in the transformation phase.

Component 1 is structured as a contribution to the EBRD Small Business Support programme (SBS), with specific focus on regional and local SME, where SBS is not currently operating. Potential opening of SBS to selected competitive state-owned enterprises to facilitate their restructuring and privatisation is also foreseen subject to revision of the EBRD country strategy to incorporate this approach.

Component 2 seeks to emphasise the output of the SBS programme and continue the efforts of the previous EU Annual Action Programme (AAP) 2011 and 2013 "Support to local and regional development in Belarus" (RELOAD) to promote local job-generating strategies and provide direct access to finance to SME and social enterprises. In particular it seeks to extend and upgrade the most successful RELOAD local level component aimed at enhancing cooperation between local civil society and local authorities in planning and implementing territorial development, stimulating local initiative and supporting SME and entrepreneurship. The proposed action is thus directly based on the outcomes of the previous programme and takes account of the main lessons learnt: targeting support to entrepreneurship, innovation and competitiveness, narrowing geographical coverage to the least developed rayons (districts), strengthening and updating the participative planning processes initiated by the previous programme (Area-Based Development passports). The action aims furthermore to foster

citizen participation in public policies as well as to develop of local accountability mechanisms to secure basic pre-conditions for sustainable local territorial development.

Both components will directly benefit men and women at the citizen level, contribute to growth of the private sector while being less dependent from the politically driven structural reform agenda, that, if implemented, will only catalyse the effect of the programme.

## **6 CONTEXT**

### **6.1 Sector/Country/Regional context/Thematic area**

According to the 2016 Small Business Act for Europe Assessment (SBA Assessment) with the second largest economy amongst the EaP countries, Belarus continues to pursue a state-led development model. State-owned enterprises (SoE) account for over 50% of output and 65% of employment (50.4% are men and 49.6% women from the total economically active population) and are the dominant players in key industries. In contrast with other transition economies, Belarus has not implemented a privatisation programme and structural reform has proceeded at a slow pace. The economic model continues to be based on full employment primarily in the state-controlled sector, which constrains the reallocation of capital and labour to more productive sectors while distorting the price system and misallocating resources (EBRD, 2014). On the other hand, the economy is open to trade (which represents about 140% of GDP), although exports are concentrated, with the Russian Federation accounting for roughly half of them (IMF, 2015). Structural rigidities and the frequent recurrence of expansionary policies to boost internal demand (in particular real wage and credit increases) followed by periods of adjustment are the main causes of slow growth and large external imbalances (EBRD, 2014). The Belarusian economy thus remains highly vulnerable to external shocks, having experienced three major exchange rate crises since 2008 (IMF, 2015).

In this context development of the private sector and increase of the private SME role in the economy is seen as indispensable pre-condition for further growth as well as the evident mitigation possibility of potential imbalances in case the long awaited structural reforms will be launched. Current discussions with the IMF on a new programme suggest that pressed by unfavourable external conditions and slowly degrading internal macroeconomic environment, the national authorities are likely to start implementing at least moderate structural transformations. As a result, many jobs in the state owned sector may not be sustainable and would be vulnerable to restructuring (WB, 2015), to which the impact on men and women respectively would need further analysis.

Development of the private sector and SME present a major challenge especially on the local level. Disparities existing between the capital Minsk and main regional centres call for promoting economic development on the district level, supporting ongoing EU and national efforts to promote regional and local development. To enhance the sustainability of the current area-based development initiatives and strengthen the economic foundation of local development, local entrepreneurship should be given more prominent attention. The experience from the local entrepreneurship, SME and economic development projects show that this is often a missing element of sustainable development in Belarus.

SME and support to economic initiative for local inclusive development thus should be considered as part of broader efforts to facilitate transition to new jobs during restructuring

process, promote private sector development, liberalise the economy and improve economic competitiveness in the transformation phase.

### ***6.1.1 Public Policy Assessment and EU Policy Framework***

Since 2010 the government has increasingly acknowledged the importance of developing the private sector, and in particular SME, as an engine of sustainable growth and competitiveness. Some liberalisation measures have been adopted during last years, however progress has been uneven, with only limited changes made to the institutional framework.

The government has taken steps to improve the investment climate. Overall, since 2008 (when Belarus was ranked the 115th in Doing Business) the country has advanced significantly in reforming its basic business regulations, showing most progress in the areas of business and property registration, licensing and inspections, and costs of tax administration (WB, 2015). Belarus currently occupies the 44th position in the Doing Business 2016 ranking, losing 1 position compared to 2015 ranking.

At the end of 2010, the president adopted Directive No. 4 on Development of Entrepreneurship and Stimulation of Business Activity in Belarus. While some measures listed in Directive No. 4 remain unimplemented, 184 legal acts have been adopted covering a wide range of areas: simplification of company registration and tax administration, e-registration of companies, significant reduction in licensing requirements, introduction of SME quotas in public procurement, facilitation of public-private dialogue, etc. Price controls have also been reduced in recent years. A new Directive on Additional Measures for Development of Entrepreneurship and Stimulation of Business Activity in Belarus was published for public consultation in March 2015.

Ongoing efforts are pursued by the government assisted by the World Bank/IFC to develop new SME policy documents (SME strategy, SME support institutions). A key SME policy document – the National SME support programme for 2016-2020, was adopted by the government in March 2016. The programme is highly complementary to the proposed action, as it strengthens the national policy framework, affirming strategic role of the SME in the economic growth, providing additional, though moderate financing support for SME, promoting business enabling environment, regulatory simplification, public private dialogue, strengthening business support infrastructure.

Measures for SME support are also embedded in the draft National Strategy for Sustainable Development of the Republic of Belarus until 2030 (NSSD), the country's main development strategy document. This document includes a chapter on SME and sets a target to increase their contribution to GDP to 47% by 2030 (SBA assessment 2016).

Furthermore ongoing efforts are made as a follow-up to the recommendations of the EU Small Business Act assessment through an ongoing cooperation with the OECD.

In line with the Multiannual Indicative Programme for EU support to Belarus (2014-2017) support to Local / Regional economic development is one of the three cooperation priorities. Delivering assistance in this sector will build on existing programmes (Annual Action Programmes 2011, 2012 and 2013) focusing on supporting regional and local development as well as green economy. Considering the existing disparities between capital and regions, support to local and regional private initiatives, SME and social enterprises should be viewed as a key area of intervention that complements current national efforts. Important

accompanying measures should encompass human capital development and entrepreneurship learning especially on the local level with wide involvement of civil society organisations.

