

PART II: ACTUAL ISSUES OF MACRO- AND MICROECONOMICS

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EVALUATION OF SMEs FINANCE IN THE SLOVAK REPUBLIC FROM THE PERSPECTIVE OF SELECTED DOMESTIC AND FOREIGN INITIATIVES

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Abstract: *Due to the economic and social importance of the small and medium-sized enterprises (SMEs) for the economy of the Slovak Republic, it is necessary to improve the business environment for their development, especially to improve their access to external financial sources. Compared to large businesses, they are supposed to be more vulnerable, riskier, and so it is more difficult to obtain external sources of finance for them. The aim of the article is to evaluate SMEs finance in the Slovak Republic from the perspective of selected domestic and foreign initiatives, as well as to propose the measures for the improvement of SME finance in the Slovak Republic.*

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

INTRODUCTION

The importance of small and medium-sized enterprises (SMEs) in the Slovak economy is characterized by several indicators. Even in 2016, they represented 99.9% of the total number of business entities in the Slovak economy, employed about three quarters (74.1%) of the active labor force in the corporate economy, and contributed to the added value generation by more than a half (52.7%). The positive development of the national economy has been reflected in positive impacts on the development of abovementioned indicators compared to 2015. Thus, the number of employees in SMEs has increased of 3.5%, the added value of 4.3% and generated profit of 3.3% (SBA, 2016).

In Slovakia, SMEs are primarily financed from their own sources, respectively from loans and leasing. According to Majkova (2011), these are sources they know and therefore they most often use them. SME finance is more complicated due to the fact, that they require different spectrum of financial tools in various stages of life-cycle. These companies often depend on the informal financial sources at the initial stages of their life. External sources are getting to be important with the beginning of the expansion stage and access to them can influence the development trajectory significantly.

OECD (2016) states that bank lending is the most common source of external finance for many SMEs and entrepreneurs, which are often heavily reliant on straight debt to fulfil their start-up, cash flow and investment needs. However, SMEs typically

find themselves at a disadvantage with respect to large firms in accessing debt finance. It is connected with their smaller size, lower degree of diversification, more limited market and higher riskiness. As Covaci (2008) states, SMEs are in generally riskier than large companies, because they present a high sensitivity to economic shocks while disposing of an inferior capacity to absorb variations. It makes more difficult for SMEs to borrow than for larger companies, and can make it impossible for many SMEs to borrow money at all. In this case, SMEs rely on internal or "personal" funds, increasingly suffer from information asymmetry problems and have a small internal rate of return (Fetisovova et al, 2012).

There are several international and national initiatives dealing with the rating of state and development of business financing in Slovakia. We take into account GEM NES, Doing Business (DB) conducted by the World Bank, Global Competitiveness Report (GCR) compiled by the World Economic Forum, and the Business Environment Index (BEI) prepared by the Business Alliance of Slovakia. The business finance issue is somehow evaluated in each of these benchmarking initiatives.

LITERATURE REVIEW

The differences in SME finance compared to financing of large, established companies, has always been in the interest of many studies.

SMEs have different structure of assets compared to large companies, the share of their fixed assets to total assets is significantly lower. On the other hand, the share of current liabilities to assets is higher that indicates their higher financial vulnerability (Cressy & Olofsson, 1997).

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 (Berger & Udell, 1995). Later, Berger & Udell (2002) have continued in studies of relations between SMEs credit availability and banks' organizational structure. They stated that companies size and age have an important role in obtaining external finance.

Berry, Grant & Jarvis (2015) have addressed questions of getting funds and banks' attitude to SMEs. They showed that banks play a crucial role in SMEs financing, because of difficult access to the capital market. Additionally, according to Dierkes, Erner, Langer & Norden (2013), SMEs are not an attractive client for bank lenders. Machauer & Weber (2000) in their empirical study dealt with the credit relationship of SMEs. Degryse & van Cayseele (2000) examined the relations between interest rates and loan amount. Prevan & Kuvek (2014) asserted, that smaller and younger companies have bigger problems with external financing and also pay higher prices. Further Belas, Bartosa, Habanik & Novak (2014) explained that conditions for SMEs have worsened because of the global financial crisis. Virglerova, Kozubikova & Vojtovic (2016) pointed out to the necessity of the financial risk management and the impact of certain factors and approaches to managing financial risks in SMEs. They also held the position, that scanning and controlling the potential hazards can

eliminate them as soon as possible, and it leads to the greater confidence of banks providing business loans. It should be noted, that current studies in the Slovak Republic do not analyze the evolution, do not identify barriers and do not formulate proposals, that may be useful for SMEs external financing (Belanova, 2015).

