

CHAPTER 2

NEW WAYS FOR SMEs DEVELOPMENT

2.1 SMEs IN THE SLOVAK REPUBLIC AND THEIR INNOVATIVE ACTIVITY

It is generally acknowledged, that small and medium-sized enterprises (SMEs) are the basics of all economies, as well as a key source of the economic growth, dynamism and flexibility. SMEs are important for bringing innovative products and techniques to the market. However, theory small business is poor. Business theorists have paid attention to the prosperity of large enterprises. Until 1990, in the Slovak Republic, 'small enterprise' category didn't exist. In terms of development, particular attention was paid to SMEs in 1971, when so-called Bolton's report (Great Britain) came into being. It changed the attitude towards SMEs. According to Bolton's report: (1) SMEs have a relatively small market share and cannot significantly affect the market; (2) SMEs are managed by owners-entrepreneurs, owners' families, co-owners and they are not mediated through the formal managing structure; (3) SMEs are independent enterprises; they are not a part of another larger enterprise. The viability of SMEs has steadily grown and significant features were attributed to them, as they have become the most powerful engine of any market economy due to their flexibility.

The rapid growth of SMEs and their importance worldwide has been caused by the unemployment growth, which averaged around 5-6% in the second half of the 1970s and reached 10% to the mid of 1980s. In the 1980s, increased attention was paid to this issue. Job creation programs were justified through the direct and indirect support for SMEs development. In 1990, both transformation of the economy and privatization processes in Slovakia have raised the importance of SMEs. The rapid growth of SMEs has been observed in 1991-1992 and has been conditioned by a number of factors, viz. (1) the gradual disintegration of large state-owned enterprises in the process of the first wave of large privatization and the emergence of a larger number of SMEs; (2) return of property to citizens as part of restitution; (3) liberalization of business relations and the emergence of a larger number of SMEs with foreign ownership.

World financial crisis has influenced the development of SMEs in the Slovak Republic, as well as in other EU countries. The number of SMEs still remains below the level of 2008. In 2016, it reached only 43% of the number achieved in pre-crisis 2008. However, in 2016, for the first time since 2008, number of individual entrepreneurs increased, not only the legal entities. Thus, in 2016, the trend of declining of SMEs was halted. In comparison with 2015, the number of established SMEs has increased by 11.8% (or by 6,192) to 58,838.

SMEs in the Slovak Republic are defined according to the European Commission Recommendation 2003/361, which sets out the main factors for determining whether a company is a SME; number of employees and either turnover or balance sheet total. We can classify three categories of enterprises: Micro (less than 10 employees, turnover or balance sheet total \leq 2 million EUR), Small (less than 50 employees, turnover or

balance sheet total ≤ 10 million EUR), Medium-sized (less than 250 employees, turnover ≤ 50 million EUR or balance sheet total ≤ 43 million EUR).

This categorization makes possible to compare the situation of SMEs in the Slovak Republic with the state of the business sector in the European Union.

It is important to consider SMEs on a uniform definition in order to ensure the comparability of data on SME development within the EU as a single market without national borders.

Research methodology

The bases of the study on SMEs in the Slovak Republic and their innovative activity are legal acts of the EU, the Slovak Republic and statistic data. The methods of theoretical generalization, analysis and synthesis, analogies method, statistical analysis, abstraction and concretization have been used that enabled to conduct a comprehensive research.

Environment of SMEs

An appropriate business environment creation is an important factor for SMEs (as well as in the corporate) development. To get an idea on the development, where SMEs operate, we describe the state and ongoing trends within the environment of SMEs in Slovakia. Regarding the indicators of production and employment, we observe the obvious development. Before the financial crisis onset, Slovakia reached accelerating growth pace. In 2007 Slovakia had the highest GDP growth in the EU. The intensity of the decline in 2009 is caused by openness of the economy, i.e. its dependence on the foreign trade. In 2016, the growth pace has exceeded not only the average of the EU-countries despite a slight slowdown compared to the previous years, but it also belonged to the highest among the neighboring countries (viz. euro-area countries). The high unemployment rate has been one of the most serious problems of the Slovak economy. After a gradual decline since 2004, the crisis caused a turning point. In 2016, there was historically the highest employment rate. In the SMEs category (including individual entrepreneurs), employment increased by 3.5% (by 46.4 thousand persons) year-on-year to 1,368,782 persons employed. Employment growth in the SMEs sector was the most significant since the pre-crisis 2008. As the number of economically active population did not decrease, the increase in employment has been also reflected in a decline of the unemployment rate, which has fallen to one-digit levels after ten years.

