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United Nations Industrial Development Organization

**A Comparative Analysis of  
SME Strategies, Policies and Programmes  
in Central European Initiative Countries**



**Part III**  
**Slovakia**

**A COMPARATIVE ANALYSIS OF SME STRATEGIES,  
POLICIES AND PROGRAMMES IN CENTRAL  
EUROPEAN INITIATIVE COUNTRIES**

**PART III**

**SLOVAKIA**

This country report represents the basic background material covering policy, institutions, assistance and perceived needs relating to SME development. It has been compiled by the National Agency for the Development of Small and Medium Enterprises within a framework developed by the UNIDO project. Together with the results of follow-up discussions, interviews and workshops involving key institutions and personnel, this report has provided the basis for the comparative analysis in Part I.

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## **BROAD ECONOMIC AND SOCIAL POLICIES**

### **The Ministry with prime responsibility for SME policy**

The Ministry of Economy has generally the prime responsibility for the formulation and implementation of state policy for SME development (including coordination of support and support measures).

The National Agency for Development of Small and Medium Enterprises (NADSME) is the executing institution, which was established by the Ministry of Economy in 1993 on the basis of the January 1993 government resolution. It is the prime agency with responsibility for SME policy and development in Slovakia, and acts independently of the government, but with relevant ministries represented on its board. The Chief Executive or person responsible for SMEs from most key national institutions with SME interest (for example, the Slovak Chamber of Commerce, the Association of Entrepreneurs, Slovak National Agency for Foreign Investment and Development, the Union of Craftsmen) are also represented. The agency is generally viewed as independent of the government and as such an objective force for SME development. It does, however, have close links with the government; its former General Director is the current Secretary of State for the Economy.

The main responsibilities of NADSME are:

- To recommend to government the policy and strategy necessary for the development of the small and medium enterprise sector;
- To identify and analyse the barriers to enterprise development and to suggest ways to eliminate them;
- To cooperate with financial institutions on credit and guarantee schemes aimed at the stimulation and development of small and medium enterprises in the Slovak Republic;
- To support Regional Advisory and Information Centres (RAICs), cooperate with Business Innovation Centres (BICs) and with other business advisory centres in the Slovak Republic with the aim of developing the management, marketing, financial and technical skills of individuals, necessary in small and medium sized business;
- To cooperate with existing European information networks and databases in the field of business;

- To promote enterprise awareness amongst the public through advertising campaigns; to issue information literature; to organize conferences, seminars and exhibitions;
- To manage European Commission aid to the SME sector in the Slovak Republic;
- To act in cooperation with domestic and foreign sponsors on behalf of small and medium enterprises in the Slovak Republic.

## **Government departments with small business development roles**

### *Ministry of Finance*

The Ministry of Finance is concerned with tax incentives for SMEs. It established the Slovak Guarantee Bank as a state financial institution, which provides a guarantee programme and contributions to cover part of the interest on commercial credits.

### *Ministry of Labour, Social Affairs and Family*

This Ministry is responsible for the provision of support for the creation of new jobs. It also has a support programme for helping individuals to retrain and transfer to new entrepreneurial activities.

The Ministry's 'Fund for Employment' is managed on a tripartite basis with representatives on the Board from the Ministry, the State, employers and unions. The Fund is nationally funded through a tax on employees (1% of wages) and employers (3% of wages). Seventy per cent of the revenue is for new job creation (interest-free refundable and non-refundable grants for loans to SMEs, which can pay up to twenty-four percent on loans from bank). The other 30% is to fund retraining of the unemployed (partially for start-up).

The Ministry also administers regional development programmes funded through PHARE and the ILO, providing 'requalification' training for declining sectors (for example, mining).

### *Ministry of Interior*

This Ministry has responsibility for state activities which emanate from the Small Business Code.

### *Ministry of Foreign Affairs*

The Ministry of Foreign Affairs is responsible for the coordination of foreign multilateral and bilateral assistance, including that directed to the SME sector.

### *Ministry of Agriculture*

The Ministry of Agriculture is responsible for support to SMEs operating in the agricultural sector, managing financial grants and tools.

### **The degree of coherence and cooperation between government departments**

The current system allows an acceptable level of cooperation, but the prevailing view is that it is still necessary to define further and in more detail the structure, relationships and competencies which relate to the SME sector, and that cooperation could be improved.

Cooperation with NADSME is viewed as being good (with both government ministries and SME representative organizations), and to an extent this agency forms the communication channel between ministries.

With regard to foreign support, this is all channelled through the Ministry of Foreign Affairs, the national coordinating body for multi- and bilateral support, which deals with each Ministry as appropriate. Management and coordination is therefore relatively coherent.

### **The overall statement of government economic and social policy and priorities**

Statements are contained in:

- The resolution of the Government of the Slovak Republic on the revival strategy of economic development of the Slovak Republic, September 1992 (where SMEs are defined as one of the key factors of economic development);
- The resolution of the Government of the Slovak Republic, January 1993, on the establishment of NADSME;
- The resolution of the Government of the Slovak Republic, May 1993, on the Programme of Complex Support to SMEs;

- The resolution of the Government of the Slovak Republic on the Report on the State and Development of SMEs in 1993;
- Programme Declaration of the Government of the Slovak Republic, January 1995;
- Act on the State Support of SME (Act No. 100/1995 Dig.);
- Legislative framework of active policy for the labour market, mainly Acts on Employment;
- Decree 210/1994 Dig. on the procedure for the creation of socially useful jobs and the organization of publicly beneficial activities.

### **Specific references to SME development**

The economic policy of the Government is created by the Ministry of Economy. One of the priorities of economic transformation in Slovakia is the development of, and support for, SMEs. The most important activities are listed below.

#### *Programme of complex support to SMEs*

The main goal of the programme is to create favourable conditions for the creation and development of SMEs through 'financial tools', 'institutional tools' and 'legislative tools'.