It is clear that support for SMEs is very important. Their functioning and growth both 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 (UR).

EVALUATION OF SMEs FINANCE

In the past few years, the use of bank loans as the most frequently used external source of financing SMEs continued in the increase from the previous period. Based on the processed available financial reports of business entities, the state of bank loans granted to SMEs in 2016 (as of December, 31, 2016) was 14,729 million Euros (preliminary). In a year-to-year comparison, the state of bank loans granted to SMEs has increased of 11.7%. The share of long-term bank loans on the total amount of bank loans for SMEs represented 57.4%. In 2015, the year-to-year increase of the rate of used bank loans for SMEs (the share of SMEs-entrepreneurs on the bank loans) was 0.5 of a point of percentage to 18.2%. The year-to-year increase of the share of business entities using bank loans was 0.5 of a point of percentage for microenterprises and 0.8 of a point of percentage for small enterprises. To the contrary, a decrease of 0.8 of a point of percentage was accounted for in the category of medium-sized enterprises. From a long-term point of view, the highest share of business entities using bank loans is in the category of medium-sized enterprises (52.0%). In the category of small enterprises, the use of bank loans is reported by 42.8% of entities and in the category of microenterprises 15.7%. The state-guaranteed loans are provided by the Slovak Guarantee and Development Bank (SZRB), primarily to those SMEs, which does not possess sufficient credit security, or are considered unreliable for commercial banks. The basic principle of providing guarantees for loans relies on the breakdown of risks between SZRB, the client and the partner. In 2016, the total sum of bank guarantee portfolio of SMEs was 104 million Euros (inter-annual decrease of 4.5%). State-provided guarantees for the SMEs decreased in the inter-annual comparison as well to the amount of 34 million Euros (SZRB, Eximbanka). The average interest rate of provided bank credits for SMEs has decreased again to 3.1% in 2016 accordingly to NBS data (*Table 1*).

The improving of the conditions is shown also in several international and national initiatives dealing with the rating of state and development of financing of business in Slovakia. GEM NES is considered one of the most significant of them being the main source of data for researching the key scope circumstances for business. Rating of financing of business in Slovakia in 2012-2016 is stated in *Table 2*.

GEM NES deals with the issue of business financing through comprehensive rating of access of the new and growing companies to various financing forms. After slight decrease in 2015, it indicated relatively significant improvement of the situation and nearing to the positive part of the rating scale (2.91) in 2016. In 2016, position of the Slovak Republic on the scale of rated countries moved up to the 13th place.

Table 1**Development of funding of SMEs in 2008-2016**

<i>Indicator</i>	<i>Year</i>								
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Provided business loans to SMEs, mln euro	12092	12032	12046	10600	11038	10734	11902	13170	14729
Provided business loans to SMEs, TOTAL, mln euro	15679	15156	15174	16117	15523	15102	14837	16119	16943
Short-term loans granted to SMEs, mln euro	4797	4981	4987	4188	4481	4532	5385	5766	6277
Long-term loans to SMEs, mln euro	7295	7051	7059	6412	6557	6202	6517	7404	8453
SMEs share (%) (corp) bank loan	16.0	18.2	17.7	16.5	16.3	16.4	17.7	18.2	-
State guarantees granted to SMEs, mln euro	99	81	70	84	87	38	26	38	34
State-guaranteed loans to SMEs, mln euro	157	143	139	167	136	157	113	109	104
Interest rate for SMEs, %	4.6	3.0	3.2	3.2	3.8	3.6	3.8	3.4	3.1

Source: according to SBA (2016), p. 89

Table 2**Evaluation of business financing in Slovakia by GEM NES in 2012-2016**

<i>GEM NES</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Score	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5
Evaluation of SR	2.38	2.16	2.73	2.56	2.91
Position of SR among the countries	36/69	58/69	24/73	24/62	13/66

Source: according to GEM Global reports (2012-2017)

Regarding business financing, Doing Business (DB) evaluates access to debt financing. Similar to GEM NES, after the deterioration of the situation in 2013, DB also improved the assessment of Slovakia in 2014 and increased its position among the evaluated countries. In 2015, there was a slight decrease in the rankings. A bigger drop was recorded in 2017 (11th place). Return to the 44 place was recorded in 2018.

