

## **Support of small and medium enterprises in Slovakia through private equity and venture capital**

Venture capital is a specific source of funding to help overcome the "technology gap" and get innovative products to market, including through the creation of new firms. Its mission is to support projects with a higher risk of failure, failure of the project. It focuses on supporting projects, "unusable" for banks.

Practice shows that the ratio of real proposals and funding is about one hundred to one. There are relatively high losses. Winning projects must, however, pay all, even failed projects and create sufficient growth of the fund. Successful projects are therefore often "extremely" successful. Therefore Venture Capital is in the abroad considered the engine of many innovative solutions.<sup>2</sup>

Venture capital market is much more complex than "just" provide funds for the implementation of individual projects. This includes the management, technical and consulting skills and supporting. If someone gives money without providing managerial and technical support, it is gamble in connection to the providing of funds.<sup>3</sup>

Freňáková distinguishes between the concepts of venture capital and private equity. Risk (venture) capital is closer to the capital investment in companies in order to initiate and develop a start-up with innovative idea. The term private equity (EVCA) means investing in growing companies that are not traded on a public market, at all stages of their development.<sup>4</sup>

Venture capital is often associated with private capital. There are government programs to support the development of venture capital, such as JEREMIE program is

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<sup>1</sup> University of Economics, Faculty of National Economy, Department of Banking and International Finance, Dolnozemská 1, Bratislava 85235, Slovak Republic. e-mail: eva.horvatova@euba.sk ,

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<sup>2</sup> Balog, M.: Prečo potrebujeme rizikový kapitál. Slovensko si na ceste k znalostnej ekonomike bez Venture Capital neporadí (Názor) 30.12.2010 <http://ekonomika.etrend.sk/ekonomika-slovensko/preco-potrebujeme-rizikovy-kapital.html>

<sup>3</sup> <http://www.businessinfo.cz/cz/clanek/bankovnictvi-investovani/zakladni-informace-o-rizikovem-kapitalu/1000464/4209/>

<sup>4</sup> Freňáková, M.: Rizikový a rozvojový kapitál ako špecifický finančný zdroj podniku. Bratislava: Ekonóm, 2009, ISBN 978-80-225-2821-4, s. 9.

also focused on that area. But can be problematic to mix of public and private finance to private venture funds. In Slovak Republic is this question actual too.

## **2. Support for small and medium enterprises in Slovak republic from side of the state**

The state supports small businesses through direct and indirect support. Direct support consists of disbursing funds of the undertakings in the form of investment that most non-investment subsidies or price increases. Indirect enterprises support is provided through reduction of taxes, duties or obtaining benefits for credit.

Government Offices provide support to small and medium-sized enterprises at different levels.

It is at the level of Ministry of Finance, Ministry of Economy, at the level of National Agency for the Development of Small and Medium Enterprises, at the level specialized banks (Slovak Guarantee and Development Bank, Eximbanka).

### **2.1 Support for small and medium enterprises from the side Ministry of Finance**

Ministry of Finance used to support small and medium-sized enterprises with the following tools:

- direct financial assistance to promote innovation,
- tools to support PPP projects,
- credit and guarantee programs and
- venture capital.

From the Ministry of Finance it is specifically intended to support small and medium enterprises looking for support in the production of renewable energy sources or the automotive industry.

### **2.2 SME-s support from the site Ministry of Economy**

Support of the Ministry of Economy is focused on increasing the competitiveness of SME-s. Ministry of Economy provides funds through grant programs, implemented through the National Agency for the Development of Small and Medium Enterprises and the Slovak Guarantee and Development Bank. Support from the Ministry of Economy is focused on the acquisition of innovative technologies, promote energy saving and promoting tourism.

## **National Agency for Development of Small and Medium Enterprises (NADSME) support**

NADSME supports small and medium enterprises through its credit programs. These are short term loans, medium terms loans or venture capital. They are offered on more favorable terms than bank loans.

### **2.3 Slovak Guarantee and Development Bank support**

Slovak Guarantee and Development Bank (SZRB – Slovenská záručná a rozvojová banka) supports SME by combined forms. SZRB supports the start of small and medium enterprises in the form of guarantees, loans and non-refundable contribution programs and loans. Resources to support small and medium enterprises SZRB obtained from the state budget and from its own profits.

### **2.4 Support for small and medium enterprises by Eximbanka**

Eximbanka supports SME operating internationally. These are companies, their products are exported. Eximbanka is promoting the SME, exporting sophisticated products and services to EU and OECD. Eximbank has a portfolio of credit products, bank guarantees, bills refinancing operations (factoring, forfeiting) and insurance underwriting business commercial and political risks.

### **2.5 SME support from other sources**

**PSO** is a Slovak-Dutch bilateral project, adopted in 2005. The project uses the experiences of the impact of legislation on the business environment in the Netherlands.