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

The primary 'institutional tool' is NADSME, which is responsible for multilateral and bilateral support to benefit SMEs. The Agency cooperates with the PHARE supported network of Regional Advisory and Information Centres (RAICs) and Business Innovation Centres (BICs), which represent a significant institutional tool of support to SMEs, and with other institutions such as Business Advisory Centres, Regional Development Agencies and Science and Technology parks.

#### *State development programmes*

There are specific programmes for tourism development and industrial production using domestic raw materials; for economic activities which result in savings in the areas of energy consumption and imported raw materials.

## **Industrial development policy and the role of the SME**

A resolution of the Government was accepted on the industrial policy of the Slovak Republic. The resolution contains specific targets/roles for SME development.

## **Regional development policy**

The statement of regional development policy is contained in: (i) the Principles of Regional Policy approved by the resolution of the Government of the Slovak Republic in 1991; and (ii) the Regional Policy of the Government of the Slovak Republic. This document was prepared for negotiation with the Government of the Slovak Republic in 1995. The latter document mentioned above links regional policy with SME development very generally.

## **Overall statement of policy for SMEs**

There is an overall statement of policy for SMEs, represented by the Programme of Complex Support of SMEs in the Slovak Republic passed by the government within Decree No. 331 on 25 May 1993. The main task of this Programme is to create favourable conditions for the development of SMEs. To achieve this, the Programme defined the current and proposed forms of state support through financial, institutional and legislative means.

Financial means represent a system of direct and indirect financial support for starting-up and developing SMEs.

Institutional means represent a system of various support institutions and organizations, the most important of which are NADSME, the RAICs, the BICs and the Slovak Chamber of Commerce and Industry.

Legislative means create a legal framework of state and non-state support for SMEs. The basis is the Act on State Support of SMEs.

Apart from this, NADSME prepares for the Government twice a year a report on the state of SMEs, and proposes necessary measures which, after being approved by the government, become the basis for setting long-term tasks in this sector. The 1994 report has been submitted to the Government (Annex I).

In addition, NADSME organized in December 1995 the first conference on SMEs which, as an output, provided recommendations to the government on:

- Legislation and taxation;
- Company counselling, education and information support to SMEs;
- Financial support programmes.

(Annex II for a summary of the recommendations.

### **The process by which policy and SME development goals are set**

NADSME's report on the state of SME is submitted to the National Council of the Slovak Republic for approval, after being approved by the government. Generally this report on the state of SMEs, after approval by the parliament, is published in the media and distributed by NADSME.

Operationally, NADSME has a central role in ensuring that recommendations and decisions are acted upon. Members of key SME organizations and ministries are represented on NADSME's board which facilitates communication and coordination. The process involved is opaque. However, the strong national support structure which has been set up is evidence of activity.

At a regional level, targets are agreed for the RAICs and BICs, and NADSME monitors, through monthly reports, their performance in terms of penetration of the local SME population and services delivered.

Another semi-formal channel to the government which contributes to crafting and amending national SME policy has been instituted in the form of the recent conference on SMEs. The output forms recommendations to the Government.

### **Information on the health of the SME population**

A considerable amount of available information and analysis is included in the report on the state of SMEs.

Apart from standard general economic indicators, information coordinated by NADSME includes:

- Number of entrepreneurs in the Slovak Republic (1990 onwards - 'tradesmen doing business');
- Number of entrepreneurs by region (1991 onwards - 4 regions);



- Number of entrepreneurs by district (1992 and 1994 - 38 districts);
- Sectoral distribution of small enterprises;
- Small enterprise population by type (more detailed sectoral analysis);
- Development of the number of SMEs, 1991 onwards (divided into 'small' and 'medium' SMEs: profit-oriented companies which are legal entities);
- Regional development of the number of SMEs (1991 onwards);
- Structure of selected legal forms of SMEs (i.e. limited, state companies, entrepreneurs registered in Slovak Republic, joint stock companies, cooperatives, partnerships);
- Development of selected legal forms of SMEs (1991 onwards);
- Development of SMEs by type of ownership (1991 onwards);
- Contribution of SMEs to production output;
- Death of SMEs (1991 onwards);
- Death of SMEs by broad industrial sector (1991 onwards);
- Death of SME legal entities (1991 onwards).

Data on the contribution of SMEs to employment are:

- Structure of employment in the SME sector (using employee-number classifications: up to 10, 11-24, 25-99, 100-499);
- Number of employees in SMEs, by size and broad industrial sector.

The Office of Statistics is in the process of collecting information and statistics for each city and village and creating regional databases with employee sizeband data and a production database.

### **The needs of SMEs perceived by policy makers**

The perceived needs are included in the Programme of Complex Support of SMEs. Evidence for this results from cooperation between NADSME, the network of RAICs and BICs and the Association of Entrepreneurs of Slovakia. They are informed through the report as well as using different bilateral discussions and meetings.

SME finance is identified as a key need, specifically:

- Longer term loans;
- Micro credit (the loans currently available are too big for micro businesses);
- Guarantees (a view was expressed by some in the SME support network that there are sufficient funds to provide finance to SMEs; the problem is that they cannot obtain a guarantee, particularly without collateral);
- Soft loans.

Regionally, education and training gaps were identified; specifically in Eastern Slovakia, which is weakest in terms of marketing due to traditional dependence on guaranteed Ukrainian/Russian markets. Training and education are concentrated in Bratislava. Areas of high unemployment (such as Spišská Nová Ves) are in need of intensive attention to rejuvenate the decimated economy (in this case due to closure of mines) in order to build an SME population.

Marketing in SMEs is generally weak, but demand remains greater than supply in the economy, therefore to date competition has not been a major issue for SMEs. However, this is likely to change as the economy develops.