The Communication from the European Commission "Social Business Initiative: Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation"<sup>18</sup> focuses social enterprises as drivers of inclusive growth and employment for all as well as a way "to promote a highly competitive social market economy". According to the document, "social enterprises contribute to smart growth by responding with social innovation to needs that have not yet been met; they create sustainable growth by taking into account their environmental impact and by their long-term vision; they are at the heart of inclusive growth due to their emphasis on people and social cohesion." A mapping<sup>19</sup> provides a comprehensive overview of social enterprises in Europe, their eco-systems as well as challenges and barriers to development. The study notes growing convergence towards the definition of social enterprise as "an autonomous organisation that combines a social purpose with entrepreneurial activity". It highlights that support structures are under-developed and fragmented, with the exception of Italy, France, and the UK. However, social enterprise policy is currently under development in Ireland, Spain, Luxembourg, Bulgaria, Cyprus, Croatia, Malta, Romania and all three EU neighbours of Belarus: Latvia, Lithuania and Poland. Until 2015, the SBI focussed only on the EU 28 / single market, on visibility, financing and regulation, following a top-down approach. Since September 2015, the European Commission launched a new bottom-up phase of co-creation with all stakeholders, and introduced a new dimension (WG 4 "External dimension of social enterprises" in the European Commission's expert group on social entrepreneurship - GECES). Since then, GROW is also coordinating the external dimension of the EU policy on Social and Solidarity Economy (SSE), including social enterprises, social impact investing (G8 Task Force), inclusive business (G20 since the Turkish Presidency). DG DEVCO and DG NEAR joined the work of GECES as observers together with the EEAS, the EBRD, the EIB, the EIF, the International Leading Group on SSE (ILGSSE - chaired by France until 2017), the UN Inter-Agency Task Force on Social and Solidarity Economy (UNSSE<sup>20</sup>) and the OECD. The GECES is preparing a report with recommendations for all stakeholders for 14 October 2016, including concrete actions for the "External dimension of social enterprises". These recommendations will be discussed in Bratislava in a Conference on social economy / social enterprise organised by the Slovak Presidency on 28-29 November 2016. Beginning of 2017 the European Commission will assess how best to respond to these inputs of 2016. In the GECES report, the experts are going to address the internalisation of social enterprises (most of them are SMEs), as well as the introduction of SSE in the area of development (to reach Sustainable Development Goals) and neighbourhood policies.

The Roadmap for EU Engagement with Civil Society in Belarus sets an additional EU policy framework for the foreseen support to social entrepreneurship, promoting social accountability mechanisms and co-production schemes between the CSOs and local authorities.

The proposed intervention is as well in line with the recommendations of the Review of the European Neighbourhood Policy, stating that enhancing economic governance, strengthening

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<sup>18</sup> Communication from the European Commission, Social Business Initiative, 25 October 2011, accessed at [http://ec.europa.eu/internal\\_market/social\\_business/docs/COM2011\\_682\\_en.pdf](http://ec.europa.eu/internal_market/social_business/docs/COM2011_682_en.pdf)

<sup>19</sup> Social Enterprises: Report Presents First Comparative Overview, 17 November 2014, accessed at <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2149>

<sup>20</sup> UNDP is actively participating in the UNSSE.

fiscal stability and supporting structural reforms for improved competitiveness and inclusive growth and social development, are keys to developing country's economic resilience. The modernisation of the economy, fostering innovation, the creation of jobs and boosting skills and promoting economic, social and territorial cohesion are other key aspects. Furthermore, along the lines of the same document, the proposed programme will seek to step up cooperation with the International Financial Institutions (IFIs), notably the European Bank for Reconstruction and Development (EBRD) and the World Bank.

Finally, in line with the strategic document of the SME Flagship up to 2020 "EU support to SMEs in the Eastern Partnership 2014-2020 – The way forward for the SME Flagship Initiative"<sup>21</sup> the proposed action targets SME in Belarus as a key element of the development of the Eastern Partnership (EaP) countries, contributing to counteract unemployment related to the down-sizing of the public sector, and most importantly creating workforce with a stronger focus on democratic governance.

### **6.1.2 Stakeholder analysis**

The Department of Entrepreneurship within the Ministry of Economy of the Republic of Belarus is in charge of the design, overall co-ordination and implementation of SME support measures under the three-year programme. Numerous government bodies and local authorities, including the Belarusian Fund for Financial Support of Entrepreneurs (BFFSE) also implement government support measures.

Direct stakeholders to the programme are business support organisations, business consultants and associations of consultants, as well as local civil society, locally registered SME, social enterprises and entrepreneurs. While civil society organisations, including business support associations, remain weak and play limited role in the policy development, necessary public-private dialogue activities should be promoted for consolidation of the relevant stakeholders.

For Component 2 ensuring full participation of local (district) authorities in cooperation with local civil society, locally registered SME, non-registered initiatives will be crucial. At the same time, stimulated by the previous AAP 2011, 2012 and 2013 interventions, local authorities are already much more responsive and pro-active to promote the principles of shared participative planning and territorial development approaches.

Territorial approach is expected to mobilise civil participation in cooperation with private sector and local authorities to solve local problems, including better and accessible social services, better resource distribution, improved social equality, enhanced accountability and transparency of local government.

### **6.1.3 Priority areas for support/problem analysis**

According to the 2016 SBA assessment, the SME sector in Belarus remains underdeveloped. Belarusian SME are facing significant obstacles to growth. The number of people employed in the SME sector has slightly decreased – from 1 132 600 in 2010 to 1 109 100 in 2013.

At 22.3% of GDP (2013), SME role in value generation is 2.6 times less than in the EU economies. SME share in total employment is 2.4 times smaller than in the EU. The economic

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<sup>21</sup> <http://ec.europa.eu/DocsRoom/documents/9270/attachments/1/translations/en/renditions/native>

role of small innovative businesses is miniscule with more than 80% of Belarus' SME engaged in trade, personal services, construction, and agriculture. Moreover, the internal dynamics of the SME sector is unpromising: the micro/small companies stay micro and do not grow into a small/medium size (WB, 2015).

Access to finance remains a key impediment to SME growth, particularly local currency financing and longer term financing more generally. These problems are more acute for women who are facing additional challenges due to the fact that women entrepreneurs are concentrated in lower value-added sectors of the economy (typically in services), women-SME tend to be smaller. Consequently, access to finance through formal institutions is a key challenge for women. The government has prioritised the development of the sector in recent years and has launched a number of support schemes. However, these remain heavily exposed to state control and lack transparency, causing SME to continue to rely on bank lending as their main source of funding, while banks generally do not offer specific SME products or lending practices tailored to the needs of small businesses.

