



LLM International Business Law 2011/2012

Master Thesis

Governmental role in promoting small and medium-sized enterprises in EU and particularly in Slovakia

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INTRODUCTION

The objective of any business is to prosper and to be able to compete with competitors in the common market. Withstand the weak periods and benefit from the strong. Each country has the same objective and wants to grow and be able to compete with other countries. And one way to achieve this growth is creating the right business environment since companies, especially SMEs, are the foundation of the economy of each country. They are adaptable and can therefore respond quickly to market demands. In addition, they are an important source of jobs and they are also a means of a balanced development of regions. In another words, these businesses are a cornerstone of any functioning economy. However, despite their great importance for the domestic market they are often in a difficult position. And therefore every state should take care of creating favorable conditions for the functioning of these enterprises, whether by legislation, transparency, reducing red tape, and other support programs.

In Slovakia there are many organizations that are geared to help these businesses, whether it is public bodies, nonprofit organizations or private entities. They are investing considerable resources to support small and medium-sized enterprises. Entry into the European Union has increased the opportunity for funding from the European region.

This thesis addresses the tools to support SMEs. It defines the selected support programs as well as the main providers. The aim of this work is to compare the capabilities and status of small and medium-sized enterprises Europe-wide and in particular in Slovakia, forms of their financing through selected programs from state budget as well as European funds.

The road to a knowledge economy is a major challenge for the EU. Its mastering enables a competitive and dynamic economy with more and better jobs and higher levels of social security.

The work is divided into five main parts. The first chapter defines small and medium enterprises. In addition to their definition, it examines their significance and at the same time their weaknesses, that are the reason why there should be small and medium business support. The second part examines forms of financing divided into two main categories and how the role of government interacts with other relevant players like venture capitalists. The third chapter describes EU institutions that finance SMEs and the system of European funds, thematic programs, financial instruments and support international activities of SMEs, the European Union has established and introduced to encourage small and medium enterprises.

The fourth section describes the specific programs to support SMEs mainly by European Commission and the tools by which the Slovakia as a member state can through its government kick-start entrepreneurship. And the last chapter focuses on promotion for SMEs in Slovak republic, primarily on governmental institutions providing their support.

Research questions

1. How can be the governmental role properly defined given possible interaction with other relevant players, e.g. venture capitalists?
2. What can EU institutions do to finance SMEs?
3. How can the government kick-start entrepreneurship in Slovakia?

1. Concept and theoretical aspects of Small and Medium-sized enterprises

The beginning of an increased interest for SMEs had begun by the Bolton report which was published in Britain in 1971. The report was created on order for the British government, for the intent of definition, a deeper understanding of SMEs and identifying possible ways to support them. Thanks to this report came SMEs in the economic and academic awareness.¹ In Slovak republic, the dynamics of SMEs changed after the year 1989, in transition of the economy, privatization and the subsequent arrival of private capital from abroad. Previously this category of enterprises in Slovakia practically did not exist, so they have been overlooked.² Definition of an SME is recognized by Slovakian jurisdiction only from the 1995, as amended by Act no. 100/1995 Z. z. of Law on State support for SME, but due to intensified criticism against the misleading categorization, which did not include the financial indicators of enterprise, as of 1. January 2000 Law on State Aid 213/1999 came into effect. This leads to harmonization of classification of SMEs, which is now in accordance with the recommendations of the Commission. Within the harmonization process of the policies in Slovakia in the field of SMEs, there have been many modifications of laws, for example: Act no. 366/1999 of the Laws on Income Tax; Act no. 500/2001 of the Laws, which amended the Commercial Code; Act no. 565/2001 Collection of laws on investment incentives; Act no. 193/2001 Collection of Laws on the promotion of industrial parks; Amendment to the Act on State Aid 434/2001 Collection of Laws; Government Decree no. 333 from 3.4.2002, through which the government agreed to adopt the European Charter for Small Enterprises.³

1.1 Definition of SMEs

“More than 99 % of Europe’s 20 million private manufacturing and services businesses are SMEs, ranging from specialist high-technology companies to traditional craft

¹ BEAVER, Graham: Small Business, Entrepreneurship and Enterprise Development. [electronic version]. Pearson Education, 2002. [23.októbra 2008]. p. 2. and 36. Available at [http://books.google.sk/books?id=fppDdj9bmeoC&pg=PA36&lpq=PA36&dq=Bolton+Report+\(1971\)&source=bl&ots=NvW6SVQt38&sig=zOIwGLH9eNRyMo9GVEatTMC1qY8&hl=sk&ei=mamNSd35DJXU0gW6_N2oCw&sa=X&oi=book_result&resnum=18&ct=result#PPP3,M1](http://books.google.sk/books?id=fppDdj9bmeoC&pg=PA36&lpq=PA36&dq=Bolton+Report+(1971)&source=bl&ots=NvW6SVQt38&sig=zOIwGLH9eNRyMo9GVEatTMC1qY8&hl=sk&ei=mamNSd35DJXU0gW6_N2oCw&sa=X&oi=book_result&resnum=18&ct=result#PPP3,M1). ISBN 0273651056

² HOLEŠOVÁ, Henrieta: Malé a stredné podnikanie. Bratislava: Grafis, s.r.o., 2003, p. 23. ISBN 80-968789-9-9

³ CHODASOVÁ, Alena – BUJNOVÁ, Darina: Podnikanie v malých a stredných podnikoch. Bratislava : EKONÓM, 2008. p. 9 – 10. ISBN 978-80225-2554-1

based firms. Together, they provide two-thirds of all employment in the EU and continue to generate a high proportion of any new jobs.”⁴ This also applies to Slovakia.

Basis for determining SME is the definition of an enterprise by the European Commission: “enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.”⁵ The basic legal regulation in Slovakia for interpreting entrepreneurship is Commercial Code, other additional elements can be also found in Civil law or Labor Code. All of this legislation is subject to constant change, with the purpose of unification of laws for EU member states and business support environment in the Union.

The main factors determining whether a company is an SME are the number of employees, according to annual turnover or annual balance sheet total and some are determined by the independence. The current European Unions definition of SMEs states that: “the turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively.”⁶ The goal of this classification is to ensure that enterprises with economic strength greater than that of SME can not benefit from the aid designed for SMEs.

⁴ EC: Changing the perspectives for manufacturing SMEs: EU funding for industrial SMEs with in-house research capacity, p.6, Luxemburg: Publication Office of the European Union, 2009

⁵ Commission Recommendation [2003/361/EC](#) of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises [Official Journal L 124 of 20.05.2003]

Available at www: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:EN:PDF>

⁶ OECD, 2005, OECD SME and Entrepreneurship Outlook: 2005, OECD Paris, page 17.

For better clarity are the above mentioned criteria summarized in table below.

Table 1 – Criteria for classification of SMEs by European Commission

THE NEW THRESHOLDS (Art. 2)

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million (in 1996 € 40 million)	or	≤ €43 million (in 1996 € 27 million)
Small	< 50	≤ €10 million (in 1996 € 7 million)	or	≤ €10 million (in 1996 €5 million)
Micro	< 10	≤ €2 million (previously not defined)	or	≤ €2 million (previously not defined)

Source: European Commission: The new SME definition (User guide and model declaration). p. 14

“The headcount corresponds to the number of annual work units (AWU), i.e. the number of persons who worked fulltime within the enterprise in question or on its behalf during the entire reference year under consideration.”⁷ The work of employees who did not work the full year, or who had not agreed to work full-time or the work of seasonal workers is included in the units corresponding to a fraction. “The data to apply to the headcount of staff and the financial amounts are those relating to the latest approved accounting period and

⁷ Commission Recommendation [2003/361/EC](#) of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, Annex I, Article 5, page 5

calculated on an annual basis. They are taken into account from the date of closure of the accounts. The amount selected for the turnover is calculated excluding value added tax (VAT).”⁸ If the enterprise is newly established and still can not get data from the closed accounting period, for the calculation will be used efficient estimates in good faith during the first accounting period. If the company in any year exceeds any of the conditions for its classification in one of the categories of SME, it does not mean that they would automatically lost their status. This would occur only if the limits are not entered into business for two consecutive accounting periods. In the case of inclusion or exclusion of the business in the SME category, also plays a role its independence and interdependence with other enterprises. Recommendation 2003/361/EC introduces three concepts. Autonomous enterprise, partner enterprise and linked enterprise. “Enterprise is autonomous if it: does not have a holding of 25 % or more in another enterprise; is not owned 25 % or more by an enterprise or public body or jointly by several linked enterprises or public bodies, with a few exceptions; does not draw up consolidated accounts and is not included in the accounts of an enterprise which draws up consolidated accounts and is thus not linked enterprise. Partners are enterprises which are neither autonomous nor linked to one another. An enterprise is a partner of another enterprise if: it has a holding of 25 % to less than 50 % in the other enterprise; the other enterprise has a holding of 25 % to less than 50 % in the applicant enterprise; the applicant enterprise does not draw up consolidated accounts which include the other enterprise, and is not included by consolidation in the accounts of the other enterprise or of an enterprise linked to it. Linked enterprises correspond to the economic situation of enterprises which form a group through the direct or indirect control of the majority of the capital or voting rights (including through agreements or, in certain cases, through individual shareholders), or through the ability to exercise a dominant influence on an enterprise.”⁹ The last type of enterprise is less common than autonomous or partner enterprise. To avoid confusion European Commission adopted Seventh Council Directive 83/349/EEC on consolidated accounts, which states that “a member state shall require any undertaking governed by its national law to draw up consolidated accounts and a consolidated annual report”¹⁰ in accordance with the conditions

⁸ Commission Recommendation [2003/361/EC](#) of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, Annex I, Article 4, page 5

⁹ Summaries of EU legislation
http://europa.eu/legislation_summaries/enterprise/business_environment/n26026_en.htm

¹⁰ Seventh Council Directive 83/349/EEC of 13 June 1983 based on Article 54(3)(g) of the Treaty on consolidated accounts, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1983L0349:20090716:EN:PDF>

set out in Article 1 of the Directive, so undertaking will generally instantly know that it is linked.

1.2 The role of SMEs

SMEs are a major component of business environment of almost every country. The benefits are enormous, for the economy employment, or for different regions of the country as a whole. They have a considerable impact on stabilizing the economy. Because of their size, they can adapt to changing conditions much more flexible than large firms. Therefore they are also referred to as a “pulling power” of the national economies. EU refers to this sector as the “backbone” of the economy, the driving force for employment (being source of around 65 million jobs) and a breeding ground for business ideas, entrepreneurship and innovation. However they are very sensitive to changes in the business environment and involve a certain amount of risk-taking which is related to their character. “Over the centuries, the society has not come up with the inventions by avoiding mistakes - but rather by learning from them.”¹¹ Also by the words of Albert Einstein “anyone who has never made a mistake has never tried anything new”.

These companies also tend to be very important in terms of regions. Usually they are in close relationship with the local region and represent the local capital. They are an important source of employment in the region and also throughout the country and contribute to economic growth in these regions and countries. Therefore, one of the ways to revitalize the region may be the promotion of SMEs. Their significance is also in that they are usually not owned by foreign entities. They represent domestic production, domestic capital and participate in creation of domestic GDP. Consequently it is undeniable to say that SMEs are important in terms of regions, nations and even the European region.

Nevertheless, small and medium-sized enterprises (SMEs) have weaknesses that large companies do not experience. “Due to their limited size and their generally lower creditworthiness, their access to financial market instruments is more limited than for large enterprises.”¹² They have less access to foreign capital and banks prefer to lend money to known and established SMEs or respond by charging higher interest rates. Investors are less

¹¹ The European Charter for Small Enterprises
http://ec.europa.eu/enterprise/policies/sme/files/charter/docs/charter_en.pdf

¹² Ayadi, Rym; Bernet, Beat; Bovha-Padilla, Simona; Franck, Tom; Huyghebaert, Nancy; Gaspar, Vitor; Veugelers, Reinhilde, Financing SMEs in Europe, p.7, SUERF Studies vol. 2009/3, Available at:
<http://www.suerf.org/download/studies/study20093.pdf>

helpful in such cases because there is no certainty whether the new business entity will succeed in the market. “Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing SMEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit.”¹³ This creates a financing gap, which is even higher with innovative SMEs because of their high risk nature. In order to limit the financing gap governments need to be able to measure the size of the SME financing gap and evaluate the impact of government actions by establishing international benchmarks to facilitate comparisons of the relative performance of markets in providing financing to SMEs and entrepreneurs and to shed light on outstanding financing gaps and issues.¹⁴ SME have limited access to capital, which means a limited possibility of development and reduced option in terms of acquisition and employment of leading experts from the ranks of scientific staff or managers. With limited funds is also related a greater risk of falling into insolvency in the event that SME purchasers do not pay on time. A further disadvantage deriving from the limited resources is worse access to contracts where high initial investment is required by SME and unlike large companies they simply do not have the means. SMEs have more difficult job of fighting for large public contracts. Only a tiny percentage of SMEs get the lucrative contracts for example, in infrastructure, health or defense. Finally SMEs suffer from lack of clarity thanks to the legal regulations. System of administrative acts is complicated, changes often and their interpretation is not easy. Moreover, it is costly for them to pay the various consultants and lawyers and the possibilities for SMEs to access information and advice are also very limited. In order to solve these issues “policy makers need to ensure that the tax system does not inadvertently place SMEs at a disadvantage. They should also review the legal, tax and regulatory framework to ensure that it encourages the development of venture capital. At the same time, national policies should encourage diverse forms of institutional savings and institutional investors should be regulated flexibly.”¹⁵

¹³ Policy Brief; Financing SMEs and Entrepreneurs, November 2006, page 6, Available at: <http://www.oecd.org/cfe/37704120.pdf>

¹⁴ Policy Brief; Financing SMEs and Entrepreneurs, November 2006, page 6, Available at: <http://www.oecd.org/cfe/37704120.pdf>

¹⁵ Policy Brief; Financing SMEs and Entrepreneurs, November 2006, page 6, Available at: <http://www.oecd.org/cfe/37704120.pdf>

1.3 Role of SMEs in Slovakia

For the renewed interest of small business development can be considered the period of 90s and later it became also valued to Eastern European countries. After the fall of communism, there was a sharp increase in small businesses in Slovakia, however most of them have ceased to exist, because they were not sufficiently financially or professionally equipped for what this change has brought.¹⁶

In 2004, Slovakia joined the EU and successfully completed phase of Slovakia's preparation for EU membership and began a new phase in which Slovak businesses compete for their own future with companies from the European Union on single market and under the same conditions. Therefore, since 2004, policy guidelines for support of small and medium businesses were looking to improve the business environment in Slovakia by getting it closer to the business environment in the EU. "The share of small and medium-sized enterprises in the Slovak economy in 2004 was comparable to that of developed countries, while the total numbers of all businesses in SR, 99 % were small and medium-sized enterprises."¹⁷

This situation lasted until the beginning of the crisis. The financial crisis that turned into a global economic crisis also affected Slovakia with some delay. The Slovak economy is heavily export-oriented and decline in demand for export markets lead to reduction in the activities of manufacturing companies and their suppliers. At the same time, the availability of credit to businesses and households was reduced, as reflected in a slowdown of investment and household consumption.¹⁸ Although the Amendment Act no. 5/2004 on employment services introduced stronger forms of support to increase employment in small and medium-sized enterprises, in particular support for starting a business start-up entrepreneurs and support for job creation and employment of graduates, but generally there much more attention and support of bigger companies. Devoting more attention to the problems of small and medium-sized enterprises should be a priority, especially when taking into account their dominant share in total employment in Slovakia, as well as a vehicle for innovation in the economy. SMEs have even more significant position in several regions of the Slovak Republic, where larger companies are absent. They also act against monopolistic tendencies

¹⁶ Monika Majková: Možnosti financovania malých a stredných podnikov v SR. Tribun a.s., Bratislava 2008, ISBN: 978-80-7399-590-4, p. 21

¹⁷ Monika Majková: Možnosti financovania malých a stredných podnikov v SR. Tribun a.s., Bratislava 2008, ISBN: 978-80-7399-590-4, p. 21

¹⁸ LIPKOVÁ a kol.: Medzinárodné hospodárske vzťahy. Sprint vŕa, Bratislava 2006, ISBN 80-89085-55-5, p. 414

and seek the most suitable application on the local market, for example by meeting the individual wishes.¹⁹

According to the Statistical Office of the Slovak Republic, the Slovak economy slowed, although, compared with the euro area is still doing well and gross domestic product continues to grow.