The growth rate of consumer price levels had a downward trend in the long term (from 2000) with fluctuations in separated years. Concerning the regulatory environment, there are various international rankings for its evaluation. They are good indicators for investments and they are developed by different stakeholders (international institutions, credit rating agencies etc.). We show the position of Slovakia in one of the most important ones, Doing Business, which is elaborated by the World Bank.

In Doing Business 2018 overall rating, Slovakia has dropped from 33rd to 39th position. The spot rating deteriorated from 75.15 to 74.90 points. An interesting fact is that Slovakia has only worsened in the area of "Resolving Insolvency" from 70.53

to 66.08 points. Thus, the main factor behind the downfall was overlapping with other countries that means a relative deterioration in the business environment.

An appropriate tool for the business environment evaluation in the EU policy is Small Business Act (SBA) implemented in 2008. It is a follow-up of the European Charter for Small Enterprises (2000). The aim of SBA is to ensure the SMEs achieve revenue growth and competitiveness and manage to successfully assert themselves in the global market. It would promote the overall economic development of the EU what would contribute to the Europe Strategy 2020.

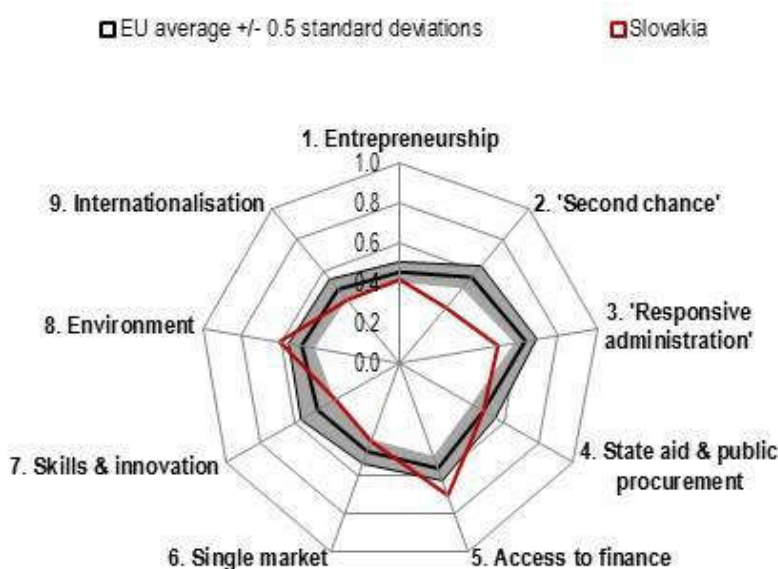


Figure 2.1.1: Evaluation of the application of the SBA in Slovakia in 2017

Source: European Commission / SBA Factsheet

Slovakia's SBA profile (*Figure 2.1.1*) is a mixed picture that combines areas, where performance in implementing SBA principles is strong (access to the finance and an environment) with areas where it is lagging behind ("second chance", "responsive administration", "skills & innovations" and "internationalization"). Overall, the recent policy progress in SBA implementing has been patchy, with improvements in some areas (access to the finance) and stagnation in others ("skills & innovation"). During the period (2016 – March, 31, 2017), the most relevant SBA measures have been implemented under the "Think Small First" and "responsive administration" headings.

Development of SMEs

To improve the business environment for SMEs development, it is necessary to assess their position and monitor development. A deeper analysis of the SME sector in the time context allows identifying existing trends, expecting future developments and preparing measures to ensure the optimal development.

Based on the data of the Statistical Office of the Slovak Republic, there were 557,758 active entities in 2016, including 557,122 SMEs (i.e. they accounted for 99.9% of the total number of business entities). In comparison with 2015, the total number of active SMEs increased by 4.9%. The development of active SMEs is positive. Even the number of SMEs-individual entrepreneurs, which declined in 2009-2015, increased by 2.5% in 2016, same as SMEs-legal entities (by 9.1%). Out of the total number of entities, 97.1% were micro enterprises (541,719), 2.3% (12,662) small enterprises and 0.5% (2,741) medium enterprises. There were 636 large enterprises, which accounted for 0.1%. Natural entities-entrepreneurs comprised nearly two thirds (62.3%) from the total number of active SMEs in Slovakia.

Women in Slovakia account for more than half of the total number of inhabitants, but the dominant position of men persists in the entrepreneurial activity. Slovakia is ranked as a country with under-paid entrepreneurial activity of women. According to Eurostat, the share of women in the total number of entrepreneurs under the age of 74 reached 32.3% in the EU in 2016 (0.3 percentage points (hereinafter pp.) higher than 2015). We assess positively the approach of women in Slovakia to the entrepreneurship. While in 2011 the difference between the representation of women in Slovakia and the EU was 3.8 pp., it declined to 1.7 pp. in 2016.