The Chamber of Commerce has recently been instructed by the Government to move from compulsory to voluntary membership. The impact of this will be that the Chamber will be unable to provide free services for SMEs. The majority of their counselling and advice was provided in the first year of start-up, and this is likely now to cease, given the majority of new businesses' inability or unwillingness to pay for counselling and advice.

### **The vision of long-term sustainability**

The vision regarding long-term sustainability of activity in SME policy and programme development is included in the principles of the industrial policy. It is reviewed yearly on the basis of the findings resulting from the report on the state of SMEs.

The vision is promoted through NADSME and at a grass roots level. At policy level the vision is dependent on government priorities, which are considered unpredictable. Consequently, it is difficult to plan for the long term.

The RAICs receive the majority of their income at present from PHARE, and whilst making tremendous efforts to generate income independently, survival may be difficult if European Union (EU) funding is discontinued. EU funding is in place on a diminishing scale for another two/three years, by which time the situation may be different. However, if the British model of enterprise development is taken as an example, the British enterprise agencies have never achieved total self-sufficiency. It is questionable whether a similar organization operating in the Slovak economy will be any better positioned to achieve financial independence.

## **REGULATORY POLICY**

### **Priorities in the regulatory environment**

Statements are contained in the following documents:

- Programme Declaration of the Government of the Slovak Republic, January 1995;
- Plan of Legislative Tasks of the Government for 1995;
- Annual Report on the state of SMEs for 1993, 1994.

In addition, the 1995 conference on SMEs created a list of recommendations for SME legislative changes. These are included in Annex II.

The Plan of Legislative Tasks of the Government for 1995 and the Legal Impediment Study (NADSME, 1994) takes specific account of SME problems. Both the Ministry of Economy of the Slovak Republic - Department of Regional Policy and Business Development, and the National Agency for Development of Small and Medium Enterprises participate in the creation of legislation relevant to SMEs.

NADSME is very much seen as being the organization with this responsibility, and certainly, on the evidence of the dialogue at the conference on SMEs and the consequent recommendations, it seems to take this seriously.

### **Communication with small business.**

The communication procedure was described earlier in the report. Cooperation between NADSME and the respective associations is on a contract basis. This is the starting point for discussions and for looking for solutions of possible and particular problems.

NADSME has regular formal interaction with representative associations nationally, and through the RAICs/BICs regionally and locally). In addition, the conference on SMEs gives a voice to all representative organizations, with a direct channel of communication to Government and to NADSME.

## **Major problems with regulations**

Major problems result from the evolution of the legislative environment, mainly from the very frequent changes of certain acts and decrees. The entrepreneurs specify particularly acts concerning health, social and business insurance and the system of tax law. It can be easily understood because the process of development and growth of the entrepreneurial sphere bring new experience and knowledge which, when implemented, help to optimize the legislative environment.

One issue raised at the conference on SMEs and also during research was the lack of clarity of SME legislation. Considerable time is spent by the small business support network informing SME clients of the rapidly changing and complex tax legislation.

## **SPECIFIC SUPPORT POLICIES FOR SME DEVELOPMENT AND THEIR RATIONALE**

### **The definition of SMEs**

The definition of SME is given in the Act on the State Support of SMEs (Annex III).

For purposes of this Act it is understood that:

- The small entrepreneur is a real person who is in a business and has a permanent address in the territory of the Slovak Republic or a legal entity who is in business and has a place of business in the territory of the Slovak Republic, if they employ a maximum of 24 employees;
- The medium entrepreneur is a real person who is in a business and has a permanent address in the territory of the Slovak Republic or a legal entity who is in business and has a place of business in the territory of the Slovak Republic, if they employ a maximum of 500 employees.<sup>1</sup>

The Slovak Guarantee Bank uses the following criteria:

- A small-sized enterprise has up to 9 staff;

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<sup>1</sup> Source: Act of the National Council of the Slovak Republic on the State Support of Small and Medium Enterprise, 3 May 1995.

- A medium-sized enterprise has up to 250 staff.

These criteria were established in 1991. However, in December 1995 the definitions were going to change to fit the SME law (see above for official definitions).

### **Specific policies and programmes focused upon SMEs**

#### *Special finance schemes: Grants, lending and loan guarantees*

The key programmes are outlined below.

Credit Guarantee Programme (PHARE-NADSME, channelled through Slovak Guarantee Bank):

- Guarantee (max. 75%) for credits to Slovak Koruna 10 million (US\$ 350,000);
- Targeted towards SMEs;
- Production, services, crafts, active tourism;
- Programme financing: 3 Mecu PHARE; 2 Mecu State Budget.

Credit Support Programme (NADSME-PHARE-State Budget, channelled through commercial banks):

- Credits to Slovak Koruna 5 million for SMEs (US\$ 175,000);
- Industry, services, crafts, active tourism;
- Five years;
- Low interest;
- Programme is financed from PHARE, State Budget, sources of commercial banks (Slovak Koruna 200 million, US\$ 7 million each).

Programme of Tourism Support (same as above - this is the description from the original report):

- SMEs;
- Contribution to the amount of 70% of interest of commercial credits.

Support Programme of Economic Activities Leading towards Energy and Imported Stocks Reduction:

- SMEs;
- Contribution to the amount of 70% of interest on commercial credits.

Programme of Decreasing of Consumption in Dwelling Houses and Flats:

- SMEs;
- Contribution to the amount of 70% of interest on commercial credits.

Support Programme of Combined Transport Development:

- SMEs;

- Contribution to the amount of 70% of interest on commercial credits.

According to a number of sources involved in the small business network in Slovakia the performance of the above programmes is described below.

*The Slovak Guarantee Bank* Slovak Koruna 2.7 billion (US\$ 93 million) of guarantees were taken over in 1994, supporting private business investments to the sum of US\$ 144 million. The average amount of a granted guarantee for one project was US\$ 76,000 and the average amount of a supported investment in one project was US\$ 117,000.