One way how Slovakia can get out of the crisis is to start to focus on the promotion of their country-production and consumption of its population and businesses. Western Europe will have to save, but Eastern Europe has low debt which may be increased. The market potential is here, but it needs entrepreneurial spirit. However it will not be so easy, due to the large tax burden.

¹⁹ Jitka Srpová, Václav Řehoř a kolektiv: Základy podnikání. Grada Publishing a.s., Praha 2010, ISBN 978-80-247-3339-5, page 40

2. Advantages and disadvantages of internal and external forms of financing of businesses

This chapter contains financing options for small businesses in general. Particularly the advantages and disadvantages of each one. For better understanding of the whole topic of financing the SMEs, it is also important to mention the characteristics of the individual forms of support as a whole.

“While not every small business turns into a multinational, they all face the same issue in their early days – finding the money to enable them to start and build up the business and test their product or service.”²⁰ At the beginning of its existence, the firm must have sufficient financial resources to be able to invest in assets required to operate the company. These assets then generate certain sums of money that are used either to maintain or increase of capital facilities or otherwise properly invested. An entity responsible for running the company is usually a financial manager. This is essentially an intermediary between companies and financial markets, decisions on what financial transactions will conduct business.

Financing of SMEs is complicated also because there are specific of range of financing sources for different stage of their development. Early stages, it is usually a group called family, friends and fools or business angels and then government funds. However for later stages it is firstly important to get finance from venture capitalists to establish certain track record or size in order to get bank loans in later stages of financing. “Governments can play an important role in supporting the SME sector, particularly where there is market failure or where incomplete markets inhibit the provision of adequate financing on terms suitable for the SME’s stage of development.”²¹ Among others government promotion of SMEs should also be focused at making markets work more efficiently and providing incentives for the private sector to assume an active role in SME finance and if necessary banking systems should be reformed in line with market-based principles.²²

Each company uses a variety of sources to finance its activities. It is useful to distinguish different forms of financing. “Traditionally SMEs have been financed to a great

²⁰ OECD, 2006, OECD Financing SMEs and Entrepreneurs: 2006, OECD Paris, page 1.

²¹ Policy Brief; Financing SMEs and Entrepreneurs, November 2006, page 6, Available at: <http://www.oecd.org/cfe/37704120.pdf>

²² Policy Brief; Financing SMEs and Entrepreneurs, November 2006, page 6, Available at: <http://www.oecd.org/cfe/37704120.pdf>

extent by internal sources both from the business owner and through retained profit. Many SMEs also need external sources of finance.”²³ While it may seem that the "better" is always finance company by internal resources, reasonable businessman in appropriate cases, reaches also after external sources. External sources may in fact in some cases increase the profitability of own capital.

I decided to use the following division, because it seems to be the most basic division adequate to outline the main points of business financing options.

2.1 Internal sources of financing business

“Internal financing is the most common source of SME financing, and includes owner investment, as well as funding through retained profits, and / or the sale of assets.”²⁴

Firms may be financed in different ways, which are influenced by the preferences of an individual entrepreneur business, but mainly according to the options that are available. Internal financial resources available to business firms are not only important in that they are the basis for the majority of start-ups, but can greatly help to external financing.²⁵

The financing company using its own resources is called self-financing. “Self-financing is the number-one form of financing used by most business startups.”²⁶ There are several internal sources. For more transparent view this topic is divided to: self-financing in the narrow sense, depreciation and amortization, retained earnings and other internal sources of funding.

2.1.1 Self-financing in the narrow sense

“Self-financing” means financing out of retained profits.²⁷ Self-financing is set when the company creates a profit per account period but this profit is not a paid to the member (shareholder) in the form of dividends, but is retained in the company. The amount so retained

²³ EC; Arjan Ruis (EIM), André van Stel (EIM), Achilleas Tsamis (CSES), Wim Verhoeven (EIM) and Mark Whittle (CSES), Study on cyclicalities of SME finance: Access to finance determines SMEs' business cycles, Zoetermeer, 23 March 2009, page 5

²⁴ EC: Cyclicalities of SME finance, May 2009, page 15, Available at: <http://www.insme.org/files/3621>

²⁵ World Bank, Firms' Access to Finance: Entry, Growth, and Productivity, Chapter 2 from "Finance for All" Report, Available at: http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA_ch02.pdf, page 57

²⁶ Self-Financing Your Startup, Article available at: <http://www.entrepreneur.com/article/217376>

²⁷ Thomas Bossert, Thomas Bossert, Methods of Equity Financing (Eigenkapitalfinanzierung) 2003, page

earnings depends on several factors, among others, levels of taxation and dividend policy of the company.

Self-financing may be the only source of funding for business or used in conjunction with external funding.²⁸ There are several advantages and disadvantages of self-financing.

Table 2 – Advantages and Disadvantages of Self-financing

Advantages	Disadvantages
Relative ease of securing funding	May limit size and scope of start-up
Avoid complexity created by adding partners	May limit ability to grow
Better alignment with entrepreneur's aspirations	Increases exposure to personal risk from business failure
No dilution of profits or gains	Entrepreneur may lack all necessary experience, contacts, skills, and/or knowledge
Eventual exit process is often simpler	

Table 10.1

Source: Jeffrey R. Cornwall; David O. Vang; Jean M. Hartman: Entrepreneurial Financial Management: An Applied Approach, Second Edition, Powerpoint presentation, Available at: <http://www.drjeffcornwall.com/books/>

There are two types of self financing, open self-financing and hidden self-financing. In the case of open self-financing, “the financing results from retained gains which are accounted at the balance sheet and the statement of income. The company has to pay tax on the retained gains. Therefore the financing can only result from the profit after taxes. The amount gets transferred into capital reserve or revenue reserve.”²⁹ But in business practice exists also hidden self-financing. “Financing by hidden reserves - also called silent reserves - is handled by withholding retained earnings.”³⁰ It consists of undervaluation of assets - assets are valued at historical cost basis and its value is now higher (the difference between this

²⁸ Jeffrey R. Cornwall; David O. Vang; Jean M. Hartman: Entrepreneurial Financial Management: An Applied Approach, Second Edition, May 2009, page 167

²⁹ Thomas Bossert, Thomas Bossert, Methods of Equity Financing (Eigenkapitalfinanzierung) 2003, page

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³⁰ Thomas Bossert, Thomas Bossert, Methods of Equity Financing (Eigenkapitalfinanzierung) 2003, page

16

historical and current price acquiring market price is hidden liquidity); inactivating property - property that is produced by the enterprise for own use is so-called "activated" (this means that it will be translated into long term business assets and the cost of these products are recognized as revenue and by non-activation, revenue and taxable income declines and this leads to the retention of liquid assets); creation of excess reserves - leading to an overestimation of liabilities, loss of profits and detained liquidity in the company.³¹ To summarize, the effect of hidden self-financing is mainly in delay of expenditure related to tax liability.

2.1.2 Depreciation and amortization

Depreciation and amortization are accounting concepts which describe the loss of asset value over time. Depreciation and amortization methods are used by companies distribute the cost of assets throughout their life and provide a clearer picture of their financial well-being.³² They refer to different types of assets. "Depreciation is used for tangible assets like machinery, a warehouse or a vehicle, while amortization is used for intangible assets like goodwill, a patent, a license or a trademark."³³

2.1.3 Reserves

"Retained earnings are all the profits a company has earned but not paid out to shareholders in the form of dividends."³⁴ Companies create reserves in order to be prepared for expenses that are either expected (with their future amount and time unknown), or expenses that are incidental and which represent a business risk. Again similar conditions as for depreciation apply by which reserves must be reflected in the price of products and the price realized in the market.

2.1.4 Other internal sources of funding

³¹ Thomas Bossert, Thomas Bossert, Methods of Equity Financing (Eigenkapitalfinanzierung) 2003, page 16-17

³² Andrew Latham: Depreciation & Amortization Methods, Available at: <http://homeguides.sfgate.com/depreciation-amortization-methods-2881.html>

³³ Andrew Latham: Depreciation & Amortization Methods, Available at: <http://homeguides.sfgate.com/depreciation-amortization-methods-2881.html>

³⁴ Evangeline Marzec: What Are Retained Earnings in Accounting?, available at: <http://smallbusiness.chron.com/retained-earnings-accounting-12090.html>

Other possibilities of internal sources include rationalization. It is the improvement of efficiency of circulation of capital in the company. The aim is to reduce the capital tied in the same volume of production and turnover. For example, may lie in shortening the time needed for recovery claims on, or reductions in inventory.

Another one is transfer of property which is the transformation of the most liquid form of assets - money. It consists in the sale of unneeded tangible, intangible or financial assets.

2.2 External sources of financing business

Many SMEs will also need external sources of funding. “External financing is any kind of business funding you acquire from sources outside the company,”³⁵ regardless of whether it is from other businesses, banks, insurance companies, or state. A differentiation can be made between informal financing sources (for example the so-called three F’s – friends, family and fools and through business angel investments) and formal financing (like debt finance in the form of loans from banks and other financial institutions or through risk capital, factoring and trade credit.)³⁶ Although external sources are usually smaller part of funding, they are far more diverse, which is apparent from the possibilities of financial market.

Among advantages of external financing is that it allows the use internal financial resources for other purposes or allows financing projects the company could not fund on its own. However some external resources require giving up a portion of the ownership in the company. Also external resources will require return of their investment in the form of interest.³⁷

The external sources of funding include: debt financing (including special forms of financing such as leasing, factoring, forfeiting), grants and donations and equity financing.

2.2.1 Debt financing

³⁵ Arnold Anderson: The Advantages & Disadvantages of External Financing, Available at: <http://smallbusiness.chron.com/advantages-disadvantages-external-financing-10033.html>

³⁶ EC: Cyclicity of SME finance, May 2009, page 14, Available at: <http://www.insme.org/files/3621>

³⁷ Arnold Anderson: The Advantages & Disadvantages of External Financing, Available at: <http://smallbusiness.chron.com/advantages-disadvantages-external-financing-10033.html>

“Debt finance through traditional bank lending and leasing are the most important external sources of finance.”³⁸ The basis of the debt financing is a loan agreement that specifies the conditions for granting and repayment of the loan. It is especially necessary to determine the loan amount, loan repayment periods, interest rate (fixed or variable), duration of loan repayment and a way of ensuring the loan. The cost of financing business loans are represented by interest on the loan.

Bank loan is a financial instrument through which the bank with an individual contract basis, lends a debtor certain amount of money for a fixed period of time with an obligation to pay for borrowing capital with an interest rate and properly perform other obligations of the debtor to which the debtor is committed by the credit agreement (for example to use provided resources in accordance with the defined purpose of the loan and if it is not a loan with a free use.)

“Bank loans are used for financing investments, working capital and stock financing. Bank lending may be secured or unsecured and will depend on the credit rating of an SME.”³⁹

Debt finance by bank loans are the traditional source of SMEs financing. However “small and medium-sized businesses in the eurozone say getting bank loans has become harder, according to the results of a survey released by the European Central Bank.”⁴⁰

Bank lending is important part of services that banks provide and enables the business to grow. On the other hand banks have to earn a return profit (which is determined by the market) in order to sustain the business cycle. This creates the risk of a bank loan which raises demand for business in some ways: “The primary credit risk of small business loans is that they will not be repaid”⁴¹, which depends on the level of the finance management of the company. This risk is enhanced by the fact that loan repayment and interest payments are fixed payments independent to financial results. It should be noted of the lending is a business risk also for the banks. The requirements for banks to provide loans and the possibility for securing them by businesses makes it difficult to access credit. In this case the government can reform the banking system to effectively decide which SMEs are worth investing in and provide micro-credit and micro-finance schemes specifically designed on a case by case basis. Among the instruments for ensuring credit are (in addition to general and special conditions)

³⁸ EC: Cyclicity of SME finance, May 2009, page 16, Available at: <http://www.insme.org/files/3621>

³⁹ EC: Cyclicity of SME finance, May 2009, page 17, Available at: <http://www.insme.org/files/3621>

⁴⁰ EUBusiness Ltd.: Eurozone SMEs say access to bank loans deteriorating: ECB, Available at: <http://www.eubusiness.com/news-eu/finance-public-debt.g7z/>

⁴¹ Michel Dietsch, Joël Petey ; The credit risk in SME loans portfolios: Modeling issues, pricing, and capital requirements, March 2002, page 304

various forms of personal loans or credit guarantees (liability of the guarantor, bank guarantees, ensuring bills, etc.).

Other forms of financing include leasing, factoring, forfeiting. “Leasing is a special form of asset-based financing where a leasing company makes an asset it owns available to another party for a certain period of time, in exchange for payment.”⁴² The advantage of leasing is that the company might not have high capital necessary for acquiring new assets and pays a specified amount at regular intervals. “Before extending a capital equipment loan, banks will usually want to see two to three years of financial records - which most new companies do not have. Leasing companies, on the other hand, usually require only six months to a year of credit history before approving a car, furniture or office equipment lease.”⁴³ A disadvantage can be that procurement of fixed assets for leasing is more expensive than the procurement of the same property by own means, or on loan. However, for small and medium enterprises leasing may be a suitable form of financing because it gives the company a certain amount of flexibility, which is for small and medium-sized key, if they wish to remain on the market. Also according to the report made by Leaseurope “16.7% of total SME investment was financed by leasing in 2010”⁴⁴ which makes this source a large portion of external financing of SME in Europe. There are several forms of leasing, which differ from each other in terms of subjects and leasing contracts.

