

## SUPPORT OF ENTREPRENEURSHIP OF SMALL AND MEDIUM ENTERPRISES THROUGH FINANCIAL RESOURCES FROM EU FUNDS

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**Abstract:** This paper focuses on the importance of sector small and medium enterprises (SME) in each economic system and necessity of support of development and of entrepreneurship of this sector. The first part deals with an analysis of development of quantitative parameters of SME through selected macroeconomic indicators and with present situation of development in EU and Slovakia. The main part analyses support of entrepreneurship of SME through EU funds and programmes and utilization of financing through EU funds in Slovakia in practice. In the end of the paper are outline new trends and ways of the financing of SME and its effects on international competitiveness and cooperation for SME in EU. (JEL: L26, G15, O11)

**Key words:** support of entrepreneurship, small and medium enterprises (SME), financing of SME, financial resources, EU funds

### Introduction

Small and medium enterprises (SME) in general terms, companies with fewer than 250 employees, are regarded as the backbone of economies in EU. Some 99 % of all enterprises are SME, and it is in SME that most new jobs are created. The European Union is implementing a wide range of policies designed to create a business environment, which encourages entrepreneurship and entrepreneurs to start new enterprises, businesses and to grow existing ones. In June 2008, the European Commission launched the Small Business Act for Europe, with the aim of strengthening still further support for SME, and particularly to ensure that SME needs are taken into account at all levels of policy-making, EU, national, regional and local[6]. The current economic and financial crisis makes the need for SME support all the more vital. Many activities in EU and discussions will focus on reducing the administrative burdens on business and financing and removing barriers to entrepreneurship. The important financial sources for support of entrepreneurship represent also EU financial funds.

*The aim* of this paper is to characterize the importance of development of sector SME for each economic system through selected macroeconomic indicators by international comparison, to analyse the main factors of utilization of EU financial funds and programmes in competitiveness and in practice of SME and other firms [1]. The main research problem, which is discussed:

How can support of financing improve the entrepreneurship of SME and its importance on macroeconomic indicators? What is the importance

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of entrepreneurship and financing for each company management? How to improve access to finance and financing for SME in EU? The answers to the questions are expected also from management of support of entrepreneurship and financing from EU financial funds and several of supporting programmes.

### Quantitative characteristics of sector SME in Slovakia and EU

Slovakia achieved from aspect of sector SME positive trends in main selected macroeconomic indicators, as share of SME on GDP (Gross domestic Product), share on employment, stability of share on profitability and share on export. The national statistical data present the next tables and figures.

**Table 1. Development of SME on selected macroeconomic indicators in Slovakia in %**

Year/Indicator	2000	2001	2002	2003	2004	2005	2006
Share of SME on GDP in %	55	57	57	58	59	59,7	60,1
Share of SME on value added in %	44	46,9	49,2	45,3	45,0	48,6	48,9
Share of SME on employment in %	56	59,1	62,0	65,9	69,5	70,7	70,8
Share of SME-PO on EBT in %	61,3	51,8	60,6	47,2	44,7	46,4	43,7
Share of SME on export in %	27	31,1	28,2	25,0	26,6	32,3	34,6

Source: researched by <http://www.infostat.sk/ELIS/slcs/indik.html>, <http://www.nadsme.sk>