The Slovak Guarantee Bank (SGB) helped private entrepreneurs to get over an initial period of operational need in cooperation with the Ministry of Economy by granting financial contributions for US\$ 9.5 million, which supported investments of US\$ 131 million. The average amount of non-returnable financial contribution for one project was US\$ 33,500.

Of the total number of positively evaluated applications, 81% were from 'legal entities' and 19% from 'physical entities', whilst male entrepreneurs prevailed (92%).

The projects created about 7,000 new jobs.

The Slovak Guarantee Bank actively supports SMEs by granting guarantees focused on credit lines of the EXIM bank. However, no figures were provided for what percentage of the above total guarantee was directed at SMEs.

*Slovak Guarantee Bank: Regional support* Non-returnable financial contributions, designed to help decrease the entrepreneurs' credit burden, are directed particularly at the regions with the highest rates of unemployment (Spišská Nová Ves, Rimavská Sobota, Lucenec, Cadca, Prešov, Dolny Kubin and Povazska Bystrica).

Fourteen per cent of projects within the framework of guarantee programmes were directed to the support of exports and 6% for support of ecological benefits. Fifty-one per cent of development projects provide for energy savings.

*Slovak Guarantee Bank: Programmes* The Slovak Guarantee Bank has eight guarantee programmes and six supporting programmes (in cooperation with the Ministry of Economy, the Ministry of Agriculture, the Ministry of Transportation Communications and Public Works). The projects are supported by non-returnable financial contributions.

Guarantee programmes include:

- Support Programme for SMEs;
- Support Programme for Large Enterprises and Privatization;
- Programme for SMEs in the field of Agriculture;
- Support Programme for Securing Seasonal Agricultural Work;

- PHARE Programme;
- PHARE Programme 'Small Credits';
- Support Programme for Building and Reconstructing Small Hydro-generating Stations in the Form of Taking over Guarantees;
- Support Programme for Development of Combined Transport in the Slovak Republic.

The granting of financial contributions represents a significant part of the State's indirect aid to entrepreneurs. Within the framework of development programmes announced by the Government, the financial contributions aim at decreasing the credit burden of entrepreneurs doing business in the fields most necessary for the stability of the economy. The intention is to create favourable conditions for operation of prosperous firms, which, from a tax point of view, represent a permanent source of revenues for the State Budget. The SGB provides financial contributions grants through the following programmes:

- Support Programme for Development of Tourism in the Slovak Republic;
- Support Programme for Industrial Production Development on the Basis of Domestic Raw Materials;
- Support Programme for Economic Activities Leading to Savings in Energy and Imported Raw Materials;
- Support Programme for SMEs in the Field of Agriculture;
- Programme for Decreasing the Energy Consumption in Apartments and Family Houses;
- Support Programme for Development of Combined Transport in the Slovak Republic.

*Support Programme for SMEs* The objective of this programme is to contribute to the establishment and development of small- and medium-sized enterprises in the fields of production, trade, tourism and services by means of granting guarantees for credits up to 75%. This programme supports SMEs with up to 250 employees and with a required amount of credit of up to US\$ 70,000.

Within the framework of the programme for supporting SMEs, the SGB takes over guarantees especially for investment credits for procuring tangible and intangible property. In the field of production, the SGB can take over a guarantee even for an investment-operational credit if the operational portion does not exceed 50% of the credit granted. The support is granted to newly established or existing enterprises with a new production activity that was introduced after 1 January 1994, primarily for the first production cycle. The operational portion of the credit must be directed at purchasing basic raw materials or semi-manufactured goods for further processing.

From a total number of requests, credits worth US\$ 27.5 million were supported through this programme by granting guarantees totalling US\$ 15 million. The average amount of a guarantee per project was 53%, which represents an amount of US\$ 96,500, and supported an investment of on average US\$ 179,000. The Support Programme helped to create 2,450 new jobs.

*Programme for SMEs in the field of Agriculture* The objective of this programme is to implement the Government's objectives regarding nascent and developing private farmers. Support is through taking over a guarantee for up to 70% of the credit and by granting a non-returnable financial contribution for 10% of the credit granted (65% of projects were supported by granting a contribution through the programme).

There is little interest in doing business in agriculture due to the high costs of agricultural production, dependence on the weather and insolvent agricultural enterprises purchasing the production. The monetary institutions that grant credits within the framework of agricultural production are therefore very careful.

Credits worth US\$ 1.7 million were supported through this programme by granting guarantees for US\$ 1 million. The average guarantee for a project was 55%, or US\$ 62,000. Fifty-six per cent of the supported credits were for plant production and 44% for livestock production. The average contribution was US\$ 7,500 per project which supported an investment of US\$ 75,000. Through this project 70 new jobs were created.

*PHARE Programme/PHARE Programme 'Small Credits'* In August 1992 the SGB entered into a contract with the EU. Within the framework of the contract they were given ECU 2 million for creating conditions that would stimulate the development of new private SMEs. The objective of the programme is to create stable and prosperous enterprises that are capable of further independent development.

In 1994 an additional ECU 1 million was added to the fund, transferred from the PHARE Programme 'Small Credits'. The primary objective of the programme was granting guarantees for small credits up to US\$ 17,000 with a 1-3 year maturity. As far as the small entrepreneurs were concerned the programme did not appear to function well, and therefore the two programmes were merged.

Support is provided through granting guarantees for up to 75% of the credit. Through this programme, the SGB facilitated credit of US\$ 5.5 million by taking over guarantees for US\$ 3.3 million. The average amount of a guarantee for a single project was US\$ 62,000 which supported US\$ 103,000 of investments. Seven hundred and forty-seven new jobs were created through support from this programme.

From a regional perspective, little interest was shown by entrepreneurs in regions of high unemployment.