Factoring is form of short-term financing, which involves selling invoices to a factor. “The factor pays an advance - typically up to 85% - on all approved invoices. The factor will then work on behalf of the business - managing the sales ledger and collecting money owed by customers. Once a customer settles an invoice with the factor, the factor will release the remaining balance less any fees.”⁴⁵ Because the subject of factoring are unsecured receivables, businesses applying for factoring services should therefore count with the fact that not all short-term receivables meet the internal requirements of factoring companies. Pre-selection of customers and suppliers for the claims against them arise from efforts to minimize credit risk factors which undergo a buy-the receivables. Factoring differs from a loan in that it emphasizes the value of the receivables and not the firm's credit worthiness. It is

⁴² Leaseurope; The Use of Leasing Amongst European SMEs, 2010, page 1, Available at: <http://www.finansbolagens-forening.se/system/files/LeaseuropeSMEReportKeyFindings.pdf>

⁴³ EC: Cyclicity of SME finance, May 2009, page 18, Available at: <http://www.insme.org/files/3621>

⁴⁴ Leaseurope; The Use of Leasing Amongst European SMEs, 2010, page 2, Available at: <http://www.finansbolagens-forening.se/system/files/LeaseuropeSMEReportKeyFindings.pdf>

⁴⁵ Business Link; SME Finance, Best-Practice guideline, Corporate Finance Faculty, March 2009, Issue 48, page 7, Available at: <http://www.icaew.com/en/technical/corporate-finance/corporate-finance-faculty/~media/Files/Technical/Corporate-finance/Guidelines/sme-finance.ashx>

a purchase of financial asset (the receivable), so it is not a loan. And it involves three parties as to two parties involved in a loan.⁴⁶

In case of Forfeiting, it is a purchase of receivables arising in connection with exports of goods and services abroad with prolonged maturity and forfeiting companies then purchase such receivables and then discount them. “The advantages of forfeiting there are mainly that immediate liquidity, requires no down payment, you can finance up to 100% of the operation, more guarantees and less risk of default, less administrative controls and foreign currency debt, eliminate exchange risks and non-payment, is payable immediately and more.”⁴⁷

2.2.2 Equity financing

“The dissemination of private equity (PE) among small and medium enterprises (SME) is of interest both to institutions concerned with regional development and to PE firms looking for new areas of investment.”⁴⁸ This form of financing of the company lies in the fact that the investor will provide the company finances and expects their evaluation, and business owner provides the investor with a business plan - thus an idea, how to evaluate money. If the investor decides to take the risk, he becomes a business partner. This means that in case of failure he loses his money, as it is not a credit relationship. This method of financing is very beneficial for the company because it provides financial stability and even some know-how. Especially for businesses that have little chance of obtaining funding through a loan, this is a very good way of funding. In terms of the original owners of the company, this type of financing may have a negative side in the form of limiting their control over the enterprise. The investor may also decide to liquidate his share of deposited assessment funds with several ways that vary by whether the investor sells shares to the original owner or a third party.

“The two main providers of equity finance for SMEs are venture capitalists (VCs) – also known as private equity firms – and business angels (BAs).”⁴⁹

Typically, business angel (also known as angel investor) is an individual who wants to fund startup companies in return for equity. Angel investors bear extremely high risk and in return require high return on investment. “Investments from business angels tend to be

⁴⁶ EC: Cyclicalities of SME finance, May 2009, page 18, Available at: <http://www.insme.org/files/3621>

⁴⁷ Finance Seek; What is and advantages of forfeiting, January 2012, Available at: <http://financeseek.net/what-is-and-advantages-of-forfeiting.html>

⁴⁸ Malte Brettel, Wolfgang Breuer, Philipp Espel, Annas Abedin; Private Equity for SME: A Behavioural Model of the Demand-Side Perspective, July 17, 2009, page 3

⁴⁹ Business Link; SME Finance, Best-Practice guideline, Corporate Finance Faculty, March 2009, Issue 48, page 8, Available at: <http://www.icaew.com/en/technical/corporate-finance/corporate-finance-faculty/~media/Files/Technical/Corporate-finance/Guidelines/sme-finance.ashx>

smaller than those offered by VCs and usually target businesses in the early stages of development, or established businesses looking to expand.”⁵⁰ Angels often invest in areas that are close to them personally, preferred are especially high-tech industry. In order to make the business angels operate more efficiently, governments can use government technical support to help them. They can invest on their own or in angel networks. For instance, in Slovakia, such a network is represented by the Slovak business angels network. ”The Slovak business angels network (hereinafter “SBAN“) is an informal initiative of the National Agency for the Development of Small and Medium Enterprises, the Young Entrepreneurs Association of Slovakia and the *Hospodárske noviny* daily.”⁵¹ Among the advantages of financing through business angels is that they bring their knowledge, skills and experience into the business and they will not make a complicated process of evaluation. Investment from business angels usually represents an alternative source of finance for the entrepreneur. They're called "smart money", where the provision of finance is associated with providing expertise and contacts.⁵²

Venture capitalists are the ones who invest in the company in long term, to support its growth and success in the market. In exchange get the company shares, making them shareholders of the company. “They usually choose products or services with a unique selling point – or competitive advantage – with the potential for high returns. Start-up businesses are not usually considered by VCs as they look for proven track records.”⁵³ Venture capitalists favor larger projects at later stages of the business cycle and SMEs lack the track record or size and collateral. In contrast to the formal venture capital sector, the role played by early stage risk capital, is more eminent for innovative SMEs, and thus represents an opportunity for government policy intervention.⁵⁴ Investors do not provide only capital, but often the financial and strategic support to enable the company to achieve a significant market position. Generally, investors want to participate in the development of companies in which they invest, but that does not mean they that they will take over of daily management of the business. Most investors, however, expect that its representative will join the board of directors. In this way, companies can provide ongoing support to strategic issues and the

⁵⁰ Business Link; SME Finance, Best-Practice guideline, Corporate Finance Faculty, March 2009, Issue 48, page 8, Available at: <http://www.icaew.com/en/technical/corporate-finance/corporate-finance-faculty/~media/Files/Technical/Corporate-finance/Guidelines/sme-finance.ashx>

⁵¹ Slovak business angels network, Available at: <http://www.podnikajte.sk/businessangels.xhtml>
⁵² Fond Fondov; Available at:

<http://www.fondfondov.sk/article.php?node=99&s=&key=250607093702&lang=en>

⁵³ Business Link; SME Finance, Best-Practice guideline, Corporate Finance Faculty, March 2009, Issue 48, page 9, Available at: <http://www.icaew.com/en/technical/corporate-finance/corporate-finance-faculty/~media/Files/Technical/Corporate-finance/Guidelines/sme-finance.ashx>

⁵⁴ Policy Brief; Financing SMEs and Entrepreneurs, November 2006, page 6, Available at: <http://www.oecd.org/cfe/37704120.pdf>

management of the company through its rich experience gained from other growing businesses and their strategic contacts.

In Slovakia, it is precisely the lack of such firms, while one of the reasons is the insufficient use of venture capital. Among the companies in the field of venture capital in Slovakia are Fond fondov, Slovak Association of venture capital (SLOVCA) or Slovak-American Enterprise Fund (SAEF).⁵⁵ There are several options for better use of venture capital in Slovakia, for example “improving the business environment, increasing the level of economic freedom, the development of capital markets”⁵⁶, improving the legal, tax and regulatory framework to ensure that it encourages the development of venture capital.⁵⁷ Venture capital thus has no tradition in Slovakia and Slovak entrepreneurs are discouraged by the fact that a stranger should enter into their own work, even though they are benefiting from the resources to start or develop businesses. Another reason is the lack of awareness about this form of raising funds. The optimal form of venture funding is not based only on the contribution of capital but also experience, contacts and know-how designed to help overcome the risk associated with innovative ideas and achieve the maximum possible profit.

2.2.3 Grants and donations

Donations and grants are external sources of business financing which are irrecoverably granted to an enterprise with no right to participate in its management or economic result. In Slovakia they are currently provided from EU funds from the state budget of the Slovak Republic, the public budgets of foreign countries, the regional budgets and other entities to promote policies of economic and social policy. “Grants are not awarded on a case-by-case basis. Instead, they are subject to annual programming.”⁵⁸ Grants are most often aimed at encouraging investment or export activities of the enterprise, establishment and development of SMEs, regional development, innovation, science and research.

SUMMARY

⁵⁵ Industrial Property Office of the Slovak republic website; Hľadanie finančných zdrojov a obchodných partnerov, Available at: <http://www.indprop.gov.sk/?hladanie-financnych-zdrojov-a-obchodnych-partnerov>

⁵⁶ E-TREND; Why do we need venture capital, December 2010, Available at: <http://ekonomika.etrend.sk/ekonomika-slovensko/preco-potrebujeme-rizikovy-kapital.html>

⁵⁷ Policy Brief; Financing SMEs and Entrepreneurs, November 2006, page 6, Available at: <http://www.oecd.org/cfe/37704120.pdf>

⁵⁸ EC: Grants of the European Union; Available at: http://ec.europa.eu/grants/introduction_en.htm

The research question “how can be the role of government properly defined given possible interaction with other relevant players, e.g. venture capitalists” is explained in this chapter. Small companies are usually financed firstly by a group called family, friends and fools or business angels and then government funds. In this situation the role government comes into play in supporting the SME sector, because all businesses face the same issue in their early days and that is to find the money to start and build up their business. One of the reasons why financing of SMEs is complicated is because there are specific of range of financing sources for different stage of their development. That is why government needs to promote awareness of entrepreneurs about financing options available to them, for example through programs and initiatives like those mentioned in next chapters. Traditionally SMEs have been financed to a great extent by internal sources however many SMEs also need external sources of finance because they may in fact in some cases increase the profitability of own capital. For small and medium-sized businesses getting bank loans has become harder. In this case government can reform the banking system to effectively decide which SMEs are worth investing in. This is of course hard to achieve, but for instance giving small businesses another chance of getting loan, even after first unsuccessful startup, can give people who want to start their company more confidence to do so. One option for businesses that have little chance of obtaining funding through a loan, there is a very good way of funding possibility through equity financing. In order to improve equity financing the government can use technical support to help the business angels operate more efficiently, as they usually invest in high-tech industry or improve regulatory framework to ensure that it encourages the development of venture capital.

3. Classification of individual forms of support for SME in EU

There are many various aspects of how to classify the SME support. Topic SME support is very extensive and the individual components and aspects of this topic are scattered in various areas of European law, policies, programs, implemented by various agencies, institutions and authorities. The documents are almost always faced with the division, which includes only one area or aspect and they usually use their own classification, which is used to respond quickly to problems orientating in the area. However, it is appropriate to clarify support for SMEs as a whole. The distribution of the source and object orientation to track the entire process from the provider, through building support to the recipient. In order to facilitate the clarity, the classification is determined according to the source, object orientation and support.

As source of support for SMEs can be considered all entities that provide certain forms of assistance. This assistance often proceeds from a pan-european level to a local or national level, where assistance is provided to the recipient. This means the main source of support is the European Union and its institutions. "EU support for SME activities is available either directly form EC institutions or through EC-funded programs managed by member states at the national, regional, or local level to help member states develop policies aimed at promoting entrepreneurship, improving situation of SMEs throughout their life cycle, and helping them to access new markets."⁵⁹ Of the EU institutions that have the most impact on SMEs is mainly the European Commission, which produces legislation, initiatives and programs. EC also manages and implements EU policies. Commission works closely with the European Economic and Social Committee (EESC), which has an advisory role. Committee consists of representatives of three groups: employers, employees and the third group

⁵⁹ U.S. International Trade Commission, Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms, July 2010 Washington DC, p. 26, available at: <http://books.google.sk/books?id=zzdWjU1PzwAC&pg=SA2-PA26&dq=european+union+support+programs+for+SMEs&hl=en&sa=X&ei=9oZHUc6CBcWK4ASHyIFo&ved=0CC8Q6AEwAA#v=onepage&q=european%20union%20support%20programs%20for%20SMEs&f=false>

comprises a wide range of interest groups such as non-governmental organizations (NGOs), small businesses, crafts and professional associations, consumer and environmental organizations and many others.⁶⁰ Another important institution and source of financial support is the EIB (European Investment Bank). EIB manages several programs that have a character of a financial assistance. Community agencies can also be classified a more important source of support for SMEs. Many executive agencies are in charge of the management, operation and distribution of EU funding. Executive agencies are different from other community agencies by fact that they are established for a fixed period and for a specific purpose. For example “The European Research Council (ERC) is part of the EU's Seventh Research Framework Programme (FP7)”⁶¹ or “Executive Agency for Competitiveness and Innovation (EACI)”⁶², whose mission is to provide funds to create European Union initiatives in those areas. These are just some of the most important EU institutions, which can be a source of support for SMEs. Much of the aid is getting to SMEs through public authorities and agencies, and other supporting institutions. The authorities have especially management and implementation tasks, like preparing the program documents, project selection or evaluation of the projects. Other sources of support are the state agencies, centers, databases or funds. These institutions are responsible for a wide range of tasks and activities and are often responsible for implementing programs. The last group consists of interest associations. “The institutions comprise e.g. units rendering services for SMEs i.e. non-governmental organizations, entrepreneurs, organizations, research institutes and academic centers.”⁶³ The SMEs can associate entrepreneurs, traders, manufacturers, farmers and the likewise and they can be found in the literature under names such as chambers of commerce, trade associations and professional organizations.

The spectrum of needs of SMEs is very broad and is therefore obvious that there is a range of various obstacles, with which companies must struggle. It is not always bearable for the company to overcome these obstacles alone. Therefore, after several decades of increased interest in SMEs, many tools to address these obstacles have been created. The direction in which SMEs need help always depends on the particular SMEs. Of course, SMEs in the same

⁶⁰ The European Economic and Social Committee (EESC) web portal, Available at: <http://www.eesc.europa.eu/?i=portal.en.about-the-committee>

⁶¹ EU Executive agencies, Available at: http://europa.eu/agencies/executive_agencies/erc/index_en.htm

⁶² EU Executive agencies, Available at: http://europa.eu/agencies/executive_agencies/eaci/index_en.htm

⁶³ Marek Matejun, Barriers to development of high-technology small and medium-sized enterprises, Lodz 2008, p. 61, Available at: <http://books.google.sk/books?id=L49SnNqohsC&pg=PA61&dq=institutions+responsible+for+implementing+programs+for+SMEs&hl=en&sa=X&ei=7spnUbKjKaa54ASrj4DQBg&ved=0CCoQ6AEwAA#v=onepage&q=institutions%20responsible%20for%20implementing%20programs%20for%20SMEs&f=false>

field of business usually encounter similar obstacles. “The EU supports activities by European SMEs through financial assistance, as well as non-financial assistance measures.”⁶⁴

Financial support can take many forms. “The Structural Funds are the EU's main mechanism for providing financial support to SMEs.”⁶⁵ The SMEs can also get subsidized low-interest loans, microcredit programs or providing of entry fee and venture capital. Financial assistance may also be provided in the form of state guarantees for loans and accelerated depreciation.

“In terms of non-financial support, consultancy and education are of particular importance.”⁶⁶ For example, activities and programs offering know-how and practical skills for SMEs.