Table 3**Development of the assessment in getting credit in Slovakia, 2012-2018**

<i>Evaluation</i>	<i>DB</i>
Getting credit	Position out of 189 countries
2018	44
2017	55
2016	44
2015	42
2014	36
2013	42
2012	23

Source: according to Doing Business ranking (2013-2019)

A similar trend is also shown by the results of Business Environment Index, where the value of the index focused on access to financial resources, especially through loans and the capital market, following a slight decline in 2013, subsequently increased more strongly in 2014 and oscillated around this value in 2015 (*Table 4*).

Table 4

**Evaluation of business financing in Slovakia
in terms of Business Environment Index, 2012-2015**

<i>Year</i>	<i>Business Environment Index</i>
	<i>Index (ref. = 100)</i>
2015	202.8
2014	200.2
2013	192.9
2012	193.5

Source: data of the Business Alliance of Slovakia, 2Q/2015, 4Q/2014, 4Q/2013, 4Q/2012

Finally, the GCR's assessment of overall financial market development remained unchanged after the slight increase between 2014 and 2015, indicating rather positive assessment situated in the positive part of the rating scale. It can be said that across all initiatives, financing of entrepreneurship is not a major obstacle to entrepreneurial activity, and positive trends are visible, leading to further improvement (*Table 5*).

Table 5

**Evaluation of financing of business
in Slovakia in terms of GCR in years 2012-2016**

<i>Year</i>	<i>GCR</i>
	<i>Score 1 - 7</i>
2016	4.6
2015	4.6
2014	4.4
2013	4.5
2012	4.5

Source: according to the GCR edition (2012-2018)

SUMMARY AND CONCLUDING REMARKS

Access to the finance is a key prerequisite for the SMEs development in Slovakia, as well as in other EU countries. Small and medium-sized enterprises, given their distinctive features, have different financial needs compared to large enterprises. The necessity to solve the basic financial problems of SMEs is related to the fact that this sector in Slovakia accounts for 99.9% of the total number of entrepreneurial entities.

Business financing shows improvement in 2012-2016, which helped Slovakia to gain a positive position in the international context. Likewise, the absolute rating is close to the positive part of the rating scale. The availability of traditional sources (loans, equity) and modern forms of financing (individual investors and venture capital) is positively assessed, a little less the availability of government subsidies and very negatively chronic shortage of the capital market is the practical unavailability of funding sources through calls for subscription of shares. Overall, it can be said that despite the existing space for improvement, the financing of entrepreneurship does

not represent an obstacle, but rather support of the establishment and development of entrepreneurial activities in Slovakia. Thus, we propose the following measures:

- To increase SMEs' awareness of the possibilities how to obtain financial sources; it is important to increase their interest in alternative, as well as innovative sources of funding, business angels and crowdfunding.

- Expand microfinance opportunities – it is about making financial resources accessible to SMEs in the form of soft loans. Since the micro-loan program has a revolving character, it could help to maintain employment in individual regions of Slovakia, help start-ups, micro-enterprises, but also make finance available for women entrepreneurs or other disadvantaged groups.

- To provide guarantees, it is necessary to raise SMEs' awareness of SZRB and Eximbanka's activities, as few SMEs know them.

- Supporting potential investors to invest or borrow financial resources for start-ups and businesses through tax relief. The advantage of such scheme is a simple principle of functioning, which minimally burdens the state budget and stimulates the market environment.

- Improve start-up capital funding and introduce new financial instruments for innovative start-ups, e.g. in the form of a convertible loan, a combination of funding with the provision of counseling or mentoring services to innovative start-ups.

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