Business support infrastructure continues to be limited to a network of support organisations funded by government subsidies. Access to high-level business consultancy remains scarce and costly, while potentially able to significantly increase SME competitiveness in a very cost-effective manner. Finally, despite the introduction of general support measures for the green economy, there is need to promote environmental compliance and green business practices among SME.

Following the recommendations of the 2016 SBA assessment the current programme seeks to address the above problems through the below listed priority areas for support, with the special focus on the local level outside main regional centres:

- fostering economic liberalisation efforts to create conditions for SME growth;
- developing business support infrastructure, expanding the scope of consultancy services for SME (including, potentially, to state-owned enterprises), developing local consultancy market;
- developing and implementing participatory employment generating local strategies and action plans structured around promotion of local entrepreneurship, innovation economy, social enterprises, inclusive job creation, building entrepreneurial competence, promoting women's entrepreneurship;
- facilitating more sustainable access to finance for SME in particular through micro-crediting and credit union schemes.

The currently implemented EBRD SBS programme remains one of the few successful standing SME support measures that calls for continuation of such support and its extension to the largely deprived of such opportunities local level stakeholders. Complementing the direct SME support, considering the development context in Belarus, the key strategy for this proposal is to further focus on participatory local development and entrepreneurship with the objective of enhancing local growth and competitiveness while at the same time addressing social vulnerabilities. The proposed programme will identify specific development priorities, comparative advantages and vulnerabilities of all involved districts (through local planning documents known as the Area-Based Development passports) and, based on that, will work with the local authorities and other local actors to implement local employment-generating strategies and action plans. The primary focus will be on rural micro- and small companies as

well as social enterprises as drivers of inclusive and sustainable growth and jobs, providing direct microfinancing mechanisms.

The most recent regulations on microfinance in Belarus (President’s Edict No.325 of 30 June 2014) provide several organisational options for structuring microfinance activities and focus on providing access to finance to micro- and SME (MSME). However, as some of the existing microfinance organisations admit, they do not yet have capacity to work with MSME and this is where the programme can add value by enhancing their capacities and preparing them for funding MSME through a microfinance facility. This type of support could be targeted, first of all (but not exclusively), at MSME which will benefit from business advisory services under the EBRD Small Business Support programme (Component 1).

While MSME are a well-established form of doing business in Belarus, social enterprises are an emergent and growing field of business in the country. The keen interest of the local stakeholders to promote social enterprises was validated during the civil society consultations held in Minsk in December 2015. Following the definitions of the Commission’s Social Business Initiative and its follow-up study report, social enterprises are viewed as operators "whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involve employees, consumers and stakeholders affected by its commercial activities."

However, being a new approach to doing business, social enterprises still require support to development, in particular, in terms of relevant legal and institutional frameworks (so far largely absent in Belarus), access to capital, access to markets, business support and development services, training, research and public awareness and acceptance.

**7 RISKS AND ASSUMPTIONS**

| <b>Risks</b>  | <b>Risk level (H/M/L)</b> | <b>Mitigating measures</b>  |
|---|---------------------------|---|
| Risk of economic instability and deteriorating business climate   | M                         | Active promotion of SME related reform agenda through policy dialogue, involvement of relevant stakeholders to ensure local ownership, alignment with national strategies and harmonisation with other actors’ efforts. |
| Lack of management response/commitment of beneficiary enterprises | M                         | Rigorous enterprise screening and selection processes, close monitoring of consultants' performance by the EBRD. Extensive communication outreach and market development activities.                                    |



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|--|---|---|
| Lack of local initiatives, entrepreneurs   | M | Large-scale promotion and information campaign on local SME development and social entrepreneurship, dedicated activities to develop entrepreneurship skills on the local level.  |
| Implementation delays due to national compulsory registration procedures for recipients of the international technical assistance (grants, microfinancing).  | M | All activities under the present programme are currently negotiated to be included in the updated National Programme for International Technical Assistance 2016 - 2020, that would allow receiving simplified registration regime for grantees and avoid excessive delays. |
| <b>Assumptions</b>   |   |   |
| <ul style="list-style-type: none"> <li>• Government committed to private sector and SME development, at least moderate structural reforms;</li> <li>• Overall relatively stable macroeconomic environment;</li> <li>• Willingness of the Ministry of Economy of Belarus and other stakeholders to cooperate closely with the implementing organisations in the delivery of objectives;</li> <li>• Enterprises are fully committed to take part to project activities, including participation in sharing part of the projects cost.</li> </ul> |   |   |

## 8 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

### 8.1 Lessons learnt

Based on previous EU supported EBRD SBS programme successful performance, which has been though until now mostly limited to highly selective and centrally located interventions in the capital Minsk and five largest regional centres, the updated SBS approach should focus more on local SME outside main economic centres to truly empower these untapped regions. Furthermore, considering the high potential number of pre-privatisation SoE, targeting of the most dynamic and commercially viable of them through SBS should also be considered. Finally, concentrating more the action's efforts at specific sectors and geographic regions is expected to yield more prominent outcomes.

Considering recommendations of the mid-term evaluation and lessons learnt from the previous programme that this current intervention is directly based on (AAP 2011 and 2013 "Support to regional and local development in Belarus" – RELOAD programme, especially the UNDP component implemented on the local level), in designing future programmes in this sector it is important to ensure stronger focus on entrepreneurship and competitiveness development, supporting sustainable economy and private sector growth, and not only environmental and social sustainability, promoting dynamic economic development and business sector innovation, value chain development. Youth entrepreneurship is as well a particularly important priority that should be targeted in the regions to assist in retaining university graduates and qualified workforce, encourage sustainable and competitive private sector growth.

Additionally, following the trend in the EU, it would be beneficial to strengthen the emphasis on innovation (including social innovation and social enterprises) and smart specialisation approaches in regional development of Belarus, particularly through learning from the experience of the Baltic States.

Specific focus during the implementation of the action should be done on thorough training needs analysis and/or baseline studies at the start of the project activities, in order to establish baseline indicators, monitor and ensure effective use of programme resources, and measure the degree of achievement of the programme outcomes.

## **8.2 Complementarity, synergy and donor coordination**

The proposed action builds on the results and is deeply synergetic with the ongoing EU AAP 2011 and 2013 programme "Support to regional and local development in Belarus" (RELOAD programme), primarily following on the most successful Component 3.