As for the coverage, administrative and legislative support, it has pan-European coverage, eventually national coverage and literature generally agrees that “simplification of the business environment for SMEs is an important task of Governments and legislative authorities are advised to create a clear and transparent legal and legislative framework for SME development.”⁶⁷ This means that if the public administration is more efficient, bureaucracy and administrative burden is reduced, it affects all businesses. Similarly, if legislative changes are in favor of SMEs, it will be benefiting for all the SMEs, not just individual entrepreneurs. The concept of legislative support actually represents a measure of how easy or difficult is for SMEs to access some form of support. States often resort to support domestic enterprises, but at the expense of foreign firms. Thus are in breach with the principle of free market in the EU. The EU rules in this regard are very strict and clearly specified in the Maastricht Treaty in Articles 92 to 94, later taken over by the Amsterdam Treaty in Articles 87 to 89 (see Appendix 2). In Article 87 (1) reads as follows: “Save as otherwise provided in this Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by

⁶⁴ U.S. International Trade Commission, *Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms*, July 2010 Washington DC, p. 26, available at: <http://books.google.sk/books?id=zzdWjU1PzwAC&pg=SA2-PA26&dq=european+union+support+programs+for+SMEs&hl=en&sa=X&ei=9oZHUc6CBcWK4ASHyIFo&ved=0CC8Q6AEwAA#v=onepage&q=european%20union%20support%20programs%20for%20SMEs&f=false>

⁶⁵ Colette Henry, Frances Hill, Claire Leitch: *Entrepreneurship education and training*, Ashgate Publishing, Ltd. 2003, p. 18, Available at: http://books.google.sk/books?id=F45ACH_nydYC&source=gbs_navlinks_s

⁶⁶ R. Thomas, M. Augustyn: *Tourism in the New Europe: Perspectives on Sme Policies and Practices*, Elsevier 2007, p. 159, Available at: http://books.google.sk/books?id=funJ9rH_C2wC&dq=Financial+and+Non-financial+support+of+SMEs+in+EU&source=gbs_navlinks_s

⁶⁷ United Nations Publications, 2002 - *Business & Economics: Best Practice in Business Advisory, Counselling and Information Services*, p. 87, Available at: http://books.google.sk/books?id=QbN4o4gMTW4C&dq=legislative+support+for+SMEs&source=gbs_navlinks_s

favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market.”⁶⁸ In these Articles are also included exceptions regulating State aid. These exemptions relate to areas of cultural significance, projects with pan-European significance, economic development in underdeveloped areas and areas with high unemployment and other types of aid as may be specified by decision of the Council acting on a proposal. And article 88(3) determines the obligation of each State notify the Commission in advance of the intention to provide aid.⁶⁹ State aid is not subject to reporting obligations under the "de minimis" if, that aid does not exceed EUR 200 000. This results from the Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid.

“A very important resource for the development of every company and one of the most important sources of the competitive advantage is knowledge. According to the Knowledge based theory, it is basic asset/resource for any company. All other resources depend on it.”⁷⁰ This information support is provided by existing information centers, systems and networks that are either for all or a specialized entrepreneurs. It depends only on a particular entrepreneur whether he seeks such assistance. Further way of support can be programs aimed for guidance, education and training for both new and of established entrepreneurs. Promotional form of support can be provided specifically for SMEs for example by participating in exhibitions like tourism promotion (promotion of the country as a suitable place for investment).

Technological and scientific support is a form of support, where SMEs gain access to new technologies, new technological methods, innovations or more advanced equipment. Technological support also means creating favorable conditions for finding partners for research or conditions, where SMEs can carry out research activities themselves. “Technology transfer is very important for the development of the enterprises in many countries, so support measures for this process are created (such as: Technology Agencies and Technology Transfer Offices).”⁷¹ Slovakian technological and scientific support may be encountered in

⁶⁸ EC: Article 87(1), Treaty of Amsterdam (electronic version) Amsterdam, 1999. cited 15.June 2012. Available at: <http://eur-lex.europa.eu/en/treaties/dat/11997D/htm/11997D.html>

⁶⁹ EC: Articles 87, 88 and 89, Treaty of Amsterdam (electronic version) Amsterdam, 1999. cited 15.June 2012. Available at: <http://eur-lex.europa.eu/en/treaties/dat/11997D/htm/11997D.html>

⁷⁰ Maja Levi Jakšić, Slađana Barjaktarović Rakočević (editors): Proceedings of the XIII International Symposium SymOrg 2012: Innovative Management and Business Performance, INTERNATIONAL symposium SymOrg 2012, p. 637, Available at: http://books.google.sk/books?id=OtBZtFH1d4AC&dq=Promotional+form+of+support+of+SMEs&source=gbs_navlinks_s

⁷¹ Maja Levi Jakšić, Slađana Barjaktarović Rakočević (editors): Proceedings of the XIII International Symposium SymOrg 2012: Innovative Management and Business Performance, INTERNATIONAL symposium

the form of business incubators and abroad, for example, in connection of university research with business practice. “Technology incubators operating in Slovakia are usually just ordinary business incubators, providing cheap premises, basic technical equipment like copy machines, cleaning services, secretariat and reception.”⁷² Also, it can involve general support for the information society, technology, research and development. Opportunities for technological support and technology transfer for SMEs is mainly devoted to FP7.

In terms of direction can the support be divided for support provided directly to SMEs, such as the European portal for SMEs and one that is provided to multiple entities, some of which are SMEs, for example help to all entrepreneurs and also to those who do not fall within the definition of SMEs. Moreover the support which is provided directly to SMEs can be divided into support, benefiting all SMEs, such as reducing the administrative burden, and support benefiting only part of SMEs. Where aid is granted only to a portion of SMEs, it is usually done on the basis of a certain division.

3.1 Funding opportunities

Over time, have been crafted policies, programs, agencies, support networks, internet portals and platforms, and many other tools and systems to support SMEs to get real help to the entrepreneurs. The following sections are a selection of the most important policies, programs and institutions that together form a support system for SMEs.

3.1.1 Regional Policy

One of the most important EU policies, regional policy, was created to help regions that are economically lagging behind other EU regions. The European Community Treaty states that “to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development

SymOrg 2012, p. 637, Available at:
http://books.google.sk/books?id=OtBZtFH1d4AC&dq=Promotional+form+of+support+of+SMEs&source=gbs_navlinks_s

⁷² David A. Dyker, *Network Dynamics in Emerging Regions of Europe*, World Scientific, 2010, p. 120

of the various regions and the backwardness of the least favoured regions or islands, including rural areas.”⁷³

„EU regional policy is characterized by concentration of assistance, co-ordination, partnership, subsidiarity, programming and additionality.“⁷⁴ The principle of concentration is based on the idea that support from EU structural funds should be directed to the least developed regions, categorized according to NUTS II (NUTS -Nomenclature of Territorial Units for Statistics) these are regions with buying power, measured in GDP per capita does not exceed 75% of EU average.⁷⁵ The second principle is the principle of partnership, which requires the active participation of all interested bodies, on both European and regional level, for design, implementation and subsequent monitoring of project outputs. The principle of additionality involves co-financing of all projects from the national budget. This means that EU financially helps, but does not replace funding from national resources. Very well-known principle of subsidiarity means that if the funds from the EU to be used the most efficient, then responsibility for their spending and use moves as close as possible to the organizers. The last principle is the programming, whose essence is the need of multi-annual planning. On this principle are created regional development plans, the EU support program and the corresponding operational plans.

Regional policy instruments are four structural funds: European Social Fund European Agricultural Guidance and Guarantee Fund (hereinafter EAGF), the European Regional Development Fund (ERDF), the Financial Instrument for Fisheries Guidance (hereinafter the FIFG). Cohesion Fund (CF) is often associated with the Structural Funds because of their common goal of economic and social cohesion (cohesion). Although it does not fall directly under the structural funds, because it does not focus on regions, but instead concentrates to offset the economic differences between countries.⁷⁶

As mentioned above, the Structural Funds and Cohesion Fund aim to reduce disparities between regions and states. Aid from the EU funds goes towards national or

⁷³ The European Community Treaty, Article 158, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12002E158:EN:HTML>

⁷⁴ Daniel Felsenstein, Boris A. Portnov: Regional Disparities in Small Countries, Springer 2005, p. 277, Available at:

http://books.google.sk/books?id=qzBfXBz9kvoC&dq=Regional+policy+concentration,+partnership,+additionality,+subsidiarity,+programming+principles&source=gbs_navlinks_s

⁷⁵ Guidelines on national regional state aid for 2007-2013, p. 4, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:054:0013:0044:EN:PDF>

⁷⁶ Ian Bache: Politics of European Union Regional Policy: Multi-Level Governance Or Flexible Gatekeeping?, Continuum International Publishing Group 1998, p. 14, Available at: http://books.google.sk/books?id=NEBpV4qyBOWC&dq=Regional+policy+instruments+in+form+of+structural+funds&source=gbs_navlinks_s

regional authorities and these are then responsible for implementing programs. The ultimate recipient of the aid must develop a very good projects and the present them to authorities of the EU. Once made financial contributions are non-refundable and expenditures associated with the project can be reimbursed up to 75%. “Although the Structural Funds are part of the European Union budget, the way in which they are spent depends on a sharing of responsibilities between the European Commission and the Member State governments: the Commission negotiates and approves the development programmes proposed by the States, and allocates funding, the States and their regions manage the programmes, implement them by selecting projects, and control and assess them, the Commission contributes to monitoring the programmes, commits and pays out approved expenditure, and checks the control systems established.”⁷⁷

3.1.2 The Seventh Framework Programme for Research and Technological Development

Several programs that are providing aid to SMEs, are covered under the Seventh Framework Programme for Research and Technological Development. “It will last for seven years from 2007 until 2013. The programme has a total budget of over € 50 billion.”⁷⁸ The Framework Programme is a multi-annual summary of actions at European level, determining the policy goals, as well as factual scientific and technological objectives, financial resources from the EU budget, and those tools to achieve them. Framework Programme complements the activities carried out in Member States and other EU actions necessary to achieve the Lisbon objectives. The budget is divided among specific programmes as follows: Cooperation, Ideas, People, Capacities, Non-nuclear actions taken by the JRC and Euratom (to 2011).⁷⁹ For the Cooperation program are devoted the most resources. It contains a number of thematic priorities such as: Health, Energy, Nano, IT, Transport and Environment.⁸⁰ An important fact for this program is that the proposed projects must relate to the objectives of the above mentioned thematic priorities and research entities must be international in composition. Program Ideas on the contrary is not dependent on the themes and also will not require

⁷⁷ Sound management of the Structural Funds: a major issue for the Union's development, January 2001, p.1, Available at: http://ec.europa.eu/regional_policy/sources/docgener/informat/manage_en.pdf

⁷⁸ EC: FP7 in brief, 7th Framework Programme for Research and Technological Development (FP7), p. 8, Available at: http://www.innovation.public.lu/catalogue-publications/programmes-europeens/fp7/fp7-inbrief_EN.pdf

⁷⁹ EC: CORDIS, FP7, Available at: http://cordis.europa.eu/fp7/home_en.html

⁸⁰ EC: CORDIS, FP7, Available at: http://cordis.europa.eu/fp7/cooperation/home_en.html

collaboration with partners from other countries. Research area in this program is not limited and all the areas of science and technology, including engineering, economic, social and other social sciences fall within. There is a particular emphasis on new and emerging areas of science and interdisciplinary research. The People program is formed by actions of Maria Curie initiative. They are dedicated to initial and lifelong education, the exchange between industry and academic institutions, and other activities. The Capacities program is devoted to building the research infrastructure, supporting research for SMEs, encouraging regional research clusters, international cooperation activities for the partnership programs between the scientific and technical institutions in the convergence regions.⁸¹

FP7 is designed for all subjects of the innovation cycle, starting with research and ending with the project. And SME is the preferred target group, because of their ability to exploit R & D results in practice. As for the Slovak companies, present experience shows that the tools and programs to increase their competitiveness are used only at minimum. According to the Global Competitiveness Report 2012, the Slovak Republic ranks only 69th⁸². It can be seen especially from the Sixth Framework Programme. Similarly, the share of Slovak SMEs is very low in comparison with many research institutions and universities participating in FP7, which ultimately means that the new findings from Slovakia will increasingly be used by foreign SMEs. Participation in programs of FP7 is open to different types of organizations from civil and international to research groups, universities, public or state agencies, individual researchers from the EU and third countries. Participation is open to companies interested in innovation, SME and SME associations or groups.

FP7 operates on the principle of co-financing of projects and amount provided funding to cover the cost depends on three aspects: program funding, legal status of participant and type of activity. For research in SME, the degree of cost coverage is 75%. This is a scheme of "de minimis", ie. in a form of non-repayable contributions. Aid provider for Slovakia is the Ministry of Economy of the Slovak Republic, the executor is NADSME.⁸³

Each potential participant in the Seventh Framework Programme will have to undertake 7 steps in order to implement the project:

- 1) A first step is to identify the relevant call for proposals. For this purpose, it is ideal to regularly monitor the web page Information Service Community Research and Development

⁸¹ EFTA Bulletin: Guide to EU Programmes, p. 17 - 22, November 2007, Available at: http://www.efta.int/~media/Files/Publications/Bulletins/bulletin_programmes.pdf

⁸² The Global Competitiveness Index 2011-2012 rankings, Available at: http://www3.weforum.org/docs/WEF_GCR_CompetitivenessIndexRanking_2011-12.pdf

⁸³ European Commission: Seventh Framework Programme for Research and Technological Development
The full text

(CORDIS).

- 2) If the participant has decided to follow a particular challenge, as the second step he has to procure the necessary documentation and forms associated with the project. The Commission provides every challenge with an information package that includes comprehensive instructions and information for applicants.
- 3) In the third step, the participant must form a consortium of researchers, developers and partners who are able to make all aspects of the planned project. Partners can search through the CORDIS service or through other scientific and commercial networks to find partners.
- 4) The fourth step consists of preparation and submission of final draft. Preparation is made by Online Submission System (EPSS hereinafter), that provides consortium with a secure on-line space to prepare the project proposal. Proposals received after the deadline will be rejected. When completing the final proposal teams can contact the national contact points, whose complete list is published on CORDIS.
- 5) In the fifth step, the draft will be reviewed by experts from professional and ethical point of view.
- 6) In step number six specific conditions are negotiated and the contract is signed. The conditions that constitute framework for the contract are set out in two documents. Specifically, in the agreement between the consortium and the European Commission and the contract signed by the consortium members and where the conditions of operation of the consortium as well as matters relating to copyright, evaluation and dissemination of results are agreed.
- 7) The last step is the start of the project.⁸⁴

The website CORDIS is information service of Community for Research and Development. This page provides the latest news, progress and initiatives upcoming events in European research and development. Page first started to report on the fourth framework program and now provides information on current events of the Framework Programme. It is intended for researchers, entrepreneurs, government agencies and various organizations of research and development. From the perspective of SMEs is a useful site because its main purpose is to inform the Seventh Framework Programme, the possibilities of participation in projects, funding opportunities, potential partners and the various other possibilities Seventh Framework Programme.⁸⁵

⁸⁴ http://ec.europa.eu/research/sme-techweb/index_en.cfm?pg=step_by_step

⁸⁵ Cordis The European gateway to research and development, 2008, Available at: ftp://ftp.cordis.europa.eu/pub/guidance/docs/cordis-miniguide08_en.pdf

3.1.3 Framework Programme for Competitiveness and Innovation

Framework Programme for Competitiveness and Innovation (CIP) sets as a goal to encourage European companies to greater competitiveness. The main focus of this program is the promotion of SMEs and their innovation activities, including eco-innovation, providing better access to finance and ensuring support services in the regions. It also supports the adaptation of SMEs to new information technologies and helps build the information society and promotes activities relating to the use of renewable energy. “CIP will last from 2007 until 2013 and has a total budget of over € 3.6 billion.”⁸⁶ CIP is divided into three operational programs (hereinafter referred to as OP), each of which has its own specific objectives. Operational program which provides the most support for SMEs, Entrepreneurship and Innovation Programme (EIP) sets objectives such as: facilitating SMEs access to capital, support of investment in innovation activities of firms, cross-border cooperation and eco-innovation. To achieve these objectives that were set out, concrete steps were taken or will be taken, for example, access to capital for SMEs in the EU financial instruments, the establishment of the Enterprise Europe Network, support benchmarking initiatives and initiatives to share best practice, promoting ecological and environmental innovations, processes and services.

