

EVALUATION OF PUBLIC SUPPORT PROGRAMMES IN FINANCING OF SMALL AND MEDIUM – SIZED ENTERPRISES

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Abstract: *Small and medium-sized enterprises are a key segment of the business sector in Slovakia, as well as the backbone of the economy and the basis for the country's competitiveness. A favorable business environment and the provision of appropriate forms of support is an important prerequisite for the successful development of small and medium-sized enterprises because they usually have limited financial sources and significantly higher sensitivity to the existence of different barriers in business compared to large enterprises. Under the conditions of Slovakia, a number of support measures have been implemented, which direct or indirect aim is to support small and medium-sized enterprises. The aim of the article is to evaluate support programmes for SMEs in the SR and to propose measures to improve the support system.*

Keywords: *Small and medium – sized enterprises, public support programmes, bank loans*

1. INTRODUCTION

The small and medium-sized business sector is an integral part of any advanced market economy. The importance of small and medium - sized enterprises (SMEs) in the Slovak economy is characterized by several indicators. Even in 2017, they represented 99.9% of the total number of business entities in the Slovak economy, employed circa three quarters (73.8%) of the active labor force in the corporate economy, and contributed to the added value generation. The positive development of the national economy has also been reflected in positive impacts on the development of the said indicators, when, as compared to 2016, the number of employees in SMEs increase of 1.4%, the added value of 8.9% and the generated profit of 7.5%. The growth in value added in the SME sector has been most significant over the past seven years [1].

The significance of small and medium-sized enterprises is also recognized by individual EU countries that use a wide range of support measures to help them.

There have been many support measures implemented in the Slovak Republic in order to improve the conditions for doing business of SMEs. Creating new as well as further developing of support tools for entrepreneurs can help to sustain the growth of the economy and promote employment in the long term. However, without evaluating the impact of support measures, it is not possible to assess the degree of fulfillment of the individual priorities and objectives of these instruments.

This was the reason why we decided to focus on evaluation of effectiveness of public funding for SMEs. The aim of the article is to evaluate support programmes for SMEs in the SR and to propose measures to improve the support system.

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2. LITERATURE REVIEW

One of the basic prerequisites for the development of the SME sector is access to finance. Small and medium-sized enterprises, given their distinctive features, have different financial needs compared to large enterprises. Because SMEs are often perceived as relatively risky subjects by the banking sector, they try to obtain resources for the development of their business even from the public sector.

[2] dealt with issues of obtaining funds and attitudes of banks to small and medium-sized enterprises. They have shown that banks play a crucial role in financing SMEs because they have a difficult access to the capital market.

However, small and medium-sized enterprises are usually at a disadvantage compared to large firms in accessing debt financing.

It is due to the fact that SMEs have different structure of assets compared to large companies – share of their fixed assets to total assets is significantly lower. On the other hand, the share of current liabilities to assets is higher, which indicates their higher financial vulnerability [3].

They tend to have less financial strength, do not have sufficient collateral, which is usually the main reason why banks refuse to provide credit to them and why such businesses obtain it so hard. Smaller businesses and enterprises with a shorter history have only short-term contacts with the banks and therefore pay higher interest rates and the banks require higher guarantees from them [4]. Later, [5] continued in studies of relations between SMEs credit availability and banks' organizational structure. They stated that companies' size and age play an important role in obtaining external finance.

[6] - [9] also reached similar conclusions in their studies.

It is obvious that support for small and medium-sized enterprises (SMEs) is very important. Their functioning and growth help further with the multiplier effect to support the national economy, which can be tracked through indicators such as Gross Domestic Product (GDP), Gross National Product (GNP) or Unemployment Rate.

The survey, evaluating the impacts and effects of selected support measures on the SMEs themselves is also available. SBA, in [10], confirmed the positive economic impacts on supported SMEs within the framework of the measure 1.1. Innovation and technological transfers of the Operational Programme Competitiveness and Economic Growth. It confirms the importance of the structural funds of the EU for the financing of SMEs. Similarly, positive results have also been shown by the recipients of its Micro-loan Programme.

3. PUBLIC SUPPORT FOR SMES

Statistical data show, that from 2015 to 2016, SMEs were mainly supported by EU grants, accounting for more than 25% of the total amount of financial support for SMEs for those years. In 2017, support for SMEs through EU grants fell significantly and accounted for 1.6% of the total financial support for SMEs. The reason for such a decline is a slow start in the use of support programmes under the new 2014-2020 programming period. In 2017, financial support under loans from the budget resources represented 30% of the total amount of support for SMEs.