The EU countries, such as Italy (30.5%), Slovenia (29.9%), Denmark (28.8%), Sweden (28.7%), Romania (27.8%), Ireland (21.3%) and Malta (17.4%), were placed behind Slovakia. Countries with the highest proportion of women on the total number of entrepreneurs are Lithuania (39.1%), Luxembourg (37.1%) and Latvia (38.1%). Within the V4 countries, the highest proportion of women in the total number of entrepreneurs in 2016 has been in Hungary (34.1%). The share of women-entrepreneurs represented 32.3% in Poland and 32.5% in the Czech Republic. Comparing the age structure of Slovak entrepreneurs with selected EU countries, Slovakia is characterized by higher representation of entrepreneurs in younger age groups. According to Eurostat data in 2016, there was 12.8% out of the total number of inhabitants doing business in Slovakia aged from 15 to 29; 27.3% (6.7 pp. more than in the EU) aged from 30 to 39 and 30.8% (2.0 pp. more than in the EU) aged from 40 to 49. However, Slovakia has the lowest representation of entrepreneurs aged over 50 compared to the EU countries. 22.6% of entrepreneurs in Slovakia aged from 50 to 59 (4.6 pp. less than in the EU) and 6.4% of entrepreneurs aged from 60 to 74 (8.9 pp. less than in the EU).

The size structure of the business sector in the Slovak Republic is similar to size structure of enterprises in other EU Member States. A feature of Slovakia is a higher representation of microenterprises. A comparison of the size structure of the business sector in the Slovak Republic and in the EU-28 countries is presented in the *Table 2.1.1*. Presented data show some methodological differences that need to be taken into account in mutual comparison. EU-28 data are compiled according to Eurostat's Structural Business Methodology Statistics and cover the non-financial business economy. Data show that SMEs accounted for 99.8% out of a total of 23 million business entities in non-financial enterprises in the EU-28. Representation of microenterprises has been achieved 93.0%, small businesses 5.9% and medium-sized businesses 0.9%. The number of business entities in the Slovak Republic represents the entire

economy. The source of these data is the Register of Organizations of the Statistical Office of the Slovak Republic. According to these data, SMEs in the Slovakia represent 99.9% out of the total number of enterprises, while microenterprises represent 97.1%, i.e. 4.1 pp. more than in the EU countries.

Table 2.1.1

Size structure of the business sector in the Slovak Republic and in the EU

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Source: own elaboration according to Statistical Office of the Slovak Republic, Eurostat

Based on the data of the Statistical Office of the Slovak Republic, the number of newly established SMEs in 2016 were 58,838 increasing by 11.8% compared to 2015. In 2016, the number of closed SMEs increased by 20.5% to 53,878 compared to 2015, four-fifths (80.7%) of which were NP-entrepreneurs. Every fifth (22.0%) active SMEs (including NP-entrepreneurs) operates in the Bratislava region. Other regions are presented in the total number of SMEs ranging from 9.6% (Trenčiansky region) to 13.5% (Žilinský region). In 2016, SMEs represented 74.1% in the business economy employment and 59.3% in the total Slovak economy employment. Compared to 2015, the share of SMEs in the corporate economy employment increased by 0.5 pp. Share of SMEs in the business economy employment increased since 2006 to 2015 by 2.6 pp. In 2014, SMEs accounted for 66.8% of the total number of employed in the non-financial business economy in the EU–28, with a share of microenterprises of 29.9%, small enterprises of 20.1% and medium-sized enterprises 16.8%. Achieved share of SMEs in the business economy employment in Slovakia in 2016 is 7.3 pp. higher than in the countries EU–28. Microenterprises in Slovakia have the dominant position compared to EU–28 countries within each category (a share higher by 15.4 pp). This trend is shown in *Table 2.1.2*.

The main economic indicators characterizing the SMEs development increased in 2016. The increase in the added value of SMEs was 4.3%. In absolute terms, gross production (2.2%) and pre-tax profit for SMEs (3.3%) also increased. In the foreign-trade exchange of goods, the dominant position is maintained by large companies. From a territorial point of view, SMEs cannot reduce dependence on EU demand. Exports of SMEs to non-EU countries is 8.7% of the total exports and Slovak SMEs compared with other EU countries are characterized by the lowest intensity of exports on the markets of third countries (*Figure 2.1.2*).

There were 4.4% of SMEs active in the high-tech sectors at the end of 2016.

In the long run, the development of both the number and activities of SMEs in high-tech industries are characterized by increasing dynamism.