European Commission initiative, functioning since February 2008, the Enterprise Europe Network (EEN hereafter), provides comprehensive business advice and support in business, research and innovation. This page was created by CIP. It integrates multiple network information centers of the European Union, namely Euro Info Centres (hereafter EIC), Innovation Relay Centres (hereinafter IRC) and support services of SME for participation in FP7. It builds on their strengths and achieved results. It brings together more than 500 organizations with 4,000 skilled personnel who provide their services in nearly 40 countries. The aim is to help SMEs develop their innovative potential and increase their skills. Support in business lies in several areas, within the EEN in Slovakia, interested parties are offered information on the functioning and opportunities in EU internal market, news about EU legislation and its impact on company initiatives, policies and programs for EU companies. Other forms support includes an initiative in cross-border and international

⁸⁶ EC: CORDIS, Practical Guide to EU funding opportunities for Research and Innovation, Annex 2The Competitiveness and Innovation Framework Programme, Available at: http://cordis.europa.eu/eu-funding-guide/annex02_en.html

business activities and help to find relevant partners. It also allows to actively participate in the preparation of new EU policies through the possibility of presentations and expressing an opinion. The field of research EEN provides information about how to participate in FP7, assists in the preparation of project proposals and finding partners for their implementation, provides guidance for implementation and project management, field of intellectual property rights and seeks to project financing and commercialization of the results. This section builds on the cooperation with national contact points for FP7. In the field of innovation EEN provides information on policies, legislation and EU programs, facilitates the dissemination and commercial exploitation of the results of development assistance in finding relevant partners in the process of rights protection, implementation of technological diagnostics and encourages the purchase and sale of innovative technologies. Section of innovation is therefore a continuation of the activities of the IRC network, which is hereby incorporated into the EEN.⁸⁷

Access to information relevant for SMEs can be found at European portal for SMEs. It's a website where everyone can find detailed information on EU programs aimed at SMEs in their national language in a "user friendly" environment. This site is funded through the CIP and includes information about: funding opportunities for SME activities through the EU, support services in Europe, online help, an overview of the importance of SMEs for the EU, information on how to break the foreign market in the EU, review of policies, legislation and EU programs related to SMEs and other information on SMEs.⁸⁸

3.1.4 The European Investment Bank

The European Investment Bank (EIBG) consists of the European Investment Bank and the European Investment Fund (EIF). The EIB is owned by the EU Member States. However EIF has several shareholders, while EIB with 61.9% is the majority shareholder. The EC owns 30% of shares and the other 8.1% is owned by other European financial institutions. The primary domain of cooperation between the EIB and EIF is the area of SMEs. The result of this collaboration is the sharing of experience in supporting SMEs. EIB provides long-term loans to large investment projects. In addition, the Bank supports SMEs through loans and

⁸⁷ EEN: Enterprise Europe Network, 2008, Available at: <http://www.enterprise-europe-network.sk/>

⁸⁸ EC: European Small Business Portal, Available at: http://ec.europa.eu/small-business/index_en.htm

long-term risk capital. EIF is more concentrated on investments in innovative SMEs in the EU candidate countries and also through venture capital and various forms of guarantees.⁸⁹

One of the priorities of EIBG is to support investment activities of SMEs and during the year 2011 more than 120 000 SMEs received overall amount of EUR 13 billion.⁹⁰ At the end of 2007 EIBG undertook intensive market research in the field of supply and demand of financial instruments and gained an overview of potential partners the granting of loans. After a sufficient analysis of the situation, in 2008 the Governing Council decided to introduce new financial instruments for financial support for SMEs. The most important of these tools are additional loan resources for SMEs through microcredit companies called intermediate loans, providing of venture capital, guarantees and also JEREMIE and JASMINE initiatives.

For period of 2007-2013, the cooperation between the EIB and EC is strengthened in implementing the goals of structural and cohesion policy through initiatives focused on investment, growth and jobs: Jaspers (Joint Assistance in Supporting Projects in European Regions), Jeremie (Joint European Resources for Micro-to-Medium Enterprises), Jessica (Joint European Support for Sustainable Investment in City Areas), Jasmine (Joint action to support Micro-finance Institutions in Europe).

The purpose of the Jeremie initiative is to support access to finance for SME development in EU regions and it is the only one primarily is focused on SMEs while Jasmine complements the Jeremie initiative and its goal is to provide technical help to microfinance institutions to become more reliable financial intermediaries and have easier access to capital and financing activities of non-bank financial institutions, so as to increase the number of loans.

European Commission and European Investment Bank Group and other financial institutions in financial innovations provide additional loan resources for business projects and development of regions in EU, they contribute financial and managerial expertise (provided by specialized institutions such as EIB and other international financial institutions), create strong incentives for successful implementation for recipients by combining grants and loans.

That is why the European Commission aimed at improving access to finance resources of relevant subjects. This underlines the need of strengthening the support for new businesses (start-up) and for micro - enterprises, through technical assistance, grants and non-grant

⁸⁹ EIB: EIB Group, Available at: <http://www.eib.org/about/group/>

⁹⁰ SMEs: The EIB Group supports your financial investments, Available at: <http://www.eib.org/projects/topics/sme/index.htm>

instruments such as loans, equity investment, venture capital or guarantees and focus on achieving higher added value.

3.2 Other selected initiatives, programs and community activities supported by European Commission

3.2.1 EUREKA

EUREKA was launched in 1985 with the aim to continually increase the competitiveness of EU industry using market-oriented, inter-state innovation. Today it is a pan-European network for market-oriented, industrial organization, carrying out research and development, which supports the competitiveness of innovative companies by creating links and networks in 40 countries. EUREKA offers project partners rapid access to a wealth of knowledge, skills and expertise across Europe and facilitates access to national and private funding. EUREKA projects are split in two sections.

The first section consists of innovative projects that deliver specific, immediately realizable results with a significant effect on the innovative sector concerned. For example navigation systems, better diagnosis for heart disease or new technology to replace batteries, that are harmful to the environment.

The second section consists of the so-called Cluster projects, which are a long-term industrial initiatives of strategic importance. On the Cluster project is involved a larger number of entities from several countries. Cluster projects are typically involved in development of fundamental technologies affecting European competitiveness in the long run. It is mainly the information and communication technologies and technologies in the field of energy and biotechnology. Since the results of projects should be focused on market needs and on aspects such as content, length and project presentation it is decided by project consortium, which is usually composed of SMEs, research institutes and large enterprises. Each project must have at least 2 countries. In each country participating in the EUREKA project are deployed National Project Coordinators (the NPC). Their role is to facilitate access to national funds as well as provide information about the program. Information provided by the NPC may be general, but may relate to the specific know-how and scientific and

professional knowledge. The coordinators are mainly placed on specific ministries or offices.⁹¹

3.2.2 Erasmus for Young Entrepreneurs

Erasmus for young entrepreneurs builds on the successful Erasmus program. It is also an exchange program in which the European Union financially supports projects focused on cross-border mobility, exchange experiences and establishing contacts for future business development. The mechanism is similar to the student internship in which a young entrepreneur is trained by an experienced entrepreneur in another EU Member State. The program is primarily aimed at those who wish to become entrepreneurs, but is also open to those who have only recently become entrepreneurs. For this project the EU has allocated nearly EUR 3 billion in co-financing rate to 90% of the total eligible costs. The maximum contribution is EUR 180 000 for partnerships and EUR 150 000 for individual applications and the maximum duration of projects is 24 months.⁹² Young entrepreneur could engage in practices such as market research, developing new business opportunities for innovation and R&D. But also get the opportunity to engage in other business operations, primarily in those where he can learn and gain experience of the financial operations of SMEs. Work on specific projects enables young entrepreneurs to create an overview of the above mentioned business areas.⁹³

3.2.3 European SME Week

The 4th edition of the European SME Week will take a place from 15 to 21 October 2012. “It is taking place in 37 countries, so events and activities – national, regional or local – will be as close as possible to existing and potential entrepreneurs. These events – organised by business organisations, business support providers and national, regional and local authorities – will also enable existing companies to share their experience and develop further

⁹¹ EUREKA – A Network for market oriented R&D, Available at: <http://www.eurekanetwork.org/> and <http://www.eurostars-eureka.eu/home.do>

⁹² Official Journal of the European Union, Programme ‘Erasmus for young entrepreneurs’, March 2012, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:074:0014:0015:EN:PDF>

⁹³ EYE Press Dossier - Erasmus for Young Entrepreneurs, Available at: http://www.erasmus-entrepreneurs.eu/press/100630_EYE_Press_Dossier_EN_4e5d533eb1958.pdf

themselves.”⁹⁴ Thus, the entrepreneur gets a lot of information, advice, experiences of other entrepreneurs, ideas and contacts to help them in developing business opportunities and new ideas. Non-entrepreneurs are encouraged to stimulate their entrepreneurial spirit and possibly advise how to proceed with the establishment and management. Actions of this kind are not confined to this week, but they are also scheduled throughout the year. “The European SME Week is co-ordinated by the Directorate-General for Enterprise and Industry of the European Commission. However, most of the events and activities taking place during European SME Week are organised in the participating countries by business organisations, support providers, regional and local authorities, and other partners.”⁹⁵ SME Week is one of many measures based on the "Small Business Act", but for the general public not interested in the issue, perhaps the most significant measure. Literally everyone can participate in these events. For businessmen, it is tempting opportunity to listen to advice and information, but also the opportunity to share their own experience of business. It is also an ideal opportunity to establish business contacts and to draw new ideas. For potential entrepreneurs it is just an attractive opportunity to learn about various forms of support for start-ups. The way the events are held in the participating countries varies depending on what company will be co-organizers. There are variety of events like conferences, fairs, open days in companies, the activities via internet, workshops, seminars, artistic events and building mutual cooperation. Each activity will focus on a specific topic, such as entrepreneurship, innovation, environment, growth, social responsibility of corporations, business strategy and support, financing options, business beginnings, tax and legal matters, red tape, bankruptcy and fresh start, internationalization, input subcontractor under a contract. It may seem that for the organizing businesses taking part in this initiative is only a small advantage, especially if they offer their hard-gained experience for free. SME Week, however, may prove to be ideal for promotion purposes, where the businesses can promote their products or services. They also come into closer contact with other organizers, which is again an ideal opportunity to create business acquaintances. The campaign will run not only in the EU, but also in nearby Union countries such as Croatia, Turkey, Norway, Israel and Serbia.

SUMMARY

⁹⁴ SOS Researchers - EU fundings, European SME Week 2012, Available at: <http://sosresearchers.blogspot.nl/2012/03/european-sme-week-2012.html>

⁹⁵ EC, European SME Week, Available at: http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/sme-week/index_en.htm

Third chapter classifies the particular forms of support for SMEs in EU. This also addresses the issue of the second research question “what can EU institutions can do to finance SMEs”. As source of support for SMEs can be considered all entities that provide certain forms of assistance, from European level to local or national level. This chapter describes EU institutions that have the most impact on SMEs like European Commission or European Investment Bank or other selected sources, for instance databases, agencies or funds.

In connection with the financial support from EU, perhaps the most famous are structural funds or social funds. The SMEs are also important to subsidized low-interest loans, microcredit programs or providing of entry fee and venture capital. Financial assistance may be provided in the form of state guarantees for loans and accelerated depreciation.

So what can EU institutions do to finance SMEs? First of all they need to ensure that SMEs have better access to bank finance, equity finance and other sources of finance. There are already several supporting government national or europe-wide plans for helping SMEs access finance, but for the businesses to sufficiently improve the economy they need even more finance. It needs to create a level playing field so that the tax system does not place SMEs at a disadvantage. Promotion of SMEs should also be focused at making markets work more efficiently and providing incentives for the private sector to assume an active role in SME finance. It is important to make things easier and more convenient for SMEs by better legislation and regulation to encourage new investment, productivity, innovation and job creation.

4. Policy towards SMEs mainly by the European Commission

The above facts demonstrated the great importance and also a certain fragility and weakness of SMEs. These are the reasons why SMEs are often discussed in the European Union at the European Commission, Council of Europe and the European Parliament and there is a consensus on the great importance of SMEs and the obligations to support them. Efforts to help SMEs should eventually appear also in a friendly environment for small and medium-sized enterprises at national level of member states.

4.1 European Charter for Small Enterprises

19. – 20. June 2000 Feira European Council held a meeting at which the Heads of State and Government acknowledged importance of the SMEs in EU by approving of the European Charter for Small Enterprises. The Charter states what Member States and the Commission should do to improve the business environment for SMEs.⁹⁶ It was an instrument of the Lisbon strategy in the SME sector. Implementation of the strategic recommendations of

⁹⁶ 2001 Implementation Report on the European Charter for Small Enterprises [electronic version], p. 4 – 6. [14. June 2012]. Available at: <http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=4514>

the Charter was part of achieving the Lisbon goal of making Europe most competitive and dynamic economy in the world by 2010.⁹⁷ By endorsing this Charter, the principle "Think Small First" was launched and the Member States had undertaken to adopt measures in ten areas, while adequately consider the needs of SMEs. Changes were to occur in following areas.

Education and training for entrepreneurship: Promote awareness of business and entrepreneurship at all educational levels and also encourage the entrepreneurial endeavors of start-ups.

Cheaper and faster start-up: Maximum effort to simplify the administration of new companies, so that starting businesses would be faster and cheaper with increased competitiveness of European enterprises in the world.

Better legislation and regulation: New legislative provisions should be carefully examined for their impact on small businesses on community and national level to work well for small businesses.

Availability of skills: Support training institutions, complemented by in-house training schemes, which take into account the needs of small businesses training institutions.

Improving online access: Increase communication of public authorities with small businesses to enable them to receive advice, make applications, file tax returns or obtain simple information online.

More out of the Single Market: Maximize the benefits that have other small businesses from European common internal market and give the opportunity to enter new markets and compete on a level playing field.

Taxation and financial matters: Doing business or setting up small businesses should not be discouraged by tax systems in member states. Better access to the funds by SMEs through improved relationship between small businesses and banks to make loans more accessible to businesses. Plus better access of small enterprises to the structural funds.

Strengthen the technological capacity of small enterprises: Strengthen the programs for the disseminating technology to small businesses. Support the technological collaboration to develop successful research programs. Encourage the involvement of small businesses into national and multinational research projects.

Successful e-business models and top-class small business support: Encourage small businesses to try to imitate a successful business model of already established company.