*Support Programme for Development of Tourism in the Slovak Republic* The objective of this programme, introduced by the Ministry of Economy in cooperation with the SGB, is to support selected projects that contribute to a higher quality and improvement of services in tourism. Support is provided by granting a non-returnable financial contribution of up to 70% of basic interest that accrues during the whole period of the 'interest duration' (maximum US\$ 100,000 for one project). An



entrepreneur can utilize the contribution for repayment of credit instalments, interest repayments or for other investments in connection with the business plan.

Fifty-five projects were supported through this programme and 1,758 new jobs created.

*American Loan Programme* This fund is run by the Slovak/American Enterprise Fund, in conjunction with Polnobanka. It is a five year loan programme, with loans available from Slovak Koruna 600,000 to Slovak Koruna 7.5 million (US\$ 20,500 - US\$ 250,000). The Bush Fund has contributed US\$ 3 million towards this fund, representing 50% of the total.

The criteria for eligibility include the following:

- The applicant must be a start-up or existing business, operating in the manufacturing, agriculture or food processing sectors;
- The loan must either lead to new job creation, to improved jobs, to supporting exports, to improving environmental conditions, or to more effective use of energy;
- Recipients are required to attend a two-day training programme on preparing a business plan, and 1,300 entrepreneurs attended courses. Training has now been discontinued because the 'level of business plans is high and development can be seen since the inception of the programme'.

From 500 applications, 26 projects have been approved, with a total investment of Slovak Koruna 80 million (US\$ 2.75 million). The applications were rejected generally on the grounds of not being able to demonstrate the economic viability of the project.

*Ministry Labour of Social Affairs: Fund for Employment* This is a completely Slovak-financed fund, the source being Slovak employer and employee contributions. The total fund is Slovak Koruna 8 billion, of which 70% is designated for new job creation (interest-free refundable and non-refundable grants. The Fund is seen as a 'way of crediting SMEs, who can pay up to 24% of loans from bank'). The other 30% is to fund retraining of the unemployed (partially for start-up).

#### *Special finance schemes: Venture or seed capital*

The most important ones are outlined below.

##### Seed Capital Fund:

- Established as a subsidiary company of NADSME;
- SMEs, production, services, active tourism;
- Capital share to Slovak Koruna 5 million (US\$ 175,000);
- Pilot programme financed by PHARE.

Venture Capital Fund:

- Regional fund in the north-west of Slovakia;
- SMEs, production, services, active tourism;
- Capital share, convertible credit.

*The Venture Fund: Zilina* A Venture Fund has been established in Zilina (located at the Regional Development Agency), with a budget of ECU 4 million, funded by PHARE, oriented towards existing companies. One project has been financed. One hundred and sixty proposals (ideas) have been submitted, and 30 business plans, of which 15 were considered acceptable, and one selected.

There is apparently a resistance on the part of entrepreneurs to fund their business through venture capital; loans are preferred since a level of control is relinquished through venture capital finance.

*The Slovak/American Enterprise Fund: 'Invest in Equity'* This venture capital fund is a five year investment, targeted at existing companies, with investment of between Slovak Koruna 10 million and 50 million available (US\$ 350,000 - US\$ 1.75 million). Sixty million dollars of the fund have been provided by the United States of America (this sum was shared with the Czech Republic, prior to the Czechoslovak split), with an additional US\$ 5 million for technical assistance/experts.

Priorities for the fund are new job creation, the support of export, environmental improvement, energy savings and the development of agriculture, food processing and tourism. To date, 30 projects have been supported with a total of US\$ 26 million invested. The Slovak/American Enterprise Fund's view is that a lack of understanding about venture capital exists, and a fear, amongst entrepreneurs, of losing independence.

*The Slovaca Venture Capital Association* This organization also provides venture capital, but no information was obtained about its activities.

*Special fiscal tax incentives*

According to NADSME the following incentives are available:

- Conditions for being granted exemption from income tax - stipulated in the code No.286/1992 - Tax Code;
- Legal entities established between 31 December 1992 and 31 December 1994 are discharged from income tax; (according to the Statement of the Slovak Government No. 145/93).

*Incubators: special premises or workshops*

*Business Innovation Centres Incubators* These are funded directly from the PHARE fund. The network of Business Innovation Centres (BICs) comprises four centres across the country, in Bratislava, Prievidza, Spišská Nová Ves and Košice.

BICs are oriented towards creating favourable conditions for those companies whose business plans have the quality of being innovative. BICs support and work with such companies for up to three years. In addition, they provide general business consulting, together with material assistance and 'incubator' services to newly registered entrepreneurs.

*Science parks and innovation support schemes for SMEs*

*Scientific and Technological Parks* The Association of Science and Technology Parks in Slovakia has 13 organizations. A proposal has been submitted to the PHARE Cross Border Cooperation Fund for developing a science park, but a decision will be forthcoming only after the project monitoring unit for this fund has been established in Slovakia.

*Special training programmes, special counselling/consulting schemes, special advice and information schemes*

*Regional Advisory and Information Centres* The basic element through which NADSME implements its regional projects of support for SMEs is the institutional network of Regional Advisory and Information Centres (RAICs) and Business Innovation Centres (BICs).

At the end of 1995 twelve RAICs and a network of four BICs had been established in Slovakia as a result of the joint efforts of NADSME and the EU. The RAICs operate as non-profit legal entities, with active Boards representing both the public and private sectors.

The countrywide network of RAICs and BICs, interconnected with the relevant European structures, is able to provide a comprehensive package of services to entrepreneurs throughout Slovakia. The goal of the network is to raise the level of economic development in the regions of Slovakia and to create an environment for local entrepreneurs to increase the competitiveness of their products on the unified EU market.