Table 2.1.2

Comparison of employed in the Slovak Republic and in the EU

		Size of the company					Total
		Micro	Small	Medium	Large	SMEs	
		(0 – 9)	(10 – 49)	(50 – 249)	(250+)		
EU – 28 (2014)	Number of employed in non-financial economy, ths.	40,491.2	27,225.1	22,800	45,065.9	90,516.3	135,582.2
	Share in employment	29.9%	20.1%	16.8%	33.2%	66.8%	100.0%
Slovakia (2016)	Number of employed in the business economy, ths.	836.6	249.5	282.6	477.2	1,368.7	1,845.9
	Share in employment	45.3%	13.5%	15.3%	25.9%	74.1%	100.0%

Source: own elaboration according to Statistical Office of the Slovak Republic, Eurostat

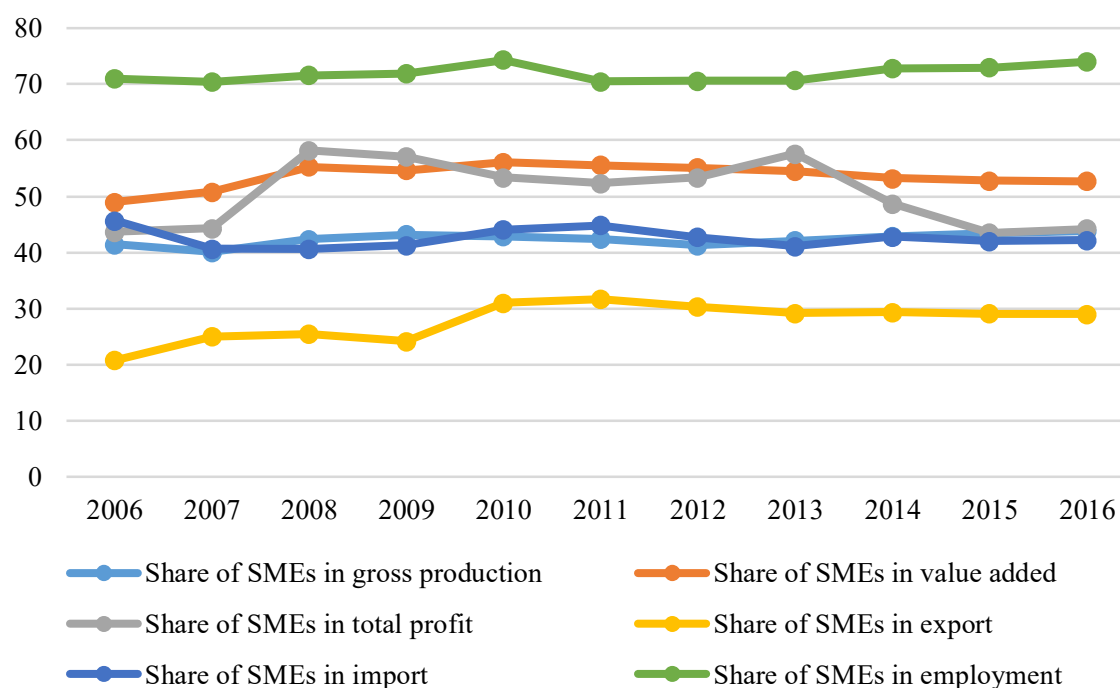


Figure 2.1.2: Share of SMEs in selected indicators

Source: own elaboration according to Statistical Office of the Slovak Republic, Eurostat

There is rule valid within the use of information and communication technologies in the SME sector, i.e. the larger the enterprise, the higher the PC and the Internet usage. Compared to other EU countries, Slovak SMEs with 11% share of enterprises, which receive at least 1% of revenues from online sales, are ranked among the countries with below-average results in this area.

SMEs finance in the Slovak Republic

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. This fact is confirmed by the results of the survey on the SMEs access to the external financial sources held by Slovak Business Agency in 2015 (SBA, 2016). The survey included 1,000 respondents with an aim to find out opinions and views of SMEs toward the exploitation of external finance. According to research, the most frequent source of the external financing is a bank loan (28%) and a leasing (15%). Based on the available financial reports of business entities, the state of bank loans granted to SMEs in 2016 (December, 31, 2016) was EUR 14,729 million (preliminary figure). Compared to 2015, the state of bank loans granted to SMEs has increased by 11.7%. The share of long-term bank loans on the total amount of bank loans for SMEs is 57.4%. In 2015, the increase of the bank loans rate for SMEs (the share of SMEs-entrepreneurs on the bank loans) was raised to 18.2%. The increase of the business entities' shares, which use bank loans was 0.5 pp. for microenterprises and 0.8 pp. for small enterprises. However, a decrease of 0.8 pp. has been observed for the medium enterprises. The highest share of business entities using bank loans is the medium enterprises (52.0%), whereas only 42.8% of small enterprises and 15.7% of microenterprises use bank loans.