⁹⁷ Lisbon Agenda [electronic version]. [14. June 2012]. Available at: <<http://www.nfer.ac.uk/nfer/index.cfm?9B2730F6-C29E-AD4D-03AB-1011FA252DC94514>>

Coordinate the creation of information systems promoting trade that are easily accessible online, to ensure the access of small businesses to information.

Develop stronger, more effective representation of small enterprises' interests at Union and national level: Emphasis is placed on the representation of interest of small businesses and their enforcement on National and European level.⁹⁸

European Charter for small enterprises can be considered as a first step towards a Europe-wide support for SMEs. However, the revisions and subsequent reports showed that the biggest weakness of the Charter was its non-binding character. After the commitment to adopt reforms there should have been following changes on the national level, but concrete steps were never taken, at least not sufficiently. Charter itself did not have legal force although that was received with enthusiasm at the national level by the candidate countries, but has been largely ignored in terms of its implementation. Despite this, the Charter remains a very important document, to be used to build new policies to SMEs.

4.2 Small Business Act

Small Business Act (hereinafter referred to as SBA) is a document made by the European Commission in June 2008 and compared to the European Charter, deals with medium-sized enterprises as well, and thus covers all types of SMEs. SBA replaced the Charter for small businesses which was helping to bring together good examples of how EU Member States can improve the environment for SMEs for over eight years. SBA defines a direction of EC policy towards SMEs for achieving a friendly business environment without unnecessary administrative burdens and access to markets and finances. "Being SME-friendly should become mainstream policy. To achieve this, the "Think Small First" principle should be irreversibly anchored in policy making."⁹⁹ SBA core principle, "Think Small First" which was first established in the European Charter for Small Enterprises, requires the policy makers to fully considerate the SMEs point of view when creating business regulations and softer

⁹⁸ European Charter for Small Enterprises, available at:
http://ec.europa.eu/enterprise/policies/sme/files/charter/docs/charter_en.pdf

⁹⁹ Putting Small Businesses First - European Commission - Europe is good for SMEs, SMEs are good for Europe, page 3, 2008 Edition, ISBN 987-92-79-08975-6, Available at:
http://ec.europa.eu/enterprise/policies/sme/files/docs/sme_pack_en_2008_full_en.pdf

touch might be beneficial. For example rules and procedures designed for large companies can be unsuitable for SMEs applying to the fact that “one size is not for everyone”.¹⁰⁰

To improve the environment for SMEs, SBA came with the following 10 principles to be applied to European and National level.

Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. This principle aimed to encourage entrepreneurial mindsets among young people and provide mentoring for beginning entrepreneurs.

Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance. According to surveys in the European Union, people still do not trust an entrepreneur, who had already bankrupted and in addition the process of bankruptcy could take years and that is why European Commission supports a policy of "second chance" and urges Member States to think positively about entrepreneurs who get a second chance.

Design rules according to the “Think Small First” principle. SMEs have reported that the major obstacle to their successful development are the bureaucratic obstructions and therefore the Commission set a goal to reduce the administrative burden for SMEs by 2012, at least about 25%.

Make public administrations responsive to SMEs’ needs. According to the Commission a modern and flexible public administration is the basis for a successful SME development and as a result for SMEs can save time and money and allocate resources to innovation or to create new jobs, as well as benefit from e-government, a project for the computerization of public administration, or the one-stop-shops which will help businesses to provide information and service in one place.

Adapt public policy tools to SME needs: Facilitate SMEs’ participation in public procurement and better use state aid possibilities for SMEs. Public procurement accounts for 16% of EU GDP, while SMEs are often unaware of the opportunity to participate in public contracts and are also discouraged by the lengthy procedures. That is why Member States should remove disincentives, bureaucracy and improve transparency and information access for SMEs to public contracts markets.

Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions. SMEs may suffer from lack of funding because of less access to loans compared to large companies or unpaid claims that

¹⁰⁰ Report of the Expert Group Think Small First – Considering SME interests in policy-making including the application of an ‘SME Test’, March 2009, Available at: http://ec.europa.eu/enterprise/policies/sme/files/docs/sba/report_think_small_first_en.pdf

SMEs get into insolvency and therefore the Council invited the European Investment Bank to adopt a new financing instruments such as micro-credit and mezzanine finance.

Help SMEs to benefit more from the opportunities offered by the Single Market. The single market offers entrepreneurs, among them SMEs, over 500 million potential customers, but SMEs do not fulfill its potential, because they lack information on business opportunities in other EU countries and that is why since 2007 there is a European Commission's website, where entrepreneurs can learn about the detailed options and opportunities in the Single Market.

Promote the upgrading of skills in SMEs and all forms of innovation. According to the most of entrepreneurs schools do not provide suitable education for business and employment for entrepreneurs and therefore SMEs may experience shortages of skilled labor, which translates to the need to support education and business awareness to all levels of education. Another drawback of of SMEs is they do not use their innovation and research potential. Three out of ten SMEs do not develop or sell innovative products. It is therefore important to integrate SMEs into research programs.

Enable SMEs to turn environmental challenges into opportunities. Demand for commodities, which are ecological and environmentally safe, is now in fashionable and there is a huge business opportunity that should be used by the SMEs. Only 29% of them have implemented changes in order to use environmentally friendly materials and save energy. EC puts pressure EU Member States to promote "eco-business", so that SMEs can transfer the "green" way of doing business into its competitive edge.

Encourage and support SMEs to benefit from the growth of markets. Rapidly growing non-European markets provide a unique opportunity for all companies, but SMEs hardly ever utilize this chance and most of them do not engage in border trade and nearly none of them in trade outside the EU. Therefore it is up to EU and Member States to assist SMEs in obtaining information about potential partners, to overcome cultural barriers and trade practices, so that of SMEs are able to successfully succeed on non-European markets.¹⁰¹

In addition to the 10 principles SBA proposed 4 legislative measures to improve the position of SMEs and to comply with the slogan "think small first". The first area is State Aid, namely it is a general regulation of Block Exemption Regulation on state aid under the abbreviation "GBER" (General Block Exemption Regulation). It is the final and very important reform concerning state aid. GBER removes the obligation to notify the European

¹⁰¹ "Think Small First", A "Small Business Act" for Europe, p. 4 – 18, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:en:PDF>

Commission on several actions that are considered as State Aid and also approves certain categories of aid. It is considered as a next step in eliminating bureaucracy, simplifying procedures and reducing costs and contributes to Lisbon objectives of sustainable development, as well as reducing the unemployed, increasing the competitiveness of EU industry, social and regional cohesion. The reform aimed to increase the aid intensity for SMEs and facilitate their acquisition of resources for training, research and development, environmental protection and other types of support. “This Regulation shall apply to the following categories of aid: (a) regional aid; (b) SME investment and employment aid; (c) aid for the creation of enterprises by female entrepreneurs; (d) aid for environmental protection; (e) aid for consultancy in favour of SMEs and SME participation in fairs; (f) aid in the form of risk capital; (g) aid for research, development and innovation; (h) training aid; (i) aid for disadvantaged or disabled workers.”¹⁰²

The second area is the new European private company (the SPE), a new legal form, valid throughout the EU. This new status was created to ease SMEs from duties which only burden SMEs engaged in cross-border activities. These SMEs had to create new subsidiary in each Member State in which they like to start up a business, with different legal form. This meant an increased burden especially in administrative and legislative matters. Subsequently it increased costs that could otherwise be invested. This means that SMEs can set up a company in the same form, whether doing business in their own country or in another EU country. If businesses choose an SPE form, they can enjoy doing business in all Member States along the same lines, which saves them time and money on legal advice, management and administration.¹⁰³

The third area is the Directive on reduced VAT rates. The proposal offers the opportunity to apply for a "reduced rate of value added tax (VAT) on services provided by local services, including labor intensive, providing in particular SMEs."¹⁰⁴

The fourth area concerns the amendment of Directive 2000/35/EC on late payment. The Directive helps to ensure timely payment of business transactions and also determines the period of 30 days to pay for a business transaction.¹⁰⁵

¹⁰² General Block Exemption Regulation Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32008R0800:en:NOT>

¹⁰³ Press Releases - "Think Small First": A Small Business Act, Available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1003>

¹⁰⁴ Press Releases - "Think Small First": A Small Business Act, Available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1003>

¹⁰⁵ Press Releases - "Think Small First": A Small Business Act, Available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1003>

Responses to the SMA are contradictory from compliments to critique. Regarding the progress made by the European Commission, “all legislative initiatives foreseen by the SBA have been adopted, with the exception of the Regulation providing for a Statute for a European Private Company (SPE)”¹⁰⁶. For example, to reduce the administrative burden of SMEs a European directive was released to equalize electronic invoices with paper invoices. Businesses with a turnover of less than 2 million euros can now benefit from a cash accounting system, making it possible to delay accounting for VAT until the SMEs get payment. Moreover, because of the late payments by public authorities are now required to pay within 30 days, which should increase the cash flow of SMEs.¹⁰⁷

To strengthen the financial instruments, the European Commission has set a goal to help a greater number of SMEs through the strengthening loan guarantee systems and also wants submit an action plan which will include access to venture capital and targeted measures so that investors are more aware of the opportunities offered by small and medium enterprises. About 100,000 SMEs have so far benefited from the Framework Programme, CIP, and is expected to further profiting 200 000 SMEs in 2013. On average, each SME, which received a grant, created 1.2 jobs. The Commission also created SME Financing Forum, which brings together representatives of SMEs, banks and other institutions fiancé, including the EIB, to discuss and solve practical obstacles that SMEs face when applying for a loan. The Commission continues to place SMEs at the center of innovation and research policies with events like Erasmus for Young Entrepreneurs programme, European SME Week or European Network of Female Entrepreneurship Ambassadors. Progress in improving the business environment in Member States is slow. Although most counties recognize the importance of rapid implementation of the principles of the SBA, Not all of them implemented the SBA as needed. Access to finance has improved, but the challenge still remains in the hands of Member States, although a majority of states has adopted measures to facilitate SMEs access to finance, whether to bank loans or micro-loans. Access to markets has also improved thanks to innovative procurement procedures and e-government.¹⁰⁸

SBA’s major problem according to the entrepreneurs is that member states failed to implement most of the measures proposed in the SBA into the national legislation. Even some business organizations did not spare criticism. For example, Association of European

¹⁰⁶ Review of the "Small Business Act" for Europe, Brussels, 23.2.2011, CESE 1375/2011 (INT/573), p. 3, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0078:FIN:en:PDF>

¹⁰⁷ Review of the "Small Business Act" for Europe, Brussels, 23.2.2011, CESE 1375/2011 (INT/573), p. 3, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0078:FIN:en:PDF>

¹⁰⁸ Review of the "Small Business Act" for Europe, Brussels, 23.2.2011, CESE 1375/2011 (INT/573), p. 3 - 6, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0078:FIN:en:PDF>

Economic Chamber (Eurochambres) "regrets the lack of commitment displayed by EU leaders when it comes to actually acting small first"¹⁰⁹. And according to the UEAPME Think Small Test (TST) and the SBA Implementation Scoreboard made by European Association of SMEs (UEAPME), not all proposals and final regulations for promised areas presented by the European Commission are in line with the concrete needs of SMEs and some are pending adoption by Council and EU Parliament, but mainly there are great gaps in national implementation.¹¹⁰ As Christoph Leitl, President of the European SME-Union said „the European Small Business Act has the potential to completely change European SME policy. To make this happen, the SBA needs to be more than a replicating exercise of what already exists. It must become a politically binding act for the European Commission, Parliament and the Member States”¹¹¹.

4.3 Europe 2020

On 3rd March 2010 the European Commission proposed the Europe 2020, which is a 10-year strategy with an aim to revive the economy of the European Union and to replace the unfinished Lisbon Agenda.

Europe 2020 puts forward three mutually reinforcing priorities: smart growth (fostering knowledge, innovation, education and digital society), sustainable growth (making our production more resource efficient and environmentally safe, while enhancing the competitiveness) and inclusive growth (improving the labour market through acquisition of skills).¹¹²

“The EU needs to define where it wants to be by 2020. To this end, the Commission proposes the following EU headline targets:

- 75 % of the population aged 20-64 should be employed.
- 3% of the EU's GDP should be invested in R&D.
- The "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right).

¹⁰⁹ EUROCHAMBERS news, April 2008, Available at: <http://www.chamber101.com/1operations/chambernewsletter/ChamberEmailNewsletterIII/EuroChambres4-08.asp>

¹¹⁰ Think Small Test and SBA Implementation Scoreboard 2009, Available at: http://www.ueapme.com/IMG/pdf/090506_TST_SBA_no_country_sheets.pdf

¹¹¹ European SME-Union, Leitl on SBA proposal, Brussels, 26 June 2008, Available at: <http://www.sme-union.org/docs/index.php?LAN=en&ID=4>

¹¹² Europe 2020: Commission proposes new economic strategy in Europe. Brussels, 3rd March 2010, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/225>

- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.
- 20 million less people should be at risk of poverty.”¹¹³

The Commission proposed seven flagship initiatives which are supposed to speed up the process and to support the EU headline targets: Innovation union (ensure that the innovative ideas, thanks to better framework conditions and better access to information, may change to products and services that create jobs); Youth on the move (improving education systems which will on the other hand increase young people's access to the labor market); A digital agenda for Europe (faster introduction of high-speed internet and also enjoy the benefits of using digital single market for households and firms); Resource efficient Europe (this includes support for a low carbon economy, helps separate economic growth from resource use, promoting renewable energy and upgrading the transport sector and fostering energy efficiency); An industrial policy for the globalisation era (to improve the business environment, especially for small and medium-sized enterprises and to encourage the development of strong and sustainable industrial base able to compete on a global scale); An agenda for new skills and jobs (with the goal of modernize the labor markets and empower people by developing their knowledge and skills during the whole life in order to increase labor market participation and better suited job offerings and demand); European platform against poverty (ensure that the people living in poverty have access to employment and support innovative programs to promote social inclusion).¹¹⁴

Reactions on a new economic strategy for Europe have so far proved to be skeptical. Nowadays Europe representatives are considering of changing the policies included in Europe 2020 to overcome the depression. They are inclined to change the current policies and strategies, including Europe 2020, to rapidly tackle crisis-led challenges and prepare electoral platforms for the 2014 European elections. Experts recommend focusing on: entrepreneurship, creating work (not just jobs) and reducing bureaucracy, support education, shifting some labour costs onto consumption taxes, political leadership and a strong implementation.¹¹⁵ Although the targets of the strategy have met with general approval of the member states, the implementation levels are still low. If there will not be any stronger

¹¹³ EUROPE 2020 A strategy for smart, sustainable and inclusive growth, Brussels, 3.3.2010, p. 5, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

¹¹⁴ EUROPE 2020 A strategy for smart, sustainable and inclusive growth, Brussels, 3.3.2010, p. 5 - 6, Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

¹¹⁵ Article: 'Europe 2020' to be replaced before 2014 elections?, Published 25 April 2012 - Updated 07 May 2012, Available at: <http://www.euractiv.com/specialreport-europes-electricity/europe-2020-replaced-2014-electi-news-512393>

incentives for the individual counties, it is very difficult to meet the goals of the Commission's proposals.