The RELOAD programme is structured in 3 components:

Component 1: the action mostly developed capacities of national and regional stakeholders in regional development management and introduced new innovative approaches (new cycle and methodology of regional development management developed on the national level, further localised in regional sustainable development strategies for each of the 6 regions of Belarus);

Component 2: this part of the action supported the implementation of the regional sustainable development strategies through a number of pilot projects in the area identified as priorities (tourism, green energy, environment and integrated waste management);

Component 3: this most successful component promoted participatory governance and development planning on the rayon level to feed the regional and national level development programmes based on principles of territorial development, piloting drafting of Area-Based Development (ABD) passports for each of the 118 rayons (districts) of Belarus and subsequent implementation of these local strategies through a call for proposals stimulating synergies among local partners.

While performance of the first two components has been mixed due to delays in implementation, uneven commitment of the national authorities to implement proposed new approaches, the greatest achievement of the programme is that it has introduced and promoted new, more effective approaches to regional development, that remains relevant as one of the key strategic priorities for the government in the mid- and long term.

Component 3 performed the best exploiting the huge potential of the local level stakeholders that have been able to pilot new approaches independently of the national reform commitment. It created a solid basis for development of organisational and institutional capacity of local actors in terms of capacity for sustainable partnerships at the local, regional and national level. Extension and modernisation of this component, taken into account the lessons learnt, is the essence of the present intervention.

The following actions, that are highly complementary to the present intervention as well, will be closely monitored and managed by the Delegation of the European Union to Belarus to promote synergies:

- *EaP SME flagship Secretariat*. The SME Flagship includes a number of projects that are implemented at regional level aiming to provide support to SME in the Eastern

Partnership countries to tackle the common challenges hampering their growth: limited access to finance, difficulty to conquer new markets, lack of business skills and a difficult business climate. This includes projects linked to the policy level (SME competitiveness reforms in the EaP countries), the meso level (East Invest) and the micro level (access to finance including the EBRD Small Business Support programme and various SME Finance Facilities). The SME Flagship secretariat is in charge of ensuring coherence and coordination of the various projects, monitoring of results as well as visibility and communication guidelines.

- *Supporting SME Competitiveness Reforms in the EaP Countries- Implementing the Recommendations of the SME Policy Index 2012 (2013-2016, 2.5 M€)*. This includes special support to Belarus on the *Upgrading SME skills through Business Support Services*. This project implemented by the OECD as a follow-up to the 2016 Small Business Act Assessment advises the government of Belarus on the implementation of concrete measures to support policy reform roadmap for SME support and enhance convergence with the SBA.
- *EAST INVEST II*. This regional EaP project promotes trade and investment through SME networking and consolidation of business associations.
- *The EBRD Women in Business (WiB) Programme* promotes and supports women entrepreneurship and more broadly women's participation in business by facilitating access to finance and advice for women-led SME. Component 1 will be closely coordinated with the WiB programme.
- *Small Business Support Programme*. The EU has been supporting the Small Business Support programme of the EBRD in the EaP region since 2010 with EUR26 million altogether. The last contract signed in December 2015 includes a particular focus on the DCFTA countries but also includes Belarus. The EBRD SBS programme in Belarus will continue receiving support from the regional Neighbourhood Investment Facility (NIF) allocation leading to pooling of NIF and national resources in 2017. Necessary coordination will be ensured to avoid overlapping of financing sources during that period as follows: the NIF allocation will be used to finance indicatively 20 SBS projects as well as Minsk-based market development activities, while bilateral funding under the present programme will focus on indicatively 38 SBS projects and market development activities in the regions of Belarus. This distinction should also be clearly visible in the progress reports of the EBRD on the SBS programme.
- *Mayors for economic growth*. This regional programme that is currently being developed foresees capacity building and grants to local authorities/cities based on their formal commitments to pilot the participatory economic development, planning/budgeting, good governance, accountability and transparency reforms, through the preparation and implementation of *local economic development plans*. Component 2 will be closely coordinated with this initiative so as to ensure coherence and synergies between the activities and policy messages and the preparation of local economic development plans.
- *Green Economy in Belarus (AAP 2012)* aims to promote green growth concepts and environmentally sustainable production and consumption patterns through support of local green initiatives, pilot projects and an information campaign at regional and local levels.

- *The Eastern Partnership Territorial Cooperation programme Belarus-Ukraine.* The programme supports small-scale cross border projects between local partners and focus on improving the living conditions of local communities, supporting economic and social development, addressing common challenges in the fields of environment, employment, public health and any other field of common interest having a cross border dimension, including in culture, education and sports.

The EBRD will ensure necessary coordination of the proposed Component 1 with other EBRD-implemented relevant regional initiatives, including those outlined above.

Furthermore, the WB, IFC, IMF are strongly involved in providing technical assistance on structural and market reforms to the government of Belarus. Donor coordination is ensured by permanent working cooperation on the level of country offices as well and through dedicated coordination sessions locally and on the headquarters' level. The WB/IFC is mainly involved in providing assistance in the area of private sector development, privatisation, financial sector reform and public finance. The Delegation will closely coordinate with the WB regarding possible implementation of the WB roadmap for structural reforms, including private sector development measures with a gender-perspective. IMF is oriented on the improvement of the overall macro-economic framework.

There is also a standing bilateral EU-Belarus economic and trade technical dialogue involving all the relevant authorities: Ministry of Economy, Ministry of Finance and the National Bank to discuss economic policy directions with the European Commission representatives and the EU Member-States.

Finally, in line with the governmental resolution No 590 from 2015, a new Donor Coordinating Council is expected to be created in order to coordinate and increase efficiency of development cooperation on the national level.

### **8.3 Cross-cutting issues**

Fundamental human rights and gender equality issues will be mainstreamed across the outputs of the programme. In particular, based on its experience in other countries and analysis of the gender equality situation in Belarus, UNDP's approach will include addressing the following issues: women in leadership positions, and women in the SME sector. In addition, considering the context of the Mahilioŭ region, the gender aspect can as well be focused on the issues of male population: the life expectancy of men in the region is as low as 58 years, the lowest indicator in Belarus.

In line with the EBRD's "Strategy for the Promotion of Gender Equality 2016-2020" the Bank will ensure that women and men have the same opportunities to access the programme's finance and activities, and advisory services are delivered in a non-discriminatory manner by applying a gender perspective.

With regard to human rights, UNDP is following the principles of the Human Rights Based Approach to Development in its development interventions.

As an evident aspect of sustainable local and territorial development, environmental-friendly initiatives will be primarily targeted by the programme. Implementing organisations are expected to conduct Social and Environmental Screening of the operations envisaged in the programme.