The main role of RAICs is to provide advisory, consulting and information services to new and established SMEs at a regional level. Consulting services for entrepreneurs include advice on legal, financial and tax-related matters, information on specific conditions for doing business in individual regions, and business plan consulting. The

core of the RAIC and BICs consulting service lies mainly in providing guidance to entrepreneurs in preparing their business plans and assessing the probability of success.

The RAICs and BICs have gained a very positive reputation for their work in support of SMEs. Regional institutions, such as the Councils for Regional Development, regional associations of entrepreneurs, and local governments, use the centres in pursuing their own regional development projects aimed at supporting SMEs.

Two important components of the RAICs' scope of activities are training programmes for entrepreneurs, and the provision of a substantial portion of the know-how necessary for the implementation of business plans.

1993/1994 statistics for RAICs and BICs are as follows: <sup>2</sup>

	1993	1994
Business plans prepared	200	900
Business plans reviewed	+/- 10	800
Number of training courses	80-100	122
Number of participants	1,800	2,700

*Support for the creation of new jobs and transfer to the new business plan* According to the Public Note No. 210/1994 of the Ministry of Labour it is possible to contribute the amount of Slovak Koruna 200,000 (US\$ 7,000) towards the creation of a new job.

*Information activities* The European Information Centre operates within the NADSME structure. A subcontract Exchange System of Slovakia also operates within the NADSME structure.

### **Resources and powers of regional and local authorities**

A regional economic and social council has been established in every region, operating under the regional office of the state authority which acts as an advisory body. Regional and local authorities, large enterprises are represented on the council. The authorities have funds available from the State Budget, their own resources, credits and financial means from the Fund of the Environment.

Regional and local authorities are represented on the RAICs' Boards which are responsible for services in the field of SME development. There are four specialized Regional Development Agencies in Slovakia (Zilina, Banská Bystrica, Rimavská

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<sup>2</sup> All information provided in this section on the RAICs and BICs is taken from NADSME's report: State of Small and Medium Enterprise, 1994.

Sobota, Humenné) and some of the RAICs act as regional development agencies as well.

### **Policy focus on particular stages of SME development**

The policy is said to be focused on all the above-mentioned stages of SME development. NADSME's network, however, emphasizes the provision of start-up services for free.

In the process of restructuring the economy, NADSME has introduced a programme of implementation for spin-offs. The principle of this method is the creation of SMEs through the externalization of non-strategic activities from large industrial companies and the strategic management of human resources.

Export support is the main activity of the Governmental Council for Support of Export, which recommends specific measures to increase export efficiency.

The network of BICs and Scientific and Technological Parks focuses on the implementation of new innovative technologies.

## **INSTITUTIONS**

The key institutions and their activities are shown in Annex IV. There are no principal regional differences in the range of support.

### **The key SME associations**

#### *Association of Entrepreneurs of Slovakia*

Established in 1990, this association has around 20,000 members in 50 regional organizations. The association promotes the interests and concerns of its members with regard to legislation, negotiates with the government and has international contacts.

#### *Slovak Union of Tradesmen (SUT)*

The Slovak Union of Tradesmen is a professional interest union with eight trade associations. Members are associated in guilds. Its aim is to interpret, present and defend the concerns of tradesmen. The union supports the creation of a chamber of trade in Slovakia.

Other examples include the following:

- Association of Christian Entrepreneurs;
- Association of Entrepreneurs of the Middle Stage;
- Union of Entrepreneurs and Tradesmen of Slovakia;
- Various guilds with national activity.

### **Major areas of foreign donor involvement.**

The major multilateral agency involved is the EU PHARE Programme. This covers all NADSME activities, RAICs and BICs on the basis of respective financial memoranda and work programmes.

The major bilateral support can be briefly summarized as follows:

Germany:

- Branch consulting;
- Cooperation with the Slovak Union of Tradesmen.

Netherlands:

- Business plan writing;
- Management information system NADSME/RAICs/BICs;
- Preparation of 500 business plans;
- Mediating of contacts with Dutch entrepreneurs.

France:

Subcontract Exchange System.

United States of America:

- US AID, Peace Corps - provision of SME experts.

Japan:

- Expert stationed in NADSME;
- Training in Japan.

United Kingdom of Great Britain and Northern Ireland:

- Know How Fund support for RAIC strategic development.

## **Integration, coherence and sustainability of services**

In some institutions the counselling and training services are integrated and there are also plans to provide some financial services. NADSME provides the most complete package of services.

Support measures at governmental level are in principle prepared in coordination. Relevant authorities are invited to make submissions; the document is then submitted to the Government, as well as to the National Council. The overlap which may occur at local level can sometimes be useful.

Foreign support is usually initially channelled through the Ministry of Foreign Affairs, which is responsible for coordination with all the other ministries. NADSME is viewed by most representative organizations as being effective in coordinating all the different interest groups, both informally and formally through membership of their Board.

There is some overlap of measures, particularly regionally, where some regions appear to be particularly attractive to foreign donors due to the nature of their problems which fit into conditions for targeting support. One particular region (Spišská Nová Ves) has received a great deal of attention due to the decline in mining in that area, whereas other regions (Eastern Slovakia in the Trebišov area for example, which has suffered greatly through the loss of its Ukrainian and Russian markets) have apparently been relatively neglected.

The present structure of SME support institutions is set up to be long lasting. The support of SME development should be covered by Ministry of Economy and NADSME in cooperation with the network of RAICs/BICs. The strategy of support of these institutions until the year 2000 is given in the Strategic Orientation Paper for 1995-1999, which has been passed by the Government of the Slovak Republic and which was to be confirmed by the EC in Autumn 1995. This paper also includes a description of the methods and the extent of support which will be provided to these institutions.

The majority of specialist institutions operate on a non-profit basis, and initially the services are provided free. With regard to NADSME, a model for its future self-sufficiency is being designed.