Note: PO – corporate bodies, EBT – earnings before tax

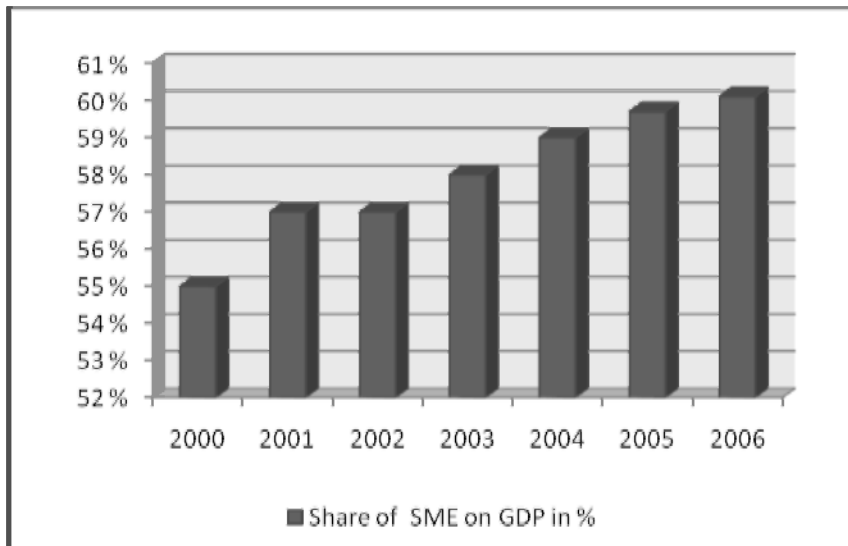
The most important is positive trend of growth on employment in this sector, which remains the seventh year, in 2006 achieved the share of SME on employment 70,7 %, (Table 1 and Figure 2).

Table 2 present also trends of growth of this sector, the comparison of main macroeconomic indicators and comparability of importance of sector SME in Slovakia and in EU in 2006.

### Support of entrepreneurship of SME through EU funds and programmes

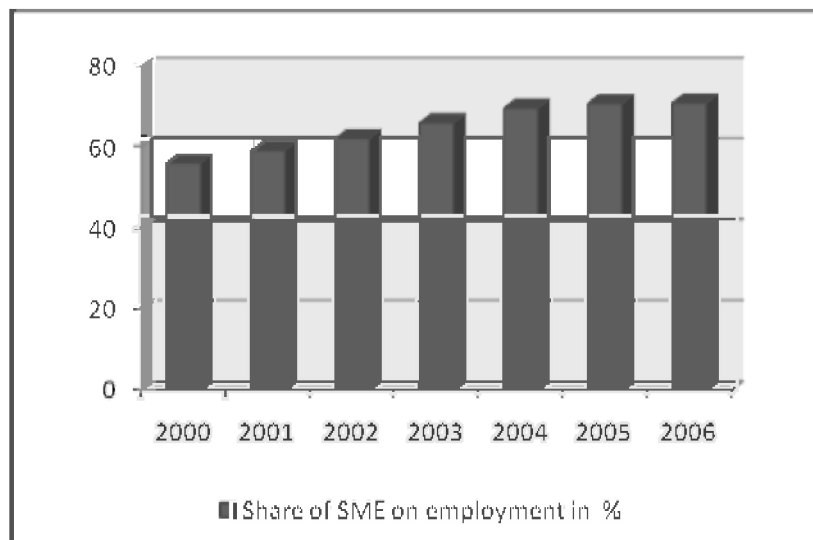
The National Agency for Development of SME (NADSME) supports the development and growth of SME in Slovakia while respecting state, structural, industrial, technological, regional and social politics [2]. NADSME coordinates and implements support activities focused on the sector SME based on the mandate from the Ministry of Economy of the Slovakia. Implementation of projects and programmes is focused through returnable and non-returnable contributions,

programmes financed from the state budget and various projects funded from EU Structural funds [4].



