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**PUBLIC SUPPORT PROGRAMS IN FINANCING
OF SMALL AND MEDIUM – SIZED ENTERPRISES**

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***Abstract:** Small and medium-sized enterprises (SMEs) 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. An important prerequisite for their successful development is a favorable business environment and the provision of appropriate forms of support, because SMEs usually have limited resources and significantly higher sensitivity to the existence of different barriers in business compared to large enterprises. In Slovakia, a number of support measures have been implemented, which directly or indirectly aimed at SMEs support. The aim of the article is to evaluate current SMEs supporting programs in the Slovak Republic and to develop measures improving support system.*

***Keywords:** small and medium-sized enterprises (SMEs), loans, financial support*

INTRODUCTION

The small and medium-sized business sector is an integral part of any emerging market economy. The SMEs significance is 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 conditions for SMEs entrepreneurship. Creating new as well as further developing current supporting tools for entrepreneurs can help to sustain the economic growth and to promote employment in the long run. However, without evaluation of the impact of supporting measures on a regular basis, it is impossible to assess the fulfillment degree of individual priorities and objectives of these tools.

This was the reason, why we decided to focus on public funding for SMEs. The *aim of the article* is to evaluate the use of support programs for SMEs in the Slovak Republic and to develop measures improving support systems.

LITERATURE REVIEW

One of the basic prerequisites for the development of the SME sector is access to finance. SMEs given their distinctive peculiarities 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.

Berry, Grant & Jarvis (2015) have discovered issues of obtaining funds and attitudes of banks to SMEs. They have shown that banks have a crucial role in SMEs financing, because they have a difficult access to the capital market.

However, SMEs are considered as 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. Their fixed assets are significantly lower compared to the current assets. On contrary, the share of current liabilities to assets is higher that shows their higher financial vulnerability (Cressy & Olofsson, 1997).

SMEs have less financial strength that is usually the main reason, why banks refuse their crediting. SMEs have short-term contacts with the banks and therefore pay higher interest rates; in addition, banks require higher guarantees from them (Berger & Udell, 1995). In their later research papers, Berger & Udell (2002) stated that size and age of companies influence the external finance obtaining.

Dierkes, Erner, Langer & Norden (2013); Machauer & Weber (2000); Degryns and van Cayseele (2000); Prevan & Kuvék (2014) made the same conclusions.

It should be noted that SMEs functioning has the multiplier effect to support the national economy. The survey evaluating the impacts and effects of selected SMEs' support measures is also available. SBA in its analytical study (2018) confirmed the positive economic impact on supported SMEs within the framework of the measure 1.1. Innovation and technological transfers of the Operational Program Competitiveness and Economic Growth. Similar positive results have been shown also by recipients of its Micro-loan Program.

USE OF PUBLIC SOURCES IN THE SMEs FINANCING (2015-2017)

In general, during 2015-2017 we recorded a decrease in the total SMEs financial support from EUR 773,582,446.5 to EUR 400,900,815.1, i.e. a decrease of 48%.

In 2015-2016, 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 decline is a slow start in the use of support programs under 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 (*Table 1*).

Table 1

Financial Statement of Support Drawn for SMEs by forms of funding in 2015-2017

<i>Forms of financing</i>	<i>Absolutely (EUR)</i>			<i>Relatively (%)</i>		
	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
EU grants	216 528 015,0	178 911 397,1	6 274 939,3	28,0	25,3	1,6
Support in SPP frame	61 609 559,6	9 694 712,0	19 837 143,1	8,0	1,4	4,9
Budget subsidies	44 659 408,0	70 580 698,5	77 940 597,6	5,8	10,0	19,4
Active labor policy	93 861 798,0	137 620 799,0	77 400 000,0	12,1	19,4	19,3
EU loans support	144 432 880,0	114 116 335,7	61 690 422,0	18,7	16,1	15,4
Budget loans support	162 992 000,0	140 037 000,0	120 257 500,0	21,1	19,8	30,0
Innovation fund	750 000,0	560 000,0	212 000,0	0,1	0,1	0,1
Guarantees	38 172 000,0	33 971 000,0	31 491 000,0	4,9	4,8	7,9
Venture capital	10 389 768,0	17 080 046,0	2 907 075,0	1,3	2,4	0,7
Incentives	187 018,0	5 061 070,0	2 890 138,0	0,0	0,7	0,7
Total	773 582 446,5	707 633 058,3	400 900 815,1	100,0	100,0	100,0

Source: SBA (2018)

In 2017, the largest share (over 50%) of the SMEs funding received on the total amount of financial support for SMEs (400,900,815.1 EUR) was in the area of access to finance provided to SMEs by means of loans from the state budget, EU loans, guarantees, venture capital, investment incentives and the Innovation Fund.