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 subject. In 2016, the total sum of bank guarantee portfolio of SMEs was EUR 104 million (inter-annual decrease of 4.5%). State-provided guarantees for SMEs decreased in the inter-annual comparison to EUR 34 million (SZRB, Eximbank). The average interest rate of provided bank credits for SMEs in 2016 decreased to 3.1% in accordance with NBS data (*Table 2.1.3*).

Financial support of SMEs

Despite the inconsistency of the economic and social importance of the SME sector, SMEs are often underestimated (viz. in the finance area). This has led to wide-ranging discussions on what measures should be taken to help SMEs. Statistics say that SME support has become an important part of the overall economic strategy of developed countries over the past 30 years.

The EU is aware of the importance of SMEs. In the Slovak Republic the forms of the financial support provided to SMEs can be divided into two groups: (1) direct forms (grants, additional charges, export premiums, financial means from European funds, etc.); (2) indirect forms (advantageous credits, provision of financial guarantees, interest reduction, tax allowances, state orders, consultations and supply of information, etc.).

State supporting policy of SMEs

According to Meheš (2012), several basic groups belong to the institutions providing support to SMEs at the level of national economy: (1) state administration bodies; (2) specialized agencies; (3) banks, funds and other supporting organizations; (4) other stakeholders.

Table 2.1.3**Funding of SMEs development in 2008-2015**

Indicator	Year							
	2008	2009	2010	2011	2012	2013	2014	2015
Provided business loans to SMEs, in mln. EUR	12,092	12,032	12,046	10,600	11,038	10,734	11,902	14,729
Total provided business loans, in mln. EUR	15,679	15,156	15,174	16,117	15,523	15,102	14,837	16,943
Short-term loans granted to SMEs, in mln. EUR	4,797	4,981	4,987	4,188	4,481	4,532	5,385	6,277
Long-term loans to SMEs, in mln. EUR	7,295	7,051	7,059	6,412	6,557	6,202	6,517	8,453
The share of SMEs (corporate) bank loan, %	16.0%	18.2%	17.7%	16.5%	16.3%	16.4%	17.7%	
State guarantees granted to SMEs, in mln. EUR	99	81	70	84	87	38	26	34
State-guaranteed loans for SMEs, in mln. EUR	157	143	139	167	136	157	113	104
Interest rate for SMEs, %	4.6	3	3.2	3.2	3.8	3.6	3.8	3.1

Source: SBA, State on SMEs in 2016

Note: provided business loans to SMEs in 2016 are preliminary data

At present, there exists a wide network of organizations in the Slovak Republic, which help to develop the small business at the state, regional and individual levels. A guarantor for the coordination programs to help SMEs is the Ministry of Economy of the Slovak Republic. In Slovakia, the most important institutions supporting the small business are: Ministry of Economy, Ministry of Finance, Slovak Guarantee and Development Bank, EXIM Bank, Ministry of Labor, Social Affairs and Family, Slovak Business Agency (former National Agency for Development of the Small and Medium Business), Funds of the Risk Capital, National Website for the Small and Medium Business, etc. It can be said that the current support system in Slovakia is quite unclear and it is characterized by complex links. Attention is concentrated to central government authorities dealing with the policy making and resource acquisition (to specialized agencies), banking institutions and funds that serve implementation of these policies.

Regarding the SMEs support, it is necessary to accept the legal definition of state SMEs aid. The first attempts of the Slovak Republic for the legal definition of state SMEs aid belong to 1995, when the Law on the state support for small and medium-sized enterprises was adopted. The aim of this law was modifying the state support for small and medium-sized enterprises and making such entrepreneurship a firm part of the structure of the national economy.

The adoption of Law No. 290/2016 "On the Support of Small and Medium-Sized Enterprises" acting from January, 01, 2017, was a significant step in determination of forms of the state SMEs aid. This law defines so-called "Better Regulation". Better regulation means a set of activities aimed at reducing the disproportionate regulatory burden on businesses and improving the business environment in the Slovak Republic with an emphasis on micro, small and medium-sized enterprises. Referring to this law, state support of SMEs is provided in: (1) direct forms (non-repayable financial contribution under a special regulation, grant, financial instrument under a special regulation); (2) indirect forms (information and guidance for the business, business education, support voucher related to the acceptance of supporting services, organizing and supporting of participation in traineeships, competitions, exhibitions and/or other business events, targeted reinforcement of potential SMEs to increase its performance, long-term professional counseling/training to improve entrepreneurial skills and professional growth. Slovakian SMEs can also apply for support of the EU.