**Figure 1. Share of SME on GDP (Gross domestic Product) in %**

Source: own processing by <http://www.infostat.sk/ELIS/slciis/indik.html>,  
<http://www.nadsme.sk>



**Figure 2. Share of SME on employment in %**

Source: own processing by <http://www.infostat.sk/ELIS/slciis/indik.html>,  
<http://www.nadsme.sk>

**Table 2. Comparison of macroeconomic indicators of SWME in Slovakia and EU in %, in 2006**

Range of company		Microcompany (0-9)	Small (10-49)	Medium (50-249)	Big (250+)	SME
Quantity of company	EU 25	91,5	7,3	1,1	0,1	99,9
	Slovakia	<b>95,3</b>	<b>3,9</b>	<b>0,7</b>	<b>0,1</b>	<b>99,9</b>
Employment	EU 25	29,8	20,8	16,5	32,9	67,1
	Slovakia	<b>33,8</b>	<b>17,6</b>	<b>19,4</b>	<b>29,2</b>	<b>70,8</b>
Revenues	EU 25	19,4	19,3	19,1	41,9	57,8
	Slovakia	<b>9,0</b>	<b>13,0</b>	<b>19,3</b>	<b>58,7</b>	<b>41,3</b>
Value added	EU 25	20,5	19,1	17,8	42,7	57,4
	Slovakia	<b>12,4</b>	<b>16,1</b>	<b>20,4</b>	<b>51,1</b>	<b>48,9</b>

Source: <http://www.nadsme.proxia.sk/> [7]

Main spheres of these activities of NADSME are:

- Implementation and management of support programmes in the sector SME financed from public sources
- Proposals for the conception and preparation of specific programmes, especially from EU Structural funds for the support of SME
- The securing of the implementation of support programmes, provision of counselling and information for those interested in business, starting and existing entrepreneurs at the regional level in cooperation with particular regional institutions especially Regional Advisory and Information Centres (RAIC), Business Innovation Centres (BIC) and Business and technological incubators (BaTI)
- Administration, coordination and monitoring of the implementation of support financial tools funded from revolving resources
- The support of the development of Slovak network of business and technological incubators, stimulation of their mutual cooperation and networking
- Activities and projects facilitating employment and self-employment as well as integration of different target groups (inc. visually impaired clients and risk groups at the job market) into the further training and preparation for entrepreneurship.

The main programmes in 2007 were: in Slovakia

- Learning, training and counselling for selected groups interested in entrepreneurship
- The Micro-loan Programme
- The Support of SME via the network of incubators and the implementation of the method "Research –based spin-off"
- The System of integrated employment and retraining of visually impaired people – The Project SIZAR
- Projects from EU Structural funds.

In this paper we mention only some most important projects for entrepreneurship of SME in Slovakia. One of these is *The Micro – loan Programme* [3]. In 1997, NADSME launched a pilot project the Micro-loan Programme with help of 3 RAIC in Považská Bystrica, Zvolen a Prešov. Its main goal was to solve the problem of the access of small entrepreneurs in regions to small loans. At present, the programme is implemented in line with directive of the Slovak government No.701/2002. It is designed for small entrepreneurs employing less than 50 persons,. In 2007, 15 centres were operating under the programme that covers the whole territory of Slovakia. A micro-loan could be used for the acquisition of tangible and intangible fixed assets, reconstruction of operational premises as well as for the purchase of necessary stock, material or goods. In 2007, the maximal amount was 1500 000 SKK/49 791 EUR and minimal amount 50 000 SKK/1660 EUR (1 EUR=30, 1260 SKK) with interest rate dropping down to 6, 25 % p.a. twice. The maturity period varied from 6 months to 4 years. In special cases it was possible to prolong the maximum grace period for principal repayment of 6 months. 124 SME submitted the request for the provision of micro-loan in 2007, out of which 109 micro-loans were provided in the total amount of 75 035 766 SKK/2 490 731 EUR. The average amount of the micro-loan reached 688 402 SKK/22 850 EUR. All in all, 1499 micro-loans were provided since the launch of the programme in the amount of 673 917 191 SKK (table 3).

Another important factor, which has to be mentioned in connection with the implementation of the Micro-loan Programme, is its impact on employment in regions. The year 2007 saw 169 newly-created job positions and other 556 were maintained thanks to the financial support of the programme. Since the start of the programme, the total amount of 2253 jobs was created and other 3215 were maintained.

The Table 3 present the overview of provided micro-loans by individual centres in Slovakia.

### Utilization of EU Structural funds in practice in Slovakia

EU Structural funds represent very important supplemental financial resource for SME in their business. The year 2007 saw changes in the organisational structure of the Structural Funds Department, which was transformed into the Structural Funds Section, one of 3 sections in NADSME. It is responsible for the overall organization of calls, assessment, implementation, financial management, monitoring and control of applications for non-returnable financial contributions under Sectoral Operational Programme Industry and services (SOP IS) through European regional development fund (ERDF) as follows:

- Measure 1.1 - The Support of development of new and existing enterprises and services designed for the private sector

- Measure 1.2 – The support of construction and development of infrastructure establishment of incubators, technological parks and research and development centres) designed for applicants from public sector.

**Table 3. The overview of provided micro-loans by individual centres in Slovakia**

Centre	Micro-loans provided number in 2007	Micro-loans provided in SKK, in 2007	Micro-loans provided number cumulative	Micro-loans provided in SKK cumulative
Fond fondov, s.r.o.	12	8 388 000	121	62 179 500
RAIC Dunajská Streda	5	4 750 000	56	27 894 800
RAIC Komárno	4	1 420 000	104	49 377 038
RAIC Kosice	7	6 230 000	36	24 349 336
RAIC Lucenec	9	4 554 500	73	37 475 725
RAIC Martin	1	450 000	74	30 059 362
RAIC Nitra	7	2 810 000	120	36 948 000
RAIC Poprad	2	3 000 000	9	7 431 033
RAIC Povazská Bystrica	5	3 779 326	172	61 362 323
<b>RAIC Prešov</b>	<b>15</b>	<b>11 550 000</b>	<b>174</b>	<b>75 977 000</b>
BIC Prievidza	19	12 000 000	168	85 368 000
BIC Spišská N. Ves	12	4 534 030	85	34 573 503
RAIC Trebišov	3	2 970 000	83	38 478 199
RAIC Trenčín	5	6 000 000	70	42 621 662
RAIC Zvolen	3	2 600 000	154	59 821 710
<b>Total</b>	<b>109</b>	<b>75 035 766</b>	<b>1499</b>	<b>673 917 191</b>

Source: researched by Annual report 2007, NADSME, [3]

The Measure 1.2 includes also the national project “The set-up of a network with the information link between research, academic and specialised libraries, including their modernisation”. The section is managed by the Section Director. It comprises two departments – SOP IS Implementation (the Sectoral operational Programme Industry and Services) and CaEG (Competitiveness and Economic Growth). The implementation of SOP IS includes the Implementation of SOP IS projects, their financial management and monitoring.

The professional assessment of projects according *The call for proposals SOP IS, year 2006 – 1.1. as on August 16, 2006 (De minimis aid scheme)* started at the end of 2006[3]. Each project was assessed by 2 evaluators (internal and external) that prepared independent reports. These served as a basic for the consequent decision of the evaluation committee on the provision/non-provision of non-returnable financial contribution. *The most important aspects* that were assessed, were e.g. project contribution to the fulfilment of goals

of the individual measure, operational ability of recipients, project sustainability, and budget and project effectiveness, project methodology, (which included also the assessment of indicators proposed by the applicant to monitor the project realisation). In line with assessments by external and internal evaluators, the evaluation committee set out a list of projects that reached the pre-determined minimal number of points (72 points). Those projects that failed to achieve it were excluded from the further assessment process. The process of the professional assessment was completed on February 2007. Out of the total number of 430 assessed projects, 360 gained more than 72 points and 70 did not reach it at all. After the professional assessment of those projects that met the basic criteria, the total amount of requested costs was 1 932 374 933, 85 SKK. Total amount of approved non-returnable financial contribution reached 959 183 399, 66 SKK. Due to the fact that evaluation committee did not have so much financial resources available as requested in the successful projects, it was not possible to provide all successful entrepreneurs with financial contribution. That is why a standby project package was created. These projects could be supported in case those additional financial resources were released. The list of projects is available at the web page of NADSME, in the part dedicated to the Structural funds. Once successful applicants for non-returnable financial contribution were addressed, the Structural Funds section started with process of contract ratification based on the decision of the ministry of Economy of Slovakia. As to December 31, 2007, 81 contracts on the provision of non-returnable financial contribution were drawn in the total amount of 215 193 318 SKK. Out of those there were 7 contracts from standby project package in the amount of 19 900 605 SKK. Consequently, addendum to contracts were processed and distributed and became an inseparable part of contract agenda after they had been signed.

The system of the Structural Funds financial management comprises a complex of mutually connected and intertwined subsystems and activities, through which efficient financial planning, budgeting, accounting, recording, payment to final recipients, monitoring of financial cash flows and financial control at the realisation of aid from Structural Funds are secured. During 2007, 6 requests for payment of regional projects (RP) were accepted in the amount of 15 797 783, 56 SKK (7 291 284, 72 from the state budget, 8 506 498, 84 SKK from ERDF). Only 1 request for payment was settled in the amount of SKK 1 289 502, 50 (table 4).

**Table 4. Regional projects (RP) settled in 2007 (De minimis aid scheme)**

	Number	Amount in SKK	State budget funds in SKK	ERDF funds in SKK	Share of ERDF funds %
<b>Settled RPs</b>	1	1 289 502,50	595 155,00	694 347,50	53,8
<b>RPs sot settled</b>	5	14 486 845,28	6 686 236,34	7 800 608,94	53,8
<b>Total</b>	6	15 776 347,78	7 281 391,34	8 494 956,44	53,8

*Source: researched by Annual report 2007, NADSME, own calculation, [3]*

*The Measure 1.2 – The support of construction and development of infrastructure* focus on the support of business development in the field of industry and services, increase of employment and quality of life in regions via public sector. The call number SOP IS -2004-1.2 that was announced by the Managing Authority for the SOP IS in cooperation with NADSME on April, 2004, comprises eligible activities for the support of construction of incubators, technological parks and research and development centres, important for SME. During 2007, NADSME implemented 6 projects under Measure 1.2. The amount of contracted non-refundable financial contribution reached SKK 146 385 347, 05. Moreover, in 2007 no contract on the provision of non-returnable financial contribution was signed since all 6 contracts had already been drawn in 2005. The amounts of contracted non-returnable financial contribution (NFC) as to December 31, 2007 present the next table 5.

**Table 5. The amounts of contracted non-returnable financial contribution (NFC) in 2007**

Applicant	Amount of contracted NFC in SKK	Amount of contracted NFC in EUR
City of Martin	21 306 634,20	707 250,70
City of Spišská Nová Ves	26 930 128,80	893 916,50
City of Gelnica	36 829 442,30	1 222 513,50
City of Handlová	37 571 930,00	1 247 159,60
City of Rimavská Sobota	2 580 200,00	85 646,90
City of Moldava /Bodvou	21 167 011,75	702 616
Total	146 385 347,05	4 859 103,30

Note: 1 EUR = 30, 1260 SKK

Source: researched by Annual report 2007, NADSME, own calculation, [3]

No standby project package was created under Measure 1.2. In 2007, 2 beneficiaries withdrew from the contract due to the following reasons:

- the request for the change of the realisation place not approved,
- the period set for the public procurement not kept.

In line with the directive of the Ministry of Economy of Slovakia for SOP IS and individual parts of the contract on the provision of NFC, the Structural funds section processed and distributed addendum to contracts that became an inseparable part of the contract agenda after they had been signed. All in all, in 2007, 11 applications in the total amount of SKK 22 202 625, 43 were submitted to NADSME by final beneficiaries for the Measure 1.2. Out of them, there were 8 applications for the advance funding in the amount of SKK 17 390 462, 45 together with 3 final requests for payment in the amount of SKK 4 812 162, 98.

This part of paper gives only selected information about *The Programme Support of SME via the network of incubators and the implementation*



of the method “Research –based spin-off” [3]. In 2007, a new programme for the support of entrepreneurs – incubated companies via business and technological incubators was approved for the period of 2007-2013. It concerns the financial support of incubators in such a way so that they could provide starting entrepreneurs with suitable starting conditions for the operation of their companies for the minimum period of 3 years. The aim is being the increased survival rate and improvement of SME competitiveness. The financial resources of the programme were allocated solely for non-investment costs, i.e. the partial settlement of operational costs of incubators. Investment activities such as reconstruction and enhancement of technological parameters of buildings were not carried out. As to December 2007, 16 business and technological incubators were in operation in Slovakia, supporting newly-created companies in regions. 11 of them met eligible criteria in accordance with conditions set in the programme and that is why contracts were drawn with them with the purpose to co-finance operational costs for the period of January- December 2007. Finally, 9 incubators drew financial funds, 2 did not draw since their business operation was profitable, which does not correspond with the programme conditions. From the state budget, funds in the amount of SKK 4 344 437, 45 were used. An important factor of investments into the development of the incubators network is its impact on employment at the regional scale. 1230 jobs were created in 269 incubated companies, out of which 646 jobs were created by 157 companies in 9 supported incubators.

### Summary

The objective of this paper is to point at the importance and big developing potential of sector SME for each economy system. Based on the analysis of selected main macroeconomic indicators were pointed at positive trends of growth of this sector, the comparison of main macroeconomic indicators and comparability of importance of sector SME in Slovakia and in EU.

For the support of development of this sector and its entrepreneurship is necessary to use opportunities through the financing via EU funds and its programmes. In the paper main spheres of these activities of NADSME in Slovakia were sketch and also necessity of rising of utilization of many programmes for SME in Slovakia in practice.

The prosperous sector of SME in Europe is a key to the success of healthy national economy and business environment. Europe needs more entrepreneurship in order to stay competitive in the world globalization. Thus is necessary to create positive and motivating environment for more people to start up as well as for the growth of small enterprises and doing business in the enlarged EU [5]. New challenges of increasing market internationalisation and industrial mutations require also from Slovak companies not only strong production capacity but also a high level of adaptation and flexibility together with strategic approach. Support

of entrepreneurship and utilization of financing through EU funds, Structural funds and programmes for SME, has been growing around the world.

We would like to outline new trends in the SME financing, with further considerations based on convergence of interest rates in European monetary area, tendencies to decrease the income tax, improvements of access to loans, decreases in price and/or costs of capital, and permanently rising utilization of long-term financing from EU funds and programmes.

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### WSPIERANIE PRZEDSIĘBIORCZOŚCI MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW ŚRODKAMI FINANSOWYMI Z FUNDUSZY UNIJNYCH

**Streszczenie:** Artykuł koncentruje się na znaczeniu sektora małych i średnich przedsiębiorstw (MŚP) w każdym systemie gospodarczym i konieczności wspierania i rozwoju przedsiębiorczości w tym sektorze. Pierwsza część dotyczy analizy ilościowej rozwoju małych i średnich przedsiębiorstw wykorzystującej parametry wybranych wskaźników makroekonomicznych związanych z obecną sytuacją i rozwojem w UE i na Słowacji. Główna część prezentuje wsparcie przedsiębiorczości małych i średnich przedsiębiorstw w ramach funduszy i programów UE oraz wykorzystanie w praktyce finansowania z funduszy UE na Słowacji. Na końcu przedstawione są nowe trendy i zarys sposobów finansowania MŚP oraz ich wpływ na międzynarodową konkurencyjność i współpracę małych i średnich przedsiębiorstw w UE.