## **Key future players in SME support**

NADSME is the key institution in SME support. At a local level the role is fulfilled by the network of RAICs/BICs, and also the Scientific Technological Informative Centres (STIC). Support for SMEs will be achieved in cooperation with the Chamber of Commerce and Industry as well as with the Association of Entrepreneurs.

The research carried out in late 1995 supported the above view that NADSME is viewed as the key institution, with the RAICs/BICs as their 'flagship' network. This view was endorsed at the conference on SMEs when the RAIC/BIC network was repeatedly identified as the support structure through which policy and strategy will be delivered across Slovakia. As far as the Chamber is concerned, due to legislative changes in December 1995, which changed membership from compulsory to voluntary, it is not clear what their future influence will be, particularly in terms of the provision of free services, i.e. support to start-ups and micro-businesses.

## **Central support for local development**

NADSME provides the local centres with a range of services and it also contributes, in some cases, to their financing through the SME PHARE Programme. Basic services provided are:

- Information from the database BRE and BC-Net;
- Information from the database of subcontracting Exchange;
- Information about training and education facilities;
- Organization of training education of the centres' staff in Slovakia as well as abroad;
- Mediation of international contracts;
- Information about legislation updates;
- Promotion (materials);
- Experience exchange;
- International contacts;
- International funding;
- Staff training;
- System development;
- Updating technology;
- Business to business data;
- New programme development;
- Needs analysis;
- Evaluation;



- Transfer of overseas approaches;
- Legislation updating;
- Coherence in policy.

### *Institutional collaboration*

Some of the local and regional institutions cooperate very closely at a national level. Examples are the Association of RAICs/BICs, STICs, Advisory Counselling Centres as well as the Association of Entrepreneurs of Slovakia, and the Slovak Association of Craft.

Examples of cooperation include:

- The Association of Entrepreneurs - working with the Ministry of Labour on a PHARE programme;
- The Slovak/American Enterprise Fund is in close contact with NADSME and cooperates on a practical level with them, with the RAICs and with the Peace Corps, in providing some basic marketing courses for entrepreneurs. They also work closely with the Chamber of Commerce.

### *SME Involvement*

Generally there are no institutional arrangements for involving SMEs in the provision of entrepreneurial support services, but equally there are no obstacles to their existence.

However, through the Association of Entrepreneurs, the SMEs do have a voice; they are represented on the Board of NADSME, and work closely with the RAICs, Chambers etc. at the regional level. Similarly, the Union of Craftsmen is also represented.

Support at the local and regional level is on a mixed basis at present (for example, public authorities as well as private companies have been involved in establishing the RAICs/BICs/STICs). Association and membership basis is important from the point of view of creating a standardized institutional environment. However, the provision of services in the regions needs to be on an autonomous basis. Specialization of institutions at the local level is expected and proposed. These institutions are expected to work mostly on a not-for-profit basis.

The SME environment in Slovakia is in the process of being created and there is (bottom-up and top-down) pressure on this process. The needs and requirements of SMEs are passed through NADSME to government level or directly to the National Council. The NADSME view is that local institutions will support small business and broader aspects of regional development.

The majority of institutions endeavour to operate on a network basis. Some of the regional development agencies operate on a more individual basis, but still with support of the central authorities or NADSME.

### **Monitoring, evaluation and quality**

Monitoring and evaluation are covered by NADSME in cooperation with the Slovak Office of Statistics and other relevant authorities. Detailed results are included in the report on the State of SMEs (see Annex I). The evaluation that takes place is mainly quantitative.

### **Future shape of institutional environment**

NADSME is planning to set up the network of RAICs/BICs providing standard services covering the whole Slovak territory. Another way of standardizing this environment is through the cooperation of these institutions through their association. This process has already been started.

Within the one function of small business support, the small business institutions (the RAICs and BICs) demonstrate a varying degree of entrepreneurialism. Some of the RAIC Directors are very flexible and market oriented, whilst maintaining a clear focus on their core objectives. Other organizations, for example at central level, are more structured and administrative, partly through necessity, and partly reflecting a traditional model of operation.

Future resourcing of the agencies will be both central and local. In future the contribution of local financing should increase. This opinion is based on the fact that in future the local and regional authorities are expected to have more resources so they will also contribute to financing these institutions.

## **ASSISTANCE**

The types of assistance available are broadly described in the matrices in Part II. There are, however, a number of special issues to be brought out as follows.

### **The competency of providers**

There is special support to develop competency from NADSME and the RAICs and BICs. Apart from that, at a national level some of these activities are provided by PMU PHARE, City University Bratislava, the Ministry of Labour, the Human Resources Development Fund, IMB Bratislava, Bat'a Junior Achievement, etc.

The RAICs have just run their first staff training programme based on the first part of PHARE/Durham University Business School's (DUBS-UK) programme for RAICs, training their staff in basic counselling and business appraisal skills and providing some SME/entrepreneurship background. This was delivered following a Training the Trainers programme for the RAIC Directors and senior staff run by DUBS.

In this respect the recommendations of the conference on SMEs included the development of:

- A system of specialized SME counselling oriented towards quality, management, export support, technical and technological counselling through the creation of groups of professional external advisers;
- A system to 'rate and certificate' external advisers.

The objective of both these recommendations is ultimately to introduce quality standards and accreditation systems.

The banks have undertaken study tours/attachments abroad, had foreign experts on placement and some training programmes have been run for bankers, although details of scale and content were not available through the research.

The ministries and national institutions undertake a variety of training including study tours, attachments to similar institutions and language training. Details of training within the country for these institutions were not accessed.

### **Outstanding models and manuals for SME training**

A variety of models and programmes are available. Some of the institutions use foreign models and manuals, some use their own, generally of a high standard.

With regard to start-up training, one of the models used by several of the RAICs is from CEPAC, a French training organization, which has provided support and training for the RAIC staff, and monitors the delivery of this training, which is targeted at the unemployed who wish to start a business.