Social economy and social entrepreneurship promoting economic inclusion will also be a distinct focus of the programme.

## **9 DESCRIPTION OF THE ACTION**

### **9.1 Objectives/results**

#### **Overall Objective**

The overall objective of the programme is to contribute to participatory and sustainable social and economic development in the regions of Belarus, with the focus on the regions with low competitiveness, through enhancing private local economic initiative to develop private sector, increase job creation for men and women and promote country's economic growth.

#### **Specific Objectives**

The **specific objectives** of the programme are as follows:

#### **Component 1 – Promotion of small and medium enterprises as core engine of local and regional growth**

- Result 1.1 Improved SME competitiveness, performance and productivity through qualified business advice targeting local (rayon) level beneficiaries;
- Result 1.2 Strengthened quality and supply of local business advisory services, reinforced institutional capacities of professional associations and intermediary business support organisations, primarily outside Minsk and regional capitals;
- Result 1.3 Transfer of industry know-how to SME through the dissemination of best practices and success models targeting local (rayon) level beneficiaries.

#### **Component 2 – Support of economic initiative, competitiveness and innovation for local inclusive development**

- Result 2.1 Participatory development of employment-generating local strategies and action plans based on the implementation of district Area-Based-Development (ABD) Passports;
- Result 2.2 Capacity building and policy formulation is provided to support the implementation of the local employment-generating strategies and action plans, in particular, through rural MSME and social enterprises;
- Result 2.3 Improved access to finance for MSME and social enterprises to support the implementation of the employment-generating local strategies and action plans.

### **9.2 Main activities**

#### **Component 1 – Promotion of small and medium enterprises as core engine of local and regional growth**

*Result 1.1 Improved SME competitiveness, performance and productivity through qualified business advice targeting local (rayon) level beneficiaries:*

- Introduction of industry-specific management expertise to qualified private SME by providing the advisory services of experienced *senior international consultants* from advanced economies on cost sharing basis (transfer of relevant commercial and

technical know-how, development and implementation of business plans, facilitation of investment financing, fostering companies' environmental management and energy efficiency, capacity-building for senior executives);

- Assistance to qualified private SME to engage with *local consultants* on a cost sharing basis through narrowly-based, specific projects, with a rapid payback including in the areas of strategy, marketing, development planning, reorganisation/ restructuring, information and communications technologies, SME digitalisation, quality management and certification systems;
- Access to international industry expertise to assist selected state-owned enterprises (SME and on exceptional basis non-SME) in strategic planning, enhancing production processes, developing marketing and sales strategies, restructuring and optimising resource efficiency etc;
- Increase in the creditworthiness of the MSMEs by improving their general and financial management practices, upgrading their accounting systems and reporting procedures and referring SME to suitable financiers (including the Microfinance Facility operated under the Component 2);

*Result 1.2 Strengthened quality and supply of local business advisory services, reinforced institutional capacities of professional associations of consultants primarily outside Minsk and regional capitals:*

- Capacity-building for local consultants to increase the supply business advisory services and improve their quality to improve the infrastructure of local services to deliver support services to SMEs;
- Supporting the establishment of professional associations of consultants, promoting best consultancy practices and introduction of internationally-recognised industry standards;
- Bi-annual consultant review survey to ensure market development activities performance monitoring through relevant indicators, including possible adjustment of market development actions and business development services.

*Result 1.3 Transfer of industry know-how to SMEs through the dissemination of best practices and success models targeting local (rayon) level beneficiaries:*

- Dissemination of successful case-studies, lessons learnt and sector and management best practices through seminars, workshops, communication events, business matching trips primarily targeting SME outside Minsk and regional capitals;
- Establishment and maintenance of a database and network of the EBRD SBS beneficiaries (both SBS SME-beneficiaries and consultants) and support to associations of consultants with the view to ensure ownership and sustainability of the programme, disseminate information on other business opportunities provided through various SME-targeted programmes in the country.

## **Component 2 – Support to economic initiative, competitiveness and innovation for local inclusive development**

*Result 2.1 Employment-generating local strategies and action plans are developed in a participatory way based on the implementation of district Area-Based-Development (ABD) Passports:*

- Continued capacity building for local actors on territorial development, participatory planning and budgeting, cross-sector partnerships;
- Develop and update ABD Passports, involving local citizens and relevant experts, including gender and social vulnerability analyses, and prepare respective district profiles;
- Identify obstacles to and suggest solutions for inclusive job creation at the local level, including but not limited to promotion of innovative entrepreneurship, in particular youth entrepreneurship, creation of conducive conditions for micro-, small- and medium-scale enterprises, development of social enterprises, inclusive job creation for vulnerable groups of men and women;
- Engage and support local authorities, local civil society organisations and local private sector in the formulation of local employment-generating strategies and respective action plans based on the ABD Passports and focusing on job creation for men and women at the local level, in particular, through the development of SME and social enterprises, including gender sensitive approach to SME development;
- Information and advocacy campaigns around local employment-generating strategies and action plans.

*Result 2.2 Capacity building and policy formulation is provided to support the implementation of the local employment-generating strategies and action plans, in particular, through MSME and social enterprises:*

- Map and review up-to-date innovative approaches to support inclusive job creation at the local level, including but not limited to social enterprises, social innovations, specific forms of support for competitiveness and innovation development of SME, financial literacy and entrepreneurship skills, organic farming, corporate environmental and social responsibility, microfinance, credit unions, social contracting, outcome buying and impact investment, to contextualize their prospective use for Belarus;
- Provide support to improvements in the relevant legal, institutional and policy frameworks ensuring non-discrimination;
- Review knowledge and capacity building gaps of key stakeholders and devise respective capacity building plans, conduct capacity building, experience sharing and transfer of expertise for the key stakeholders at the local level;
- Enhance the skills and knowledge of civil society organisations, private sector and local authorities to advocate for the needs of socially vulnerable groups in the process of local development, focusing on women's and youth entrepreneurship;
- Technical assistance to local authorities to develop and streamline the above mentioned priorities as part of the local development policies, and particularly to promote socially oriented private sector development, SME, social entrepreneurship and social enterprises.