EU instruments for the support of SMEs

Financial instruments of the EU (2014-2020)

COSME is the EU program to rise the SMEs' competitiveness (2014-2020) with a planned budget of EUR 2.3 billion. The aim is to increase SMEs' access to financial resources, to support entrepreneurs and their internationalization and to improve the business environment. *COSME* is directed to achieve four main goals (i.e. budget is divided into): (1) *accessing finance* (60% of the budget). *COSME* aims to make easy access to the finance in all phases of SMEs lifecycle (creation, expansion or business transfer); thanks to EU support, businesses have easier access to guarantees, loans and equity capital. EU financial instruments are channeled through local financial institutions in EU countries; (2) *opening markets* (21,5%). *COSME* helps businesses to access markets in the EU and beyond. It funds the Enterprise Europe Network that helps SMEs find business and technology partners, and understand EU legislation; Your Europe Business Portal provides practical information on doing business within Europe. It finances a number of IPR (intellectual property rights) SME Helpdesks; (3) *supporting entrepreneurs* (11%). *COSME* supports entrepreneurs by strengthening entrepreneurship education, mentoring, guidance and other support services. Actions support specific groups who have difficulties to fulfil their potential, such as youth, women and senior entrepreneurs. The program also helps to access opportunities via digital technologies; (4) *improving business conditions* (2,5%). *COSME* aims to reduce the administrative and regulatory burden on SMEs by creating a business-friendly environment. *COSME* encourages to adopt new business models and innovative practices to rise competitiveness. It is assumed that around 330,000 SMEs will receive loans covered by *COSME*-funded guarantees. The total amount of resources for loans can reach EUR 21 billion. The experience gained with the *Competitiveness and Innovations Program (CIP)* from the previous programming period, it is expected that 90% of the beneficiaries will be enterprises with 10 or fewer employees. The average guaranteed loan will be around EUR 65,000. *COSME* will provide venture capital for SMEs predominantly in growth and expansion stage and guarantees up to EUR 150,000.

Horizon 2020 is the biggest EU Research and Innovation program ever with nearly EUR 80 billion of funding available over 7 years (2014-2020) in addition to the private investment. It promises more breakthroughs and discoveries by taking great ideas from the lab to the market. Horizon 2020 is the financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. By coupling research and innovation, Horizon 2020 helps to achieve this goal with its emphasis on excellent science, industrial leadership and tackling societal challenges. The goal is to ensure Europe by advanced science, removes barriers to innovation and makes easier mutual cooperation for the public and private sectors in delivering innovation.

"InnovFin – EU Finance for Innovators" is a joint initiative launched by the *European Investment Bank Group (EIB and EIF)* in cooperation with the European Commission under Horizon 2020. InnovFin aims to facilitate and accelerate access to finance for innovative businesses and other entities in Europe and consists of a series of integrated and complementary financing tools and advisory services offered by the EIB Group, covering the entire value chain of research and innovation in order to support investments from the smallest to the largest enterprise. InnovFin is available across all eligible sectors under Horizon 2020, in EU Member States and Associated Countries. By 2020, InnovFin is expected to make over EUR 24 bln of debt and equity financing available to innovative companies to support EUR 48 bln of final research and innovation investments. InnovFin tools cover a wide range of guarantees and loans, which can be tailored to innovators' needs. Financing is either provided directly or indirectly via a financial intermediary, viz. bank. Regarding SMEs, two forms are important. *InnovFin SME Guarantee* provides guarantees and counter-guarantees on debt financing of between EUR 25,000 and EUR 7.5 mln in order to improve access to loan finance for innovative SMEs and small midcaps (up to 499 employees). This facility will also be rolled out through financial intermediaries. Under the *InnovFin SME Guarantee*, financial intermediaries will be guaranteed or counter-guaranteed against a portion of their potential losses by the EIF. *InnovFin SME Venture Capital* will provide through selected intermediaries (e.g. investment funds, venture capital funds or vehicles that provide co-investment facilities for Business Angels or cooperate with Business Angels) equity finance for research and innovation, in particular in the form of seed and venture capital for enterprises in the early stage. The equity support will be channeled through intermediaries, who target life sciences, ICT or otherwise technological, non-technological, organizational or social innovation.

EU funds are financial instruments, which help to smooth the differences between the Member States of the EU. EU funds allow reallocate means to develop weaker states and bring them closer to the developed EU countries. The funds are used primarily to increase performance of countries in various fields of sustainable economic growth, living standards and reducing regional disparities. The EU gives small companies the possibilities of financing in various forms such as grants, loans, financing of the particular projects, guarantees et al.