**Ester** is a project of the European Commission. It was founded in 2003. It focuses on the use of positive experiences with the establishment of Israeli high-tech firms and the creation of risk capital for their financing in Slovakia, Estonia and Latvia.

**Global Opportunities Fund (GOF)** is a program funded by the budget of the Ministry of Foreign Affairs of Great Britain. Its purpose is to promote the issues of strategic importance for Great Britain. In the small and medium business is the creation of venture capital to finance innovative SME in Slovakia. Bilateral cooperation between the Slovak Republic and Great Britain was launched in 2005.

## **Financing through venture capital by company Fund of funds**

Company Fund of Funds was established by the National Agency for the Development of Small and Medium Enterprises in 2007. It called upon to manage fund start-up capital, which was financed by the PHARE Program.

Currently, Fund of Funds covers the operation of seven venture capital funds and Micro Fund. They were created from the PHARE funds and partly from the state budget of Slovak Republic.

- It manages 4 funds which were financed by the PHARE Program. The main importance has the Fund Seed Capital, Slovak Development Fund and Slovak Growth and Development fund.
- They were created from the PHARE funds, partly from the state budget of Slovak Republic and from the sources of private companies, Slovak Saving bank, and Kooperativa Insurance Company.
- By the information, from media, many of investments from these funds were not in accordance with general rules. It means that in Slovak republic is very important to recommend new rules for investment to firms with high risk profile, or to firms without history.
- The advantage of venture capital could help to resolve the lack of development of such investments. We must also be noted that without the support innovative potential cannot count on the success of venture capital, prevent to misuse of capital.
- Venture capital has not a long tradition in Slovak Republic; this is more mirages, then real possibility. The optimal form of venture funding, however, is based not only on the contribution of capital, but also on the experience, contacts and know-how, aiming to help overcome the risk associated with innovative ideas and achieve the maximum possible profit. If universities, businesses, media, government and NGOs are not cooperating, so innovation potential arises.
- This is a main problem of venture capital development in Slovakia. All efforts to establish venture capital has not been adequately to the invested capital.

## **Funding from the EU Structural Funds**

In the programming period 2007 - 2013 can draw Slovak SME-s benefit from support in the amount of 11 287 million EUR, of which 7 689 million EUR from structural funds and 3 898 million EUR through the Cohesion Fund.

From May 2004 the National Agency for Small and Medium Enterprises participates in the implementation of projects financed by the Structural Funds under the Sectorial Operational Programme Industry and Services.

### **Bridging bank loans to support EU funds**

Bridging loan to fund the EU is designed for businesses, but also for non-business and local authorities. They are used to co-finance projects that were selected in tenders for the provision of subsidies from EU structural funds. This support form provides bridge loan to finance the project before granting subsidies from EU structural funds. It is special-purpose loan.

It is used exclusively to finance eligible expenditures under the Treaty to provide non-repayable financial contribution (NFP) between the client and the managing authorities. The loan is repayable in 2 years or depending on the terms of payment non-refundable financial contribution.

### **Bridging loan applicants for support from the Agricultural Paying Agency (PPA)**

Bridging loan applicants for support from the PPA is a loan designed to bridge the seasonal fluctuations in agricultural sector. Thus it is possible to get 100% of the anticipated direct payments. The loan may be requested throughout the year, both before and after the application for direct payments. Principal, interest and processing fee can be paid from the provided support.

### **Venture capital in Slovakia**

Venture capital funds are putted into the equity of companies without business history.

Developing Capital, there are investments into companies, which exist for long period, but have no capital to fund their expansion. These companies have limited access to bank credit. On these companies is focused venture capital. Investor is often involved in the development and company management.

In Slovakia, there is a significant share of the credit financing of SME. Here is lagging behind the use of forms of financing, which lead to the strengthening of the firm equity, hence the use of risk capital. Use of venture capital in Slovakia generally is applied, if a company does not have access to bank credit.

Origins of risk capital financing in Slovakia are dated to the first half of the 90th 20th year century. They are connected with the arrival of SAEF (Slovak American Enterprise Fund) and with the establishment of Seed Capital Company, in this time called Fund of funds.

### **Conclusions**

The advantage of venture capital could help to resolve the lack of development of such investments. We must also be noted that without the support innovative potential cannot count on the success of venture capital.

Venture capital has not a long tradition in Slovak Republic; this is more mirage, then real possibility. The optimal form of venture funding, however, is based not only on the contribution of capital, but also on the experience, contacts and know-how, aiming to help overcome the risk associated with innovative ideas and achieve the maximum possible profit. If universities, businesses, media, government and NGOs are not cooperating, so innovation potential arises.<sup>5</sup>

This is a main problem of venture capital development in Slovakia. All efforts to establish venture capital has not been adequately invested capital.

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