*Result 2.3 Improved access to finance for MSME and social enterprises to support the implementation of the employment-generating local strategies and action plans:*

This part of the action will be implemented through a Social Impact Fund to be comprised of two financing facilities:

- Microfinance Facility: grants/revolving financing, related capacity-building and technical assistance to microfinance providers to provide access to finance for rural MSME, enabling microfinance providers to increase their lending activities and make microfinance more readily available to those who want to develop their microenterprises, improving the access to microfinance;
- Social Impact Investment Facility: grants/revolving financing, related capacity-building and technical assistance to social enterprises, social innovation start-ups and other similar actors that have a demonstrated potential to generate social and financial returns, in order to promote creation and financing of social enterprises, mobilise capital and encourage investment into the sector.

### **9.3 Intervention logic**

The intervention logic is based on the assumption that within more or less intensive structural reform agenda of the government, the development of an agile private sector and SME, especially on the local level, should be viewed as essential mitigation factor of short and medium term reform repercussions, including vulnerable labour market, increase of unemployment, overall reallocation of resources among sectors of economy etc.

The proposed intervention would be most effective when focusing on direct support to local economic initiatives, entrepreneurs, social enterprises and SME. This is even more important taking into account the likely cut of state-financed programmes conditioned by reform agenda, including for regional development and private sector support.

Additional focus on supporting the restructuring of selected SoE while promoting the development of new efficient SME can relaunch productivity led growth.

Expansion and increase of productivity of the already existing well-functioning private SME will be secured by enhanced existing Small Business Support programme, through provision of competent consultancy from international and local market, pre-investment technical assistance services and improved access to finance.

A distinctive priority of the modernised Small Business Support programme will be its orientation on local stakeholders, at the rayon level where the programme currently has a limited impact (outside of the capital Minsk and five regional (voblast) centres, Brest, Homiel, Hrodna, Mahilioŭ, Viciebsk) and, in particular, on the Mahilioŭ region, conditioned by its lowest development levels.

It is expected that starting from the second year of the programme's operation, the EBRD will undertake minimum 50% of SBS projects outside the capital Minsk, of which 70% will represent projects with local rayon-based clients outside the five main regional centres.

Subject to the approval of the EBRD's new country strategy for Belarus, the SBS programme may be extended to selected state-owned SME. The selection criteria for state-owned SME participation include their pre-privatisation status, commercial and financial viability, compliance with the Bank's integrity and environmental requirements.

The EBRD will ensure proper sustainability of the programme, primarily through its contribution to the development of the market of local business advisory services and sustainable infrastructure of SME support, promoting diversification and quality of the local consultancy industry. Specific effort will be made to expand the network of consultants, attract new consultants to work on more comprehensive and complex advisory projects. The



expected positive impact of the programme on the local market will be monitored with relevant indicators included in the logframe (appendix).

Furthermore, sustainability will be ensured by referring the assisted SME to relevant sources of finance, existing and prospective, including local commercial banks and microfinance institutions implementing SME-targeted finance facilities, EBRD and EU-financed, other International Financial Institutions operating in the country.

The Small Business Support programme will strengthen SME competitiveness and will be complemented and fuelled by integrated territorial development intervention led by UNDP stimulating local social and economic initiative, social entrepreneurship, innovative actions with sufficient potential to transform into strong private sector socially responsible companies.

Based on the positive record of the EU introducing and promoting new, more effective approaches to regional development in the Republic of Belarus, supporting the successful local level inclusive economic development is the core of the second component. Bringing further the results of the current RELOAD programme, this action seeks to promote examples of the best EU practices featuring various forms of innovative regional growth initiatives, such as support to social enterprises. Social economy, as acknowledged by the Commission services is recognised and supported by all the EU institutions as well as stakeholders and Member States. The Commission therefore seeks to have a leadership role on the social enterprises development in Belarus, including through piloting innovative interventions (Social Impact Fund), building also a link to innovation and start-ups to fuel local growth.

Component 2 will also directly build on the methodology, results and lessons learned from the current EU AAP 2011 and 2013 "Support to regional and local development" (RELOAD). It will continue to promote the Area-Based Development (ABD) methodology as well as the EU Territorial Approach to Local Development, will capitalise on the partnerships already established around ABD initiatives, ABD passports (rayon development plans) drafted within the current programme, and will reflect the main lessons learned in terms of more focus on local entrepreneurship, more innovative approaches, continued citizen engagement, narrower geographic coverage, and strengthened direct funding facility.

Improving access to finance and operating a direct funding facility is expected to provide the first step in building a sustainable social local economy. The proposed funding strategy is designed to strategically accelerate supply and demand in the social economy, both to not only grow a sustainable social economy but also a sustainable landscape for impact investments funds.

It is expected that the amount of the EU financing for the Social Impact Fund will be indicatively enhanced by the same amount of the parallel national financing to be provided by the Belarusian Development Bank.

A Memorandum of Understanding regarding the modalities of financing and parallel national financing of the programme and exit strategy is expected to be signed by the Delegation of the European Union, the UNDP and the Development Bank prior to the conclusion of the relevant agreement with the UNDP.

In this way the EU will combine its efforts with all the relevant actors to address problems outlined above. Both components will directly benefit men and women at the citizen level, contribute to growth of the private sector while being less dependent from the politically

driven structural reform agenda, that, if implemented, will only catalyse the effect of the programme.

## 10 IMPLEMENTATION

### 10.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

### 10.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

### 10.3 Implementation modalities

#### 10.3.1 Indirect management with an international organisation

A part of this action may be implemented in indirect management with the **European Bank for Reconstruction and Development** in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails Component 1 - Promotion of small and medium enterprises as core engine of local and regional growth. This implementation is justified because the action is a direct continuation of the current EBRD's implemented programme and corresponds to the core mandate and unique competency of the organisation: promoting private sector development in Belarus across all sectors of the economy, both directly and indirectly. It is as well based on the extensive thematic expertise of the EBRD in business advisory services, as well as on the specific request of the partner government considering the very good performance of the current SBS programme.

The entrusted entity would carry out the following budget-implementation tasks: running the public procurement, grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in indirect management with the **International Finance Corporation / World Bank**. The implementation by this alternative entrusted entity would be justified because IFC is the largest global development institution focused exclusively on the private sector development. IFC has direct mandate and extensive thematic expertise to support private sector and SME development through the financial sector and advisory services, customized advice on better production and management practices, to help local companies improve their corporate governance, environmental and social practices. Furthermore, IFC is currently engaged in highly complementary activities within the Belarus Regulatory Simplification and Investment Generation Project. IFC also provides advice and support to the government in implementing policy reforms in the following key areas, related to the current programme: advice on the national SME agency and strategy, business regulatory simplification,

streamlining industry-specific policies and practices to increase competitiveness and attract investments.