Slovak republic is engaged in this process through the Minerva initiative (and later Minerva 2.0). Minerva 2.0 represents successor to government strategy Minerva, which was intended to be in effect till 2010 and follows the nature and content of the European document Europe 2020.¹¹⁶ This way, the Slovak Government has committed to the targets specified in Europe 2020 at the national level.

Minerva was the Roman goddess of skill, intellect, and education, patron of civilized life, but it is also the name of a strategy aimed at building knowledge-based economy in Slovakia. "Minerva is based on the Competitiveness Strategy of Slovakia until 2010: the National Lisbon Strategy submitted by the Treasury for public comment in November 2004. This document is again concretization EU Lisbon Strategy for Slovakia's needs."¹¹⁷ In the words of M. Bruncko (Government Plenipotentiary for the Knowledge Economy) the aim of the project Minerva is to prepare foundation for further growth of Slovakia's economy.

In order to support the development of knowledge-based economy, the activities of Minerva focus on four areas.

Information Society: For faster informatisation is necessary to increase citizens' information literacy and improving access to the internet.

Innovation, Science and Research: The priority is to have a broad base of scientists able to carry out high quality research at top international level. Much of the scientists and their activities must be linked with the business sector to ensure effective transfer of scientific knowledge to real output in the economy in the form of innovations. Public support for basic science and research should be distinguished from the support of applied research, development and innovation, as they have a different economic character.

Educational policy should create a learning opportunity for all citizens and to support high levels of employment.

Business environment: The business environment must allow effective competition to entrepreneurs, which is the engine of the economy and its increasing and streamlining to serve the public institutions. The aim is to create business environment which will encourage new investment, productivity, innovation and job creation.

¹¹⁶ Economic Policy Institute Newsletter, Bratislava, November 2011, No. 11, p. 3

¹¹⁷ MINERVA - Slovenská cesta k poznatkovej ekonomike, (last update: 01.02.2010), Available at: http://www.euractiv.sk/lisabonska-strategia/zoznam_liniek/minerva---slovenska-cesta-k-poznatkovej-ekonomike

Dusan Caplovic (Minister of Education in Slovakia) said that Minerva is an important document and for which authorization to practice needs a political agreement, because it is a long-term strategy that goes beyond one term. This strategy cannot be only narrowly departmental, it must be involved in various ministries to work together closely, plus there is a need for quite a lot of quality legislative work. However, in my opinion Slovakia needs sufficient amount of resources to finance such projects. This is connected with receiving the structural funds from European Union (Slovakia can receive them up to year 2013). It is therefore necessary to raise funds towards education, science and research, and the state budget.

It seems that the suggestions mentioned in this chapter have the tools to improve situation for small and medium sized enterprises, but in order to apply these incentives into practice, there should be a legislative change to give individual member states no chance but to implement incentives proposed by EC. Nevertheless implementation can be especially challenging in the multi-level setting of the EU, since the same policy has to be implemented in widely diverging national contexts and a poor performance in enforcing laws can threaten the legitimacy of the entire project.¹¹⁸ These policies are often in a form of directives, which have to be transposed on national level. “Transposition is defined as the process whereby European directives are incorporated into national law in order to make their objectives, requirements, and deadlines applicable in the member states.”¹¹⁹ According to the Commission’s Internal Market Scoreboard from 19.02.2013 Member States have performed better in transposing EU rules into national law. However the percentage of non-transposed directives is calculated on the total number of directives and this number has increased over the years plus it does not include delays during the transposing process.¹²⁰ Despite the progress, a lot of barriers still exist. Firstly there are legislative barriers, such as late

¹¹⁸ Sara Berglund, *Putting Politics Into Perspective: A Study of the Implementation of EU Public Utilities Directives*. Eburon Academic Publishers, 2009, p. 1, Available at: <http://books.google.sk/books?id=yr7sCdaAUHcC&pg=PA231&dq=policy+implementation+obstacles+in+EU&hl=sk&sa=X&ei=a9okUavEFKXJ4ATYhoH4Aw&ved=0CDUQ6AEwAQ#v=onepage&q=policy%20implementation%20obstacles%20in%20EU&f=false>

¹¹⁹ Michael Kaeding, *Better Regulation in the European Union: Lost in Translation Or Full Steam Ahead? the Transportation of Eu Transport Directives Across Member States*. Amsterdam University Press, 2007, p. 3, Available at: http://books.google.sk/books?id=8dPmxot75ykC&printsec=frontcover&dq=transposition+of+policies+eu+directives&hl=en&sa=X&ei=kvMIUZfOJeTh4QT8qICADA&redir_esc=y#v=onepage&q=transposition%20of%20policies%20eu%20directives&f=false

¹²⁰ Sara Berglund, *Putting Politics Into Perspective: A Study of the Implementation of EU Public Utilities Directives*. Eburon Academic Publishers, 2009, p. 2, Available at: <http://books.google.sk/books?id=yr7sCdaAUHcC&pg=PA231&dq=policy+implementation+obstacles+in+EU&hl=sk&sa=X&ei=a9okUavEFKXJ4ATYhoH4Aw&ved=0CDUQ6AEwAQ#v=onepage&q=policy%20implementation%20obstacles%20in%20EU&f=false>

transposition or incorrect transposition of directives, adding national elements (known as gold plating), national technical requirements that have nothing to do with European legislation, and a spillover form service barriers. Secondly there are also administrative barriers like incorrect application of the directives, conformity assessment requirements, and unpublished public procurement, where there is also a lot to be done.¹²¹ This gives an overall impression that the problem is often not whether to transpose the directives but how to transpose them which seems to improve when issuing better suited directives.

2004's transposition of the SEA Directive was one of the cases when Slovakia as a member state (among few other MS) did not meet the transposition deadline, which was set for the same year. "The EIA Act (No. 24/2006 Coll.) transposing the SEA Directive came into force on 1 February 2006, covering land use/spatial planning and any substantial development policy in the areas of energy supply, mining, industry, transport, agriculture, forestry and water management, waste management and tourism."¹²² This is also an example on how unclear provisions are determining the success of transposition which was mentioned in various case studies such as the analysis by Justice and Environment (European Network of Environmental Law Organizations) on Implementation of the SEA Directive in the Member States.

4.4 Recommendations for further improvement of the business environment and SME development

For the EU, as well as for Slovakia, it is very important to strengthen the role of SMEs, as they participate in the creation of GDP and have a critical role in employment. According to the National Agency for Development of Small and Medium Enterprises in 2009, SMEs accounted for 54% of GDP in Slovakia, which secured 69% of jobs in the corporate sector.¹²³ The main precondition for growth and improving the competitiveness of

¹²¹ Maria Helena Guimarães, Ana Paula Faria: Product Market Integration A Multifaceted Approach. Emerald Group Publishing Limited, UK 2010, p. 69/70, Available at: <http://books.google.sk/books?id=-o3EgNUDYtsC&pg=PA69&dq=barriers+of+directives+transposition+in+EU&hl=sk&sa=X&ei=MT0rUd-9NKit4AT--oC4Cw&ved=0CC0Q6AEwAA#v=onepage&q=barriers%20of%20directives%20transposition%20in%20EU&f=false>

¹²² Thomas Bernard Fischer: The Theory and Practice of Strategic Environmental Assessment Towards a More Systematic Approach. Earthscan, USA 2007, p. 115, Available at: http://books.google.sk/books?id=BmVbQCujW0YC&printsec=frontcover&hl=sk&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false

¹²³ MEDIAPLANET Slovakia, Málé a stredné podnikanie, 2nd edition, November 2010, Available at: http://doc.mediaplanet.com/all_projects/6260.pdf

SMEs is favorable business environment. That is why creating good conditions for such business environment should be pivotal responsibility for the government. “In addition to the global economic impacts, some long-term problems remain in the business environment in Slovakia. These problems include, for example, problematic law enforcement, high administrative burden on businesses, public sector inefficiency, insufficient supply of e-government services, high levies and administratively demanding mechanism for their payment, frequent changes in legislation, and the continued practice of cronyism and corruption.”¹²⁴ This is not an easy task to solve in one parliamentary term. One way to tackle mentioned problem is a concept which allows integration of some principles from initiatives like Europe 2020 or Minerva tailored for the needs of Slovakia, and also with a binding character, however this course of action seems to be insufficient so far. Perhaps in the upcoming years this situation will improve. “The new Government formed after the elections in March 2012 has joined this initiative and, upon the Manifesto of the Government of the Slovak Republic for 2012-2016, undertook to extend the application of the European principles of the development of small and medium-sized enterprises (SBA – Small Business Act), as small and medium-sized enterprises should be supporting framework of the development of regional employment and the ones that will appreciate especially domestic natural resources.”¹²⁵ According to recommendations given by NADSME, Monitoring and Research of SMEs program and upon expert opinions of organisations representing the business sector, it is implementing certain SBA principles that can improve the business environment and the conditions for sustainable development of SMEs.¹²⁶ However there are still other Slovakia-specific problems that are more noticeable than those EU-wide, like high level of corruption and unreasonable high duties and payments, which can undermine the willingness to invest or to start small businesses. Another example is irresponsible doing of government when it comes to investing in social enterprises like technical incubators. “The mission of the incubators is to provide start-ups with suitable starting conditions for the operation of their business in at least three years. In addition to the business premises that are available, firms get office infrastructure, administrative services and professional advice.”¹²⁷ These firms are non-profit organizations, but with the idea that after a period of time they

¹²⁴ Report on the State of Small and Medium Enterprises in the Slovak Republic in 2011, Bratislava, June 2012, Available at: http://www.nadsme.sk/files/Stav_MSP_2011-EN.pdf

¹²⁵ Report on the State of Small and Medium Enterprises in the Slovak Republic in 2011, Bratislava, June 2012, Available at: http://www.nadsme.sk/files/Stav_MSP_2011-EN.pdf

¹²⁶ Report on the State of Small and Medium Enterprises in the Slovak Republic in 2011, Bratislava, June 2012, Available at: http://www.nadsme.sk/files/Stav_MSP_2011-EN.pdf

¹²⁷ NADMSP, Support of small and medium enterprises in the Slovak Republic 2012 INITIATIVE GUIDE, Bratislava, April 2012, Available at: http://www.nadsme.sk/files/Sprievodca_iniciativami-2012_0.pdf

become more financially valuable. So far it seems that these enterprises report losses at the expense of other start-ups and some are even bankrupt with their equipment sold at half of the retail price.

As mentioned in earlier pages perhaps the best course of action for the government is to give preference to reducing the tax burden for all enterprises and help minimize corruption in business and in its own ranks. General or individual support to entrepreneurs through public expenditure should be used only in exceptional and clearly justified.¹²⁸

SUMMARY

This chapter provides the answer to the research question “how can the government kick-start entrepreneurship in Slovakia” and it is by initiatives for improving the position of SMEs on the market specifically tailored for their needs. Main initiatives produced by European Union, so far, are European Charter for small enterprises, Small Business Act and Europe 2020. European Charter for small enterprises itself did not have legal force and has been largely ignored in terms of its implementation at the national level. Similar problem faced the Small Business Act and in that it failed to implement most of the proposed measures into the national legislation. Similarly the reactions on Europe 2020 strategy are so far mostly skeptical and the implementation levels are still low. This means that there is a need for stronger incentives from individual countries, in order to meet the goals of the Commission’s proposals. This is connected to resources to finance such projects and to improve the situation it is necessary to raise funds towards education, science and research, and the state budget. In my opinion, in order to apply these incentives into practice, there need to be legislative changes to give individual members states no chance but to implement these issues. As the implementation often comes in form of directives that transpose EU rules into national law where there are barriers (either legislative or administrative) it is by issuing better suited directives with clear provisions that the situation would improve.

EU experts say that national policy makers should focus on entrepreneurship, creating work and reducing bureaucracy, supporting education, shifting some labour costs onto consumption taxes, political leadership and a strong implementation. This is connected to necessary resources for financing such projects and for Slovakia those are structural funds from EU.

¹²⁸ Minerva 2.0 Slovensko do prvej ligy, Available at:
http://www.scribd.com/fullscreen/66643854?access_key=key-adtif6rsz65wnpa98oa

Issues that are most protruding in Slovak republic include mainly problematic law enforcement, high administrative burden on businesses, public sector inefficiency, insufficient supply of e-government services, high levies and administratively demanding mechanism for their payment, frequent changes in legislation, and the continued practice of cronyism and corruption. One way how to solve these issues is to create a concept which allows integration of some principles from initiatives like Europe 2020 or Minerva tailored for the needs of Slovakia and also with a binding character.

5. Organizations responsible for promotion of SMEs in Slovakia

In every State of the Union support system for SMEs is different. Each country has its national institutions responsible for implementation of European policies for the provision of funds or creating their own support activities. The following institutions provide legal and professional advice to businesses in connection with business activities: Private organizations, Public-private organizations, Government organizations.

5.1 Public-private organisations

5.1.1 National Agency for Development of Small and Medium Enterprises

The most influential organization that actively supports SMEs is the National Agency for Development of Small and Medium Enterprises. “The National Agency for Development of Small and Medium Enterprises (later referred to as NADSME) was founded in 1993 by a common initiative of the EU and the government of the Slovak Republic. The agency supports development and growth of small and medium-sized enterprises (SMEs) in the Slovak Republic with the aim to improve the competitiveness of the sector within the single EU market and the markets of third countries by means of 4 main priorities: the stimulation of the sector growth, the increase of its competitiveness, internationalisation – penetration into new markets, the facilitation of the access of SMEs to funding sources.”¹²⁹

NADSME supports businesses through the implementation of programs, namely credit and lending, and in this way is trying to access finance often unavailable for SMEs. The agency also focuses on regions where it helps to build a network of regional advisory and information centers, business and innovation centers, centers of first contact and business and technology incubators. NADSME with its range of services and forms of support for SMEs is one of the most important organizations of support for SMEs. It provides a wide range of programs suitable for start-ups as well as companies that seek to succeed on foreign markets. It also provides its services in the regions.

5.1.2 Fond fondov, s.r.o.

In 1994 the National Agency for Development of Small and Medium sized enterprise established Fond fondov, s.r.o. At that time the purpose was to manage the seed capital fund, financed by the PHARE program. This financial support has allowed the emergence and development of many SMEs. Funding covers various stages of business. Since its inception the company has undergone various changes relating to the volume of managed funds, managed project portfolio size, number of firms financially supported, as well as the number of managed funds.¹³⁰ Currently, Fond fondov, s.r.o. manages 6 funds: “Start-up capital fund (support for small and medium enterprises in Slovakia), Regional Start-up Capital Fund (support SMEs in Banska Bystrica, Zilina, Kosice and Presov regions), INTEG Fund (support innovative projects), SISME Fund (support for innovative companies), Seed Capital Fund (support in the form of seed investments in newly established, young and innovative SMEs in

¹²⁹ NADSME: National Agency for Development of Small and Medium Enterprises, Available at: <http://www.nadsme.sk/en/content/about-us>

¹³⁰ Fond Fondov s.r.o.: História a poslanie spoločnosti, Available at: <http://www.fondfondov.sk/article.php?node=77&s=&key=140506181215&lang=en>

Slovakia), Micro-loan Fund (credit granting to entrepreneurs from Bratislava and Trnava regions)''¹³¹.