### **Evaluation of assistance programmes**

The financial support tools and the training advisory programmes of NADSME and the RAICs/BICs have been evaluated with good results. At the time of writing this report the first stage of implementation of the spin-off method was going through an evaluation process.

**ANNEX I**

**STATE OF SMALL AND MEDIUM ENTERPRISES  
1995**

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## ***Introduction***

*Small and medium enterprises represent nowadays as the economic factor the widest sphere of European as well as overseas developed economies. 60-70% of workers are employed in firms with less than 500 employees, which represents 70% in the sector of industry and services. Their flexibility, lower capital intensity, innovative position and support of more and more differentiated segments of the market are also very important. They play a significant role in the sphere of a new jobs creation and by their sound expansiveness they influence positively the development of employment.*

*In spite of the fact that in Slovakia the SME sector is still very young and has to overcome a lot of problems, it continues to prove its viability and takes more and more important place in the transforming economy. Small and medium enterprises at present employ approximately 60% of the workers in industrial branches and services.*

*The National Agency for Development of Small and Medium Enterprises, being charged by the Slovak Government, has prepared this report for the third time already. It has a standard form and it illustrates comparable time periods, giving the possibility to analyse the development trends and evaluate the number of activities which are aimed at SME support. The report documents the fact that, despite all problems and difficulties, the SME sector which contributes significantly to output and employment in the Slovak economy, already exists. There is a real assumption that its importance will grow further and that it will take part also in the structural changes of our economy and so contribute to the growth of its capacity, flexibility and competitiveness.*

*I believe that the information presented in the report, will become a source of inspiration and incentives in the work of those, it is designated for, that is administration, banking sector, entrepreneurial associations and entrepreneurs too.*

*Karol Česnek  
Minister of Economy of the Slovak Republic*

# **1. Introduction**

The development of small and medium enterprises (SME) in the Slovak Republic is a top priority of the government in the development of the country's economic policy, which also includes industrial, regional and social policies. The Programme of the Government of the Slovak Republic, adopted in January 1995, places great importance to the development and support of small and medium enterprises.

The small and medium enterprises in Slovakia have developed through the five-year process of the country's economic transformation and this report reflects the situation in the SME sector as of 1995.

Slovakia is in the process of completing its regulatory framework through numerous legislative modifications and amendments which, blended with a relatively heavy financial burden, evolves enormous (and often unsustainable) pressure upon more fragile categories of SME.

The Programme of Complex support to Small and Medium Enterprises, adopted by the Slovak government (Resolution No. 331 dated 25th May 1993), which established the institutional, financial and legislative framework for government support to SME, certainly represents a significant contribution to the development of SME.

The aims of the programme are being attained in all areas. One of its major achievements was the formation of the National Agency for Development of Small and Medium Enterprises (NADSME) which, through a network of 12 Regional Advisory and Information Centres (RAIC) and 4 Business Innovation Centres (BIC), provides advisory, educational and information services to entrepreneurs. Moreover, the parliament adopted Act No. 100/95 on "State Support to Small and Medium Enterprises". This is a system of state support programmes for specific industries, together with a loan guarantee scheme, a small loan scheme, credit support programmes for SME and the Seed Capital Programme. Funding has also been made available through credit lines extended from international lenders. In a move which completes the system of support schemes, available under the original Programme of Complex Support to SME, the government adopted Resolution 72 (dated 1 February 1996) which provided SME with eight additional support programmes. Nevertheless, we have now reached the point where the initial goals of the Programme of Complex Support to SME have already been accomplished. It is, therefore, suggested that the government adopt a new medium-term policy in support to the development of SME.

In drafting such new policy, the government should very specifically define its objectives, the activities, the types of enterprises to be eligible for support, the set of tools and measures to be used, and the correlation between the new policy of support to SME and other segments of the overall economic policy, e.g. the industrial policy, regional development policies, etc. The outcome should be a draft of measures and schemes which the state will make available in support of SME over a medium-term period, including the multilateral and bilateral means of support including appropriately sufficient funding to implement the new policy.

The report of 1995 includes a brief evaluation of the macroeconomic framework for the development of SME, an analysis of the state and development of SME in the course of time, and an evaluation of the regulatory environment. A part of the report deals with an evaluation of the tools of support to SME in 1995. The final chapter includes a proposed list of strategic measures to be adopted, as well as a list of support programmes which we believe should be put through in 1997 in particular areas of SME. The text of the report contains references to diagrams which constitute a separate supplement.

The figures shown in Chapters 2 and 3 are quoted from documents provided by the Statistical Office of the SR and the NADSME. In accordance with the EU methodology, the report does not include enterprises active in the sectors of agriculture, forestry and fishing.

## **2. Environment for the Development of SME in SR**

### **2.1. Macroeconomic framework for the development of SME in 1995 and prognosis for 1996**

The positive economic development of Slovakia in 1995 is documented by the fact that all of the three most important macroeconomic indicators, i. e. **inflation, unemployment and economic growth**, showed better results than the year before. Other important indicators, such as **the rate of interest or the deficit of the state budget**, improved. The only significant indicator which slightly deteriorated compared with 1994 is the country's foreign trade surplus which is still active, but lower than in the year before.

#### **Gross Domestic Product**

The development of the Slovak economy in the last two years shows a significant revitalisation. The growth of GDP by 4.8 percent respectively, 7.4 percent in 1994 and 1995, is notably higher than the CEE average, which is usually taken as a benchmark (see Diagram 2.1). The duration and intensity of the boom cycle depends on many factors, however, we believe that the following two tendencies have had particular impact on this process:

- the ongoing transformation of the Slovak economy which, after the inefficient production programmes have been attenuated, exports re-oriented and the shock from the split [of the federation] absorbed, is bringing its