The alternative entrusted entity would carry out the following budget-implementation tasks: running the public procurement, grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

The entrusted international organisation EBRD and alternative entrusted international organisation IFC/World Bank is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisations can be entrusted with budget-implementation tasks under indirect management.

### **10.3.2 Indirect management with an international organisation**

A part of this action may be implemented in indirect management with the **United Nations Development Programme** in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails Component 2 - Support to economic initiative, competitiveness and innovation for local inclusive development. This implementation is justified because UNDP has a long positive record of working specifically on the local level, including supporting the country in developing sustainable local economic policies, particularly in the regions recovering from the Chernobyl disaster, by facilitating measures to attract investment, support innovation, develop SME, social enterprises, and promote inclusive gender-balanced employment, particularly focusing on youth. UNDP has also been an early advocate for social enterprises. The involvement of the UNDP is also justified as the action is a direct continuation of the current EU-financed and UNDP's implemented programme Support to local development in Belarus. The recent mid-term evaluation of this current programme confirmed its positive performance, impact and potential sustainability, encouraging possible continuation of similar efforts in Belarus.

The entrusted entity would carry out the following budget-implementation tasks: running the public procurement, grant award procedures, concluding and managing the resulting contracts, including making of the related payments.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in indirect management with the **International Finance Corporation / World Bank**. The implementation by this alternative entrusted entity would be justified because of the reasons listed under section 5.3.1 above. Furthermore, IFC's priorities in Belarus focus on helping SME through its real sector investments and financial intermediaries, developing capital markets and access to finance, increasing private sector participation in infrastructure, developing and modernising private companies through direct investments and technical expertise, focusing on manufacturing, agribusiness, and energy efficiency.

The alternative entrusted entity would carry out the following budget-implementation tasks: running the public procurement, grant award procedures: concluding and managing the resulting contracts, including making of the related payments.

The alternative entrusted international organisation is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The

Commission’s authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the alternative international organisation can be entrusted with budget-implementation tasks under indirect management.

#### **10.4 Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

#### **10.5 Indicative budget**

|   | <b>EU contribution<br/>(amount in<br/>EUR)</b> | <b>Indicative<br/>UNDP<br/>contribution<br/>(amount in<br/>EUR)</b> |
|---|--|---|
| 5.3.1 Indirect management with EBRD (Component 1) | 6 million                                      |   |
| 5.3.2 Indirect management with UNDP (Component 2) | 7.7 million                                    | 0.3 million   |
| 5.8 Evaluation, 5.9 Audit                         | 0.2 million                                    | N.A.  |
| 5.10 Communication and visibility                 | 0.1 million                                    | N.A.  |
| <b>Totals</b>                                     | <b>14 million</b>                              | <b>0.3 million</b>  |

#### **10.6 Organisational set-up and responsibilities**

Two Steering Committees shall be set up to oversee and validate the overall direction and policy for each of the Components. The Steering Committees shall meet at least twice a year. Each Steering Committee shall be made up of the representatives of the Beneficiary country, of the both entrusted entities and of the Delegation of the European Union to Belarus.

Furthermore, in order to strengthen the internal coordination of both components representing a single programme, the national partner – the Ministry of Economy, is expected to ensure the coordination of both actions by the same personnel. Dedicated coordination and visibility sessions between the two Components shall be organised at least twice a year.

Implementation teams of both Components are expected to occupy neighbouring office premises.

A representative from the Mayors for Economic Growth technical assistance should be invited as observer to the Steering Committee for Component 2. In addition reporting on the SBS programme as whole for the EaP region will also happen within the framework of the SME Flagship.

### **10.7 Performance monitoring and reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. Basic information on the impact of component 1 should also be reported to the SME Flagship Secretariat so as to be included in the monitoring mechanism set up by the Secretariat to measure the total impact of all EU support to SMEs.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

### **10.8 Evaluation**

Having regard to the nature of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. A gender analysis shall be included in the evaluation.

It will be carried out for problem solving and learning purposes, in particular with respect to the possible continuation of the actions.

The Commission shall inform the implementing partner at least 15 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded under a framework contract in Q2 2018.

## **10.9 Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, two contracts for audit services shall be concluded under a framework contract in Q2 2021.

## **10.10 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which are gender-sensitive and which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

The implementing organisations will ensure that their own Communication and Visibility Plans of their Actions directly support the above overall programme's plan and the Communication strategy of the Delegation of the European Union to Belarus, ensuring necessary prior coordination of all key communication messages. In particular, emphasis shall be put on coherent communication regarding the objectives of the action (not mere activities) in support of the thematic concentration of the EU activities in Belarus (including strategic support to local and regional economic development), focusing on specific target groups and audiences, avoiding general diluted communication approach.

Necessary coordination shall also be ensured with the relevant thematic communications activities and tools available under the SME Flagship Secretariat and the EU OPEN Neighbourhood Communicating for a stronger partnership: connecting with citizens across the Eastern Neighbourhood (CSP East Project).

Furthermore, the action shall use common branding regarding all EU support to SME in the Eastern Partnership, in particular, the name EU for Business (EU4Business) shall be used for all relevant SME activities under both components both in English and in Belarusian and/or Russian.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Considering that the EU is providing virtually the entire financing for the programme, the Delegation of the European Union to Belarus will closely monitor that the corresponding prominent visibility of the EU support is ensured by the implementing partners.

Indicatively, one contract for communication and visibility services shall be concluded under a framework contract in Q1 2017.

## APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

|   | Results chain   | Indicators   | Baselines<br>(incl. reference year) | Targets<br>(incl. reference year) | Sources and means<br>of verification                 | Assumptions   |
|---|---|--|-------------------------------------|-----------------------------------|--|---|
| Overall objective: Impact                             | Contribute to participatory and sustainable socioeconomic development in the regions of Belarus through enhancing private local economic initiative | Regional GDP,                                      | 30%                                 | 2020                              | Official statistics (Belstat), EBRD, IFIs statistics | Structural reforms initiated and consistently implemented |
|   |   | Share of private sector in GDP,                    |                                     | 40%                               |  |   |
|   |   | Share of SME in GDP,                               | 23%                                 | 35%                               |  |   |
|   |   | Share of SMEs in employment,                       | 28% (2014)                          | TBD                               |  |   |
|   |   | SME loans as % of total loans,                     |                                     |                                   |  |   |
|   |   |  | 29% (2015)                          | TBD                               |  |   |
|   |   | Exports of goods and services as percentage of GDP | TBD                                 | TBD                               |  |   |
|   |   | Share of women controlled SME,                     |                                     |                                   |  |   |
| Number of firms with access to credit with EU support | TBD   | TBD  |                                     |                                   |  |   |
|   |   | TBD  | TBD                                 |                                   |  |   |