According to the results of the EC survey on SMEs access to finance (EC, 2017a), SMEs in the Slovak Republic are characterized by low rate of public grants utilization and subsidized loans. In 2017, only 2.3% of SMEs were using public grants and subsidized loans in Slovakia. Compared to 2016, the rate of public grants usage or subsidized loans in Slovakia increased year-on-year (from 1.3% in 2016 to 2.3% in 2017), but it is still lower than in 2014 and 2015. A substantially higher rate of public grants usage and subsidized loans is achieved 7.3% in the EU-28 and 6.7% in the V4 countries. SMEs 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, viz. Estonia (1.8%), the Netherlands (1.5%) and Latvia (1.2%) were placed after Slovakia in the comparison. 15.4% of SMEs in Slovakia considered grants and subsidized loans as the relevant source of their funding. The *relevant source of funding* is the source that entrepreneurs expect to use in the future or they used it in the past. This is confirmed by the results of further EC survey (2017b), which evaluated entrepreneurs' attitudes towards corruption. It also states that Slovak business entities are characterized by a low level of use of public support programs for the entrepreneurship.

In 2017, the survey's results show that 6.3% of business entities in Slovakia have used some type of public support to promote business in previous 12 months. Compared to 2015, the results slightly improved (by 1.3 percentage points), but it only offset the achieved value in 2013 (*Table 2*).

Table 2

Share of business entities applying for/benefiting from the public support over the previous 12 months (2013-2017)

<i>Country</i>	<i>2013</i>	<i>2015</i>	<i>2017</i>	<i>2017/2015 (p.p.)</i>
Slovak Republic	6.3%	5.0%	6.3%	1.3
EU – 28	7.8%	9.5%	8.5%	-1.0
V4	9.2%	9.5%	13.3%	3.8

Source: EC (2017b)

Within the reviewed period, there is a continuing decline of SMEs in Slovakia, which perceive positive changes in the approach to public financial support. Compared to 2014, the representation of these entities in Slovakia decreased from 11.8% to 8.1%. A similar trend of decline in SMEs representation is also evident for V4 countries.

Within the EU – 28, cyclical developments in the representation of such SMEs have taken place since 2014, with a slight increase in 2017.

This development is also in line with the assessment of governmental support programs for SMEs. On a year-on-year basis, the evaluation of support programs in Slovakia after previous improvement decreased by 0.6 points. The evaluation level of support programs in 2017 was the lowest within the monitored period (*Table 3*).

Table 3**Evaluation of public support programs for SMEs**

<i>Country</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2017/2016 (p.p.)</i>
Slovak Republic	2.2	2.3	2.3	2.6	2.0	-0.6
EU – 28	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

Source: SBA (2018)

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

Evaluation of support programs 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 reviewed period. We consider as positive the fact that in 2015-2018 the number of entrepreneurs with complete information on the possibilities of using support programs increased (from 39% in 2015 to 43% in 2018) (SBA & Crystal Ball, 2018). The most significant obstacle to the availability of public support for entrepreneurs was the high administrative burden, demanding fulfillment of support conditions or long evaluation procedures of the applicants. The index of satisfaction of SMEs with public support in 2018 reached 3.8 points (on a scale from 1 to 6), according to the survey results.

SUMMARY AND CONCLUDING REMARKS

The SMEs position in the national economy in terms of job creation, local economy support or balancing of regional development disparities is significant in Slovakia in the long run. Macroeconomic development, stable economic growth and a range of support measures implemented in Slovakia's economic policy had positive influence on the SMEs business conditions recent years.

In order to improve conditions for the use of support programs, it is a prerequisite the quantity and budget capacity increasing of support programs and their efficiency and availability for individual target groups. As the SMEs Business Support System in Slovakia is rather complex and non-transparent to businessmen, it is important to strengthen SMEs awareness at regional and local levels. 97% of business entities in Slovakia are micro-enterprises and $\frac{2}{3}$ of these entrepreneurs feel an information lack about possibilities of using support programs. Examples of suitable measures in this area include national projects of the National Business Centers of the SBA aimed at providing entrepreneurs with a comprehensive range of services, including information service on supporting measures in the Slovak Republic. As additional measures to improve the support programs usage and to streamline support delivery, we offer 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 programs for entrepreneurs and make them effective.

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