At present, Slovakia uses support from European Structural and Investment Funds through 9 national and regional programs of nearly EUR 15.32 bln. With a national

contribution of EUR 4.72 bln, Slovakia has a total budget of EUR 20 bln invested in different areas from job creation and growth, through promoting sustainable transport to protect the environment and investing in research and innovation. Nevertheless, in drawing of the EU funds, the Slovak Republic is on the lash of the EU member states. The Employment and Social Innovation Program provides microfinance up to EUR 25,000 for entrepreneurs, especially those who are furthest from the labor market, and for microenterprises. It also covers social business and provides investment up to EUR 500,000 for social enterprises with an annual turnover and annual balance not exceeding EUR 30 mln (*Figure 2.1.3*).

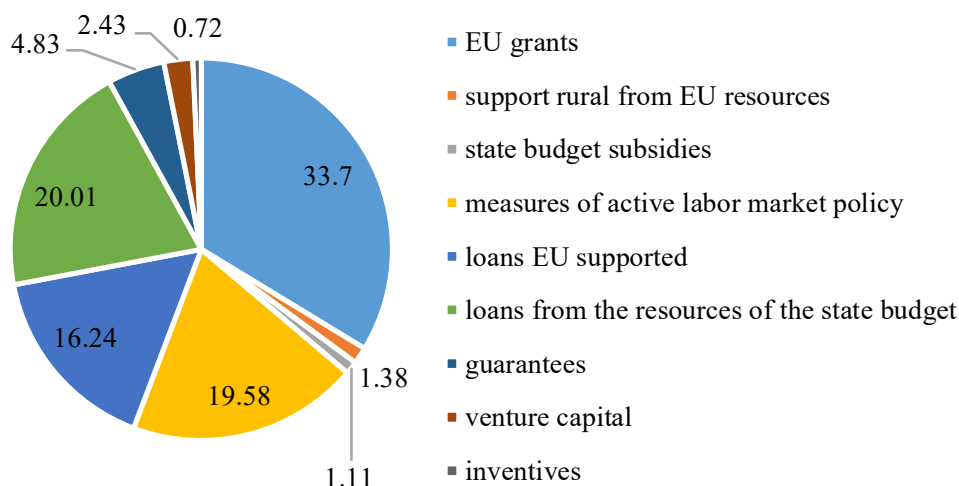


Figure 2.1.3: Structure of SMEs financing in 2016

Source: SBA, State on SMEs in 2016

In 2016, according to structure of financing forms, EU grants dominated with more than 33% share of loans from the sources of SBA with a share of 20.01% and measures of active labor market policy with a share of 19.58%. Significant share of the SMEs financing (16.24%) was supported by the EU, viz. EUR 114.12 mln. Guarantees have covered financial resources used by SMEs (4.83%). In 2016, the share of SMEs financing through the Venture Capital Funds was 2.43%. From the standpoint of inter-annual development, the volume of financial means used SMEs, decreased of 8.41%, which equals EUR 64.54 mln. The most significant inter-annual change expressed in percentage was within the venture capital with the increase of 64.39% (EUR 6.69 mln). A significant increase of financial resources used by SMEs for financing their activities has occurred because of active labor market policy 46.62% (EUR 43.76 mln). The negative point is a decrease in support up to 84.26% (EUR 51.91 mln) due to the start of a new program period of the Rural Development Program of the Slovak Republic (2014-2020) within the Common Agricultural Policy.

Innovative activities of SMEs

Before looking at the innovative activities of SMEs, it is necessary to analyze the Slovak position in international rankings on innovation. The most recent edition of the European Innovation Scoreboard was published on 14 July 2016, revealing the following results: Denmark, Finland, Germany, the Netherlands and Sweden are

Innovative Leaders with innovation performance above the EU average. Austria, Belgium, France, Ireland, Luxembourg, Slovenia and the UK are Strong Innovators with innovation performance above or close to the EU average. The performance of Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Slovakia and Spain is below the EU average. These countries are Moderate Innovators. Bulgaria and Romania are Modest Innovators with innovation performance well below the EU average. The Regional Innovation Scoreboard 2016 revealed that Europe's most innovative regions are located in the most innovative countries, although regional innovative hubs exist in moderate innovator countries: Piedmont and Friuli-Venezia Giulia in Italy, País Vasco in Spain and Bratislava in Slovakia.

Innovations arise mainly in the business sector. By the ability of businesses to innovate we can understand not only product innovations, but also all other activities associated with production and sale. SMEs must overcome many obstacles in the implementation of innovative processes; thus, often they are prevented from realizing their innovative ideas. Therefore, it is needed state support for innovative SMEs.