|  |  |   |             |                                   |   |  |
|--|--|---|-------------|-----------------------------------|---|--|
| <b>Specific objective(s):<br/>Outcome(s)</b> | 1. Promote small and medium enterprises as core engine of local and regional growth  | Number of SME assisted annually through advisory services projects with local consultants and with international industry advisers) | 55/4 (2015) | 60/8 (2019), 210/32 (2017-2020)   | EBRD Standard Reporting available through the MIS | Government committed to and actively promoting SMEs and facilitating conditions of their growth        |
|  | % of projects outside capital Minsk (m/w)  |   | 36% (2015)  | 50% (2019)                        |   | Gradual removal of administrative and legal restrictions on SME development                            |
|  | of which % projects outside regional centres   |   |             | 70% (2019)                        |   | Government commitment to a level playing field to promote SME entry and development and to smooth exit |
|  | Number of local consultants trained to deliver business support on the local market.   |   | 55% (2015)  |                                   |   |  |
|  | % of projects rated successful or highly successful (m/w)  |   | 22 (2015)   | 30 (2019), 100 (2017-2020)<br>70% |   | Development of a financial sector to lower costs and increase SME access to financial intermediation   |
|  | Number of round tables, seminars or workshops for Belarus entrepreneurs and consultants to disseminate sector and management best practices; |   | 70%         | 5 (2019), 20 (2017-2020)          |   | Overall stable macroeconomic environment   |
|  | Number of consultants pre-qualified annually   |   | 2 (2015)    | 20                                |   |  |
|  | Of which are regional  |   | 22 (2015)   | 30 (2019), 100 (2017-2020)        |   |  |
|  |  |   | 50%         |                                   |   |  |
|  |  |   | 18%         |                                   |   |  |



|               |  |  |                     |                                  |  |  |
|---------------|--|--|---------------------|----------------------------------|--|--|
| <b>Output</b> | 2. Support economic initiative, competitiveness and innovation for local inclusive development | <p>Number of men/women benefiting from local employment-generating strategies and action plans, disaggregated by age, sex and disability</p> <p>Extent of capacity by national and local actors for relevant policy formulation and implementation of local employment-generating strategies and action plans</p> <p>Extent to which legal, institutional and policy frameworks are adapted to the application of new approaches to support the implementation of local strategies and action plans, including social enterprises, social innovations, microfinance, social contracting, impact investment and outcome buying</p> <p>Number of new local development initiatives in line with local employment-generating strategies and action plans</p> <p>Number of social enterprises, MSMEs, NGOs and other local entities which benefited from direct funding mechanisms</p> | N/A (2016)          | At least 1 million people (2019) | Regular national and local government reports<br>Media reports<br>Legal reviews, including through online legal databases<br>Expert assessments<br>Regular project reports | Government continues its policy of expanding the role of MSMEs,<br>Government committed to and actively promoting MSMEs and facilitating conditions of their growth<br>Gradual removal of administrative and legal restrictions on MSME development;<br>Development of a financial sector to lower costs and increase MSME access to financial intermediation;<br>Overall stable macroeconomic environment |
|               |  |  | Insufficient (2016) | Partially improved (2019)        |  |  |
|               |  |  | Inadequate (2016)   | Partially improved (2019)        |  |  |
|               |  |  | 0 (2016)            | At least 150 (2019)              |  |  |
|               |  |  | 0 (2016)            | At least 200 (2019)              |  |  |
|               | Result 1.1 Improved SME competitiveness,   | % of assisted enterprises  |                     |                                  | Project reports through  | Local authorities  |

|  |   |   |                            |            |   |   |
|--|---|---|----------------------------|------------|---|---|
|  | performance and productivity through qualified business advice from local and international consultants;  | which report an increase in turnover one-year after the project.  | 85% (2015)                 | 85% (2020) | regular reporting<br>Questionnaires and interviews, conducted on an event-by-event basis<br>Client surveys<br>Media reports | maintain interest in territorial development approaches |
|  | Result 1.2 Strengthened quality and supply of local business advisory services, reinforced institutional capacities of professional associations; | % of assisted enterprises report an increase in number of employees after the project;  | 74% (2015)                 | 75% (2020) |   |   |
|  | Result 1.3 Transfer of industry know-how to SMEs through the dissemination of best practices and success models                                   | Increased supply of business advisory services: % of projects implemented with new consultants without previous engagement in SBS activities.                         | 35% (2015)                 | 20% (2020) |   |   |
|  |   | % of consultants trained who report significant improvement in their performance (increased staff, increased turnover, usage of new instruments)                      | 0 (currently not measured) | 50% (2020) |   |   |
|  |   | Increased demand for local advisory projects as seen by % of assisted enterprises declare to have engaged a consultant again within one year after project completion | 40% (2015)                 | 50% (2020) |   |   |

|  |  |   |           |                     |   |   |
|--|--|---|-----------|---------------------|---|---|
|  | Result 2.1 Participatory development of employment-generating local strategies and action plans based on the implementation of Area-Based-Development (ABD) Passports; | Number of ABD Passports, including gender and vulnerability profiles  | 0 (2016)  | At least 21 (2019)  | Project reports through regular reporting<br>Questionnaires and interviews, conducted on an event-by-event basis<br>Client surveys<br>Media reports | Local authorities maintain interest in territorial development approaches |
|  |  | Number of local employment-generating strategies and action plans   | 0 (2016)  | At least 21 (2019)  |   |   |
|  |  | Availability of comprehensive proposals for improving legal, institutional and policy frameworks                    | No (2016) | Yes (2019)          |   |   |
|  | Result 2.2 Capacity building and policy formulation to support the implementation of the employment-generating local strategies and action plans;                      | Number of men/women benefiting from introduced capacity building measures, disaggregated by age, sex and disability | 0 (2016)  | 1,000 people (2019) |   |   |
|  |  | Number of men/women benefitting from targeted trainings, disaggregated by age, sex and disability                   | 0 (2016)  | 500 (2019)          |   |   |
|  |  | Number of grants, microfinance loans and other forms of access to finance   |           | 200 (2019)          |   |   |
|  | Result 2.3 Direct funding facility to support the implementation of the employment-generating local strategies and action plans.                                       | Number of awareness raising and advocacy campaigns covering key objectives  | 0 (2016)  |                     |   |   |
|  |  |   | 0 (2016)  | 4 (2019)            |   |   |