“The long-term mission of Fond fondov, s.r.o. is to properly coordinate activities of individual funds and thus stimulate the development of the sector of small and medium-sized enterprises, valorise the volume of financial facilities of individual funds and use the generated profit for further support of small and medium enterprises.”¹³²

Among other Public-private organisations that provide support to SMEs is the Slovak Chamber of Commerce and Industry (SCCI). SCCI is a member of the International Chamber of Commerce in Paris and a full member of Eurochambers in Brussels. It is an independent representative of the market economy, which protects the interest of business subjects.¹³³

5.2 Government organisations

5.2.1 Slovak Ministry of the Economy

From the institutional players in the promotion of SMEs in Slovakia, the most important is the Slovak Ministry of the Economy. “In accordance with the Act.575/2001 of the activities of the Government and central state administration as later amended, Slovak Ministry of Economy is involved in the strategy of the business environment and promotion of small and medium enterprises in the fields of industry, energy, mining, trade and travel industry, including the promotion of food products that are not included in Annex I to the Treaty establishing the European Community and the promotion of construction products, secured for the scope of its state administration and other tasks laid down in laws and other generally binding legal regulations.”¹³⁴ In this context, the importance of the ministry derives from its coordination activities and work as a guarantor for SMEs.

Through the Ministry of the Economy is mediated the state support in the following areas: aspect of the strategy and development of SMEs, the area of creation of an institutional environment for SMEs, the area of cooperation with international institutions, the area of

¹³¹ National Agency for Development of Small and Medium Enterprises, Available at: <http://www.nadsme.sk/sk/content/fond-fondov>

¹³² Fond Fondov s.r.o.: História a poslanie spoločnosti, Available at: <http://www.fondfondov.sk/article.php?node=77&s=&key=140506181215&lang=en>

¹³³ Slovak Chamber of Commerce and Industry, Available at: http://web.scci.sk/storage/cinnost_SOPK_en.pdf

¹³⁴ Podpora malého a stredného podnikania v Slovenskej republike SPRIEVODCA INICIATÍVAMI 2012, Available at: http://www.nadsme.sk/files/Sprievodca_iniciativami-2012_0.pdf

legislation and regulatory measures to support the business environment, the area of securing funds for SMEs, the area of promotion and development of SMEs at the regional level.¹³⁵

Ministry of Economy also covers non-profit organizations and contributory organizations, which inter alia, provide support to SMEs. This includes: the European Educational Academy (providing educational support for foreign trade, tourism and business, namely education, retraining and language courses); the Slovak Agency for Tourism is responsible for the promotion of Slovakia in Europe and the world (provides support for SMEs, focusing on tourism, by ensuring their participation in exhibitions and fairs); acquisition, processing and placing information on the activities of natural and legal persons in the energy sector, the energy efficiency and rational use of energy fall within the scope of the Slovak Innovation and Energy Agency; Slovak Agency for promotion of investment and trade (SARIO) is working with SMEs to export and import and also to penetrate foreign markets as one of its objectives. Another aid from the Ministry of the Economy to SMEs is monitoring and collecting information about the business environment in Slovakia, the presentation of the economic environment of Slovakia, attracting foreign investors and aid in the development of investment projects.

5.2.2 Banks promoting SMEs

“Due to SMEs’ limited access to securitized forms of financing, banks play a crucial role for SMEs’ external financing. Bank credit restrictions therefore affect SMEs more severely than large firms.”¹³⁶ That is why governments should take steps to improve awareness among entrepreneurs of the financing options available to them.

The first Bank in Eastern Europe that began addressing the issue of support for SMEs, the Slovak Guarantee and Development Bank, was founded by the Slovak Ministry of Finance (MoF) in 1991, as a state financial institution. It was later transformed into a joint stock company.¹³⁷ In 2003, the system of bank guarantees has fundamentally changed. “SZRB started to provide two types of bank guarantees - with direct and indirect security. The new guarantee mechanism brought allocation of risk between SZRB, client and partner entity”¹³⁸.

¹³⁵ Politika štátnej podpory MSP, Inštitucionálny rámec podpory MSP, Available at: <http://www.nadsme.sk/sk/content/politika-statnej-podpory-msp>

¹³⁶ Ayadi, Rym; Bernet, Beat; Bovha-Padilla, Simona; Franck, Tom; Huyghebaert, Nancy; Gaspar, Vitor; Veugelers, Reinhilde, Financing SMEs in Europe, p.11, SUERF Studies vol. 2009/3, Available at: <http://www.suerf.org/download/studies/study20093.pdf>

¹³⁷ Slovak Ministry of Finance, Available at: <http://www.finance.gov.sk/Default.aspx?CatID=3407>

¹³⁸ Slovak Guarantee and Development Bank, Available at: <http://www.szrb.sk/Default.aspx?CatID=116>

SZRB supports the creation, development and stabilization of SMEs in particular by providing guarantees for loans to entrepreneurs especially those who do not have the necessary security devices to secure the loan, or commercial banks evaluate their risk level too high.

Another state-owned bank is called Eximbank, but unlike SZRB it is geared to support exports and imports, and especially to promote the maximum volume of exports mainly to EU and OECD. For this objective Eximbank seeks to operate in two areas, namely finance and export credit insurance. “In March 2011 Eximbank prepared a strategy document Eximbank SR for the years 2011 to 2015, to take into account of the needs of Slovak exporters and economic policy objectives of the Government in foreign trade.”¹³⁹ This strategy defines the direction and goals EXIMBANKA SR for the next period, specifies instruments of export promotion, expanding its activities in terms of territorial and commodity orientation.

5.2.3 Other governmental institutions

In charge of areas of support and development of SMEs at the regional level is the Slovak Ministry of Construction and Regional Development (MCRD). MCRD is responsible for the withdrawal of funds from the Structural Funds and the Cohesion Fund and also developed a National Strategic Reference Framework 2007-2013, which is a specific tool for guiding the preparation and implementation of programs and set priorities, that will be filled with the help of structural funds and Cohesion Fund.

Information and advice about how to provide a wide range of financial contributions to state social benefits and social assistance services are provided by the Offices of Labour, Social Affairs and Family.¹⁴⁰

Other governmental institutions supporting SMEs include: The Tax Directorate of the Slovak Republic and the tax offices, The Social Insurance Agency, The Health Insurance Agency and more.

SMEs development is supported by a number of additional organizations, portals and services. Specialized consulting services cover a wide range of areas including business

¹³⁹ Eximbank: Intentions Eximbank SR, Available at: http://www.eximbanka.sk/sk/o-nas/zamery-eximbanky-sr.html?page_id=244

¹⁴⁰ Act. 453/2003 on state administration bodies in the field of social affairs, family and employment services, October 2003, Available at: http://www.employment.gov.sk/filemanager/dokumenty/ministerstvo/legislativa/pracovna_legislativa/453_2003.pdf

development and assistance in tax and financial issues. For example: Central public administration portal, Podnikajte.sk, Central information portal for research, development and innovations etc.

5.3 Private organisations

In addition to national, regional and non-governmental organizations, there are private companies that provide certain services, particularly with the nature of advice which provides some kind of support for entrepreneurs from different sectors. This is mainly for accounting services, advice on tax matters, ensuring the protection and health at work, provision of legal advice and many others. This includes mainly The National Union of Employers, The Slovak Trades Association, The Federation of Employers' Associations of the Slovak Republic.

SUMMARY

Slovak republic is responsible through its national institutions for implementation of European policies for the provision of funds or creating its own support activities. These can be divided into three categories: Private organisations, Public-private organizations, Government organizations. They support businesses through the implementation of programs, namely credit and lending, access finance and also focuses on building a network of regional advisory and information centers, business and innovation centers, centers of first contact and business and technology incubators. There are also agencies managing number of funds supporting SMEs and using the generated profit for further support. There is a further promotion of small and medium enterprises in the fields of industry, energy, mining, trade and travel industry, including the promotion of food products. National banks are providing credit financing, although governments should take steps to improve awareness among entrepreneurs of the financing options available to them, because small firms are still in a disadvantage compared to large companies.

CONCLUSION

In this chapter I will provide the summary of the thesis and the answers for my research questions. I examined the undisputable importance of small and medium enterprises in the economy. European Union also recognises the fact that small and medium enterprises account for more than ninety percent of all European societies and their difficult position against transnational businesses. In general, the economically weaker, have less access to capital, weaker negotiating position when dealing with major trading partners and financial institutions, thanks to limited staff resources are also focused in worse system of legal regulations. Significance of small and medium-sized enterprises on the one hand, and their weak position on the other hand, are the reasons why the European Union is trying to support them. Union has identified its policy towards small and medium enterprises several times, most recently in the document Europe 2020. It states headline targets and the other seven

flagship initiatives that would accelerate the process of support. The problem is that the principles set out in document Europe 2020 expressed only intentions, how to help small and medium enterprises, and it is just on good will of the Member States and the European Commission's future decisions, whether and to what extent these principles apply. European Union policy towards SMEs is not limited only to documents of how to stimulate support for SMEs. Among the problems is that SMEs have insufficient awareness of EU policies towards small and medium entrepreneurs and poor knowledge of what all support options can they benefit from. Therefore, there is the Enterprise Europe Network, where entrepreneurs can get all this information. Other initiatives of the European Commission is an annual organizing of week for small and medium enterprises, where the small and medium businesses can learn a lot of useful information and gain inspiration and in order to better benefit from support of the European Union. Specific support for the Union is then divided into four areas. Small businesses can use the support from the funds available to them through the national operations programs. In addition, they can use the thematic support of direct community programs and in the case of lack of funds they can benefit from some financial instruments, the European Union provides help to finance the sector of SMEs. European Union thinks also of the international activities of SMEs and offers them some programs to support their actions outside the Union. Offer of programs to support small and medium enterprises in Slovakia appear to be rich, but the entrepreneur may not always reach this support. First stumbling block is the fact that a particular program is opened for specific periods and has an allocation of a certain amount of money. The entrepreneur thus must ensure that the program for the requested support is verified and not exhausted.

The research question “how can be the role of government properly defined given possible interaction with other relevant players, e.g. venture capitalists” is explained in second chapter. Small companies are usually financed firstly by a group called family, friends and fools or business angels and then government funds. In this situation the role government comes into play in supporting the SME sector, because all businesses face the same issue in their early days and that is to find the money to start and build up their business. One of the reasons why financing of SMEs is complicated is because there are specific of range of financing sources for different stage of their development. That is why government needs to promote awareness of entrepreneurs about financing options available to them, for example through programs and initiatives like those mentioned in next chapters. Traditionally SMEs have been financed to a great extent by internal sources however many SMEs also need external sources of finance because they may in fact in some cases increase the profitability of

own capital. For small and medium-sized businesses getting bank loans has become harder. In this case government can reform the banking system to effectively decide which SMEs are worth investing in. This is of course hard to achieve, but for instance giving small businesses another chance of getting loan, even after first unsuccessful startup, can give people who want to start their company more confidence to do so. One option for businesses that have little chance of obtaining funding through a loan, there is a very good way of funding possibility through equity financing. In order to improve equity financing the government can use technical support to help the business angels operate more efficiently, as they usually invest in high-tech industry or improve regulatory framework to ensure that it encourages the development of venture capital.

Third chapter classifies the particular forms of support for SMEs in EU. This also addresses the issue of the second research question “what can EU institutions can do to finance SMEs”. As source of support for SMEs can be considered all entities that provide certain forms of assistance, from European level to local or national level. This chapter describes EU institutions that have the most impact on SMEs like European Commission or European Investment Bank or other selected sources, for instance databases, agencies or funds.

In connection with the financial support from EU, perhaps the most famous are structural funds or social funds. The SMEs are also important to subsidized low-interest loans, microcredit programs or providing of entry fee and venture capital. Financial assistance may be provided in the form of state guarantees for loans and accelerated depreciation.

So what can EU institutions do to finance SMEs? First of all they need to ensure that SMEs have better access to bank finance, equity finance and other sources of finance. There are already several supporting government national or Europe-wide plans for helping SMEs access finance, but for the businesses to sufficiently improve the economy they need even more finance. It needs to create a level playing field so that the tax system does not place SMEs at a disadvantage. Promotion of SMEs should also be focused at making markets work more efficiently and providing incentives for the private sector to assume an active role in SME finance. It is important to make things easier and more convenient for SMEs by better legislation and regulation to encourage new investment, productivity, innovation and job creation.

Chapter four provides the answer to the research question “how can the government kick-start entrepreneurship in Slovakia” and it is by initiatives for improving the position of SMEs on the market specifically tailored for their needs. Main initiatives produced by

European Union, so far, are European Charter for small enterprises, Small Business Act and Europe 2020. European Charter for small enterprises itself did not have legal force and has been largely ignored in terms of its implementation at the national level. Similar problem faced the Small Business Act and in that it failed to implement most of the proposed measures into the national legislation. Similarly the reactions on Europe 2020 strategy are so far mostly skeptical and the implementation levels are still low. This means that there is a need for stronger incentives from individual counties, in order to meet the goals of the Commission's proposals. This is connected to resources to finance such projects and to improve the situation it is necessary to raise funds towards education, science and research, and the state budget. In my opinion, in order to apply these incentives into practice, there need to be legislative changes to give individual members states no chance but to implement these issues.

EU experts say that national policy makers should focus on entrepreneurship, creating work and reducing bureaucracy, supporting education, shifting some labour costs onto consumption taxes, political leadership and a strong implementation. This is connected to necessary resources for financing such projects and for Slovakia those are structural funds from EU.

Other problems that Slovak republic is facing include problematic law enforcement, high administrative burden on businesses, public sector inefficiency, insufficient supply of e-government services, high levies and administratively demanding mechanism for their payment, frequent changes in legislation, and the continued practice of cronyism and corruption. One way how to solve these issues is to create a concept which allows integration of some principles from initiatives like Europe 2020 tailored for the needs of Slovakia with binding character.

As mentioned in earlier pages perhaps the best course of action for the government is to give preference to reducing the tax burden for all enterprises and help minimize corruption in business and in its own ranks. General or individual support to entrepreneurs through public expenditure should be used only in exceptional and clearly justified. The thesis presents various aspects of mechanisms to support small and medium-sized enterprises. Defines the theoretical basis for SMEs and highlights the historical processes that have shaped interest in them. To clarify the context of dealing with the situation before 2000, but the emphasis on recently developed a policy of supporting documents. This does play a key role today in the theme of SME support and form the core of the issue. Analysis of the European Charter for Small Enterprises, the Small Business Act, Europe 2020, Minerva and others,

have shown the importance of support tools currently used and the support itself is classified in terms of resources, and object orientation for clarity and comprehensiveness.

Current process in Slovakia clearly shows that the policy makers recognize the role of SMEs in the economy. A number of new initiatives in recent years indicates that the situation will develop in their favor. Attractiveness of business for the young generation as well as facilitating access for new businesses to market is one of the main priorities of recent SME support programs in Slovakia and EU. As I stated in my thesis, supporting SMEs extremely broad topic. As a benefit of this work I consider a comprehensive classification of support for small and medium-sized enterprises, divided into source, object and direction of support which makes the issue more transparent and gives rise to the complex identification.

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