According to the last survey of the Statistical Office of the Slovak Republic for 2010-2012, it was still lagging in the business innovation behind the European average and for most member states of the EU. This period the share of innovative businesses in Slovakia was 34% of all businesses, while the average level in the EU stood at 48.9%. Compared to 2008-2010, when the share of innovative enterprises in Slovakia was 35.6%, the situation has become worse. Analyzing the development of innovative businesses in the Slovak Republic, we can find that the number and share of innovating businesses in Slovakia in 2001-2008 (except of 2003) had a rising trend. In 2010, the number of innovative businesses in comparison with 2008 decreased from 3,494 to 2,106. The share of innovative businesses of all enterprises decreased from 36.1% in 2008 to 35.6% in 2010. The reduction of innovative activity caused by crisis in 2008-2010. It affected small businesses whose number decreased the most from 2,392 to 1,142, medium-sized businesses whose number decreased from 800 to 699 and at least were hit by crisis large innovating companies whose number fell from 302 to 265. In 2012, the situation has stabilized and the number of innovative businesses has increased, but their share of total holdings decreased to 34%. The structure of innovating business in Slovakia in 2012 shows that the largest share of innovating enterprises (62.1%) was in the group of large companies what is probably related with their sufficient funds for innovative activity. 40% share of innovating companies was in medium-sized enterprises and 29.8% share was in the group of the small businesses.

Conclusions

The position of SMEs in national economy regarding the job creation, promotion of the local economy, balancing disparities in regional development is important in the long run in Slovakia. In 2016, they represented 99.9% of the total number of enterprises in the Slovak economy, offered job opportunities to nearly three quarters (74.1%) of the active work force in the corporate economy and participated with more

than half (52.7%) in the creation of the added value. In 2016, the downward trend in the establishment of SMEs has stalled. Compared to other EU countries, Slovakia is characterized by high entrepreneurial activity, the dominant presence of microenterprises or the under-representation of women in the total number of entrepreneurs.

Based on the SBA's profile compiled for 2017, the European Commission assessed that the greatest strengths in the Slovak Republic were application of the principles 6 (access to finance) and 9 (environment), while the profound weaknesses were found in implementing principle 2 (second chance) and principle 4 (responsive administration). Area Skills and Innovation is assessed as stagnating.

Despite the profound role of SMEs in the economic development, they are often underestimated, viz. in the finance area. The analysis of the SMEs innovative activity of enterprises in Slovakia elaborated by the Statistical Office of the Slovak Republic shows that innovative enterprises in Slovakia are low in comparison with the other European countries. Innovative activity is directly proportional to the size of entities. It means, innovative activities have been realized especially in the large companies, while SMEs have to overcome many obstacles in the implementation of innovative processes and therefore they deserve more attention and assistance from the state.

2.2 ROLE OF THE INTERNATIONAL COOPERATION INTO INCREASING THE SMEs COMPETITIVENESS LEVEL IN POLAND

Introduction

Innovations as the main factor of competitiveness becomes one of the basic parameters of the SME sector evaluation in Poland, viz. competitive companies, whose economic activity leads to the market value increase in the long term. On the other hand, independent expansion of the SME sector in Poland has a worrying tendency that negatively influences the innovation level and SMEs competitiveness.

Taken into consideration the difference between achieved revenues and incurred costs as well as comparing financial results of Polish companies with entities from other EU countries, it may be noticed that Polish enterprises are clearly less innovative than their competitors from the EU. In 2009, an "average Polish company" has occupied last places in the ranking of 26 countries regarding the amount of turnover with the result of EUR 0.54 mln in 2008, overtaking only Hungary, Romania, Lithuania, Portugal and Bulgaria. The most successful were companies from Luxemburg (EUR 4.1 mln), Germany (EUR 2.6 mln) and Holland (EUR 2.3 mln) (Łapiński, 2011, p. 24).

In 2015, financial situation of Polish business improved due to a better economic situation in the country and the EU. After economic growth inhibition in Poland in 2012-2013, in 2014 there was a visible rising trend (GDP growth amounted to 3.3%) continued in 2015 (3.8%). As a result, in 2015 basic economic values measuring companies' financial situation increased. Revenues and costs significantly rose, however it was the costs that unfortunately showed higher increasing tendency contrary to revenues (Łapiński, Nieć, Orłowska & Zakrzewski, 2017, p. 37). As a consequence, throughout 2010-2015 there was a clear rising trend in R&D spending in Poland, where the intensity of R&D work, i.e. the share of internal expenditures on R&D in