According to the results of the European Commission (EC) survey on SME access to finance [11], small and medium-sized enterprises in the Slovak Republic are characterized by a low rate of utilization of public grants and subsidized loans. In 2017, only 2.3% of small and medium-sized enterprises were using public grants and subsidized loans in Slovakia. Compared to 2016, the rate of use of public grants or subsidized loans to small and medium-sized enterprises in Slovakia increased year-on-year (from 1.3% in 2016 to 2.3% in 2017), but is still lower than in 2014 and 2015. A substantially higher rate of use of public grants and subsidized loans is achieved in the EU-28 (7.3%) and in the V4 countries (6.7%).

Table 1: Financial statement of support drawn by SMEs for the years 2015-2017.

Form of financing	Relatively (%)		
	2015	2016	2017
EU grants	28,0	25,3	1,6
Support in the frame of SPP	8,0	1,4	4,9
Subsidies from the state budget	5,8	10,0	19,4
Measures of active labor policy	12,1	19,4	19,3
Loans with the support of EU	18,7	16,1	15,4
Loans from the state budget	21,1	19,8	30,0
Innovation fund	0,1	0,1	0,1
guarantees	4,9	4,8	7,9
Venture capital	1,3	2,4	0,7
incentives	0,0	0,7	0,7
Total	100,0	100,0	100,0

Source: Own elaboration

Small and medium-sized enterprises use public grants and subsidized loans mostly in Italy (14.1%), Hungary (12.0%) and Slovenia (11.7%). Slovakia ranks among the countries with the lowest use of public funding sources (2.3%). Only three countries, namely Estonia (1.8%), the Netherlands (1.5%) and Latvia (1.2%) were placed after Slovakia in the comparison.

Only 15.4% of small and medium-sized businesses in Slovakia considered grants and subsidized loans as the relevant source of their funding.

This is confirmed by the results of a further EC survey [12], which evaluated entrepreneurs' attitudes towards corruption. It also states that Slovak business entities are characterized by a low level of use of public support programmes designed to support entrepreneurship.

The results of the survey show that in 2017, some 6.3% of business entities in Slovakia have used some type of public support to promote business in the previous 12 months. A higher rate is achieved in the EU – 28 (8,5%) and in the V4 countries (13,3%).

In order to map the attitudes of small and medium-sized enterprises to the use of support programmes, the Slovak Business Agency conducted a representative quantitative survey of 1,000 SMEs [13].

We value positively the fact that in the period 2015-2018 the number of entrepreneurs who have enough information on the possibilities of using support programmes increased (from 39% in 2015 to 43% in 2018).

Entrepreneurs who acquired or attempted to obtain public support for their business identified the Internet (40%) as the most commonly used source of public support information. Nearly one third of entrepreneurs received information on public support from their friends, acquaintances and business partners (32%) and through a call for proposals (29%). Nearly one quarter (24%) of small and medium-sized enterprises have used the official sites of support institutions. 15% of small and medium-sized entrepreneurs used television and print media. To a lesser extent, entrepreneurs reported social media (8%) and advertising (6%).

The most significant obstacle to the availability of public support for entrepreneurs was the high administrative burden, the demanding fulfillment of the support conditions or the long evaluation procedures of the applicants.

According to approximately half of the respondents, public sector support should be more strongly geared towards promoting entrepreneurship for start-ups (53%) and micro-enterprises (51%).

Public support was used for employment and retention of workers (35% of SMEs that received public support). In order to support the implementation of innovation activities, support was provided for 29% of small and medium-sized enterprises. For the introduction of organic products and services, support was primarily used for 13% of respondents. Almost every tenth entrepreneur (9%) took advantage of the support received in the start-up business.

There were positive impacts prevailing at entrepreneurs who received public support for the development of their business. According to more than one third of respondents (35%), the support received helped to overcome short-term business problems. A quarter of small and medium-sized enterprises were helped by the support received to strengthen the company's market position (25%) and stimulated further expansion (24%). 16% of supported firms received the necessary information through the support provided.

Nearly two thirds (61%) of small and medium-sized enterprises in Slovakia plan to use public support for their business in the future. On the contrary, more than one third (39%) of entrepreneurs expressed no interest in future public support for entrepreneurship. More than one fifth (21%) of respondents plan to use the EU contribution/grant in the future. In the future, 18% of SME representatives plan to use the state budget contribution/subsidy. 12% of small and medium-sized enterprises plan to use a tax advantage in the future, a 10% discounted loan or loan, 9% advice and information services, and a 4% guarantee. 6% of small and medium-sized enterprises plan to use other forms of public support in the future.

4. EVALUATION OF PUBLIC SUPPORT FOR SMES

The development described in the previous part is also in line with the assessment of government support programmes for small and medium-sized enterprises, which we elaborated according to Global Entrepreneurship Monitor data, component National Expert Survey (GEM NES). On a year-on-year basis, the evaluation of support programmes in Slovakia after previous improvement decreased by 0.6 points. The level of evaluation of support programmes in 2017 was the lowest within the monitored period.

Evaluation of support programmes for SMEs in V4 countries shows a relatively stable development (around 2.5 points), with a slight decrease in 2017 to 2.3 points. There is also a relatively constant assessment in the EU countries, which oscillates 2.8 points in the period under review.

Table 2: Evaluation of public support programmes for SMEs

Country	2013	2014	2015	2016	2017	2017/2016 (p.p.)
SR	2.2	2.3	2.3	2.6	2.0	-0.6
EU	2.8	2.8	2.7	2.8	2.8	0.0
V4	2.5	2.5	2.5	2.5	2.3	-0.2

Note: Assessment of government programmes for SMEs is classified on a scale from 1 (worst) to 5 (best).

Source: Own elaboration according to GEM NES data

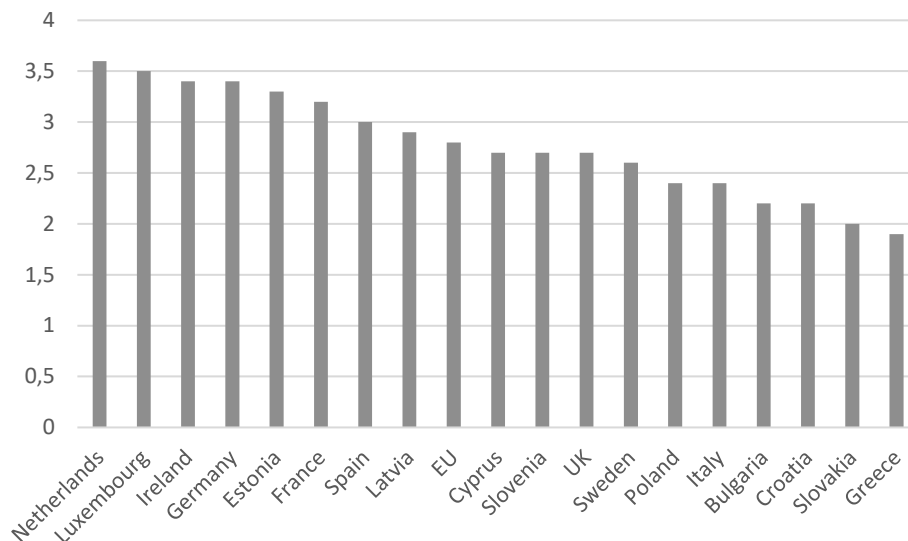


Figure 1: Evaluation of government support programmes for SMEs

The significant lag of Slovakia in the status and quality of support programmes for small and medium-sized enterprises is also highlighted by the ranking of individual EU countries in the given area. In this comparison, Slovakia is ranked at the penultimate place ahead of Greece, which achieved a score of 1.9 points in 2017. Other V4 countries are also characterized by below-average levels of government support programmes. Countries such as the Netherlands (3.6 points), Luxembourg (3.5 points), Ireland and Germany (3.4 points each) rank best in government support programmes for entrepreneurs.

5. CONCLUSIONS

The position of small and medium-sized enterprises in the national economy in terms of job creation, local economy supports or balancing of regional development disparities is significant in Slovakia in the long run. Not only macroeconomic development, a stable rate of economic growth, but also a range of support measures implemented within Slovakia's economic policy have had a positive influence on the business conditions of SMEs in recent years.

In order to improve the conditions for the use of support programmes, it is a prerequisite not only to increase the quantity and budget capacity of the support programmes, but also to increase their efficiency and availability for individual target groups. As the SME business support system in Slovakia is rather complex and not very transparent to business people, it is important to strengthen SME awareness at regional and local level. 97% of business entities in Slovakia are micro-enterprises, but up to two-thirds of these entrepreneurs feel a lack of infor-

mation about the possibilities of using support programmes. Examples of suitable measures in this area include national projects of the National Business Centers of the SBA, which aim to provide entrepreneurs with a comprehensive range of services, including information support on support measures in the Slovak Republic.

As additional measures to improve the use of support programmes and to streamline support delivery, we propose to: reduce time and simplify administrative processes between submitting a grant application until it is approved, simplify and streamline the procurement process, reduce the difficulty of defined measurable indicators, or introduce a „pre-class” evaluation of project objectives. Furthermore, it would be appropriate to simplify the EU grant scheme so that the applicant is able to develop the project self-help, without the need for external consultancy agencies. These measures would increase the attractiveness of support programmes for entrepreneurs and the conditions for the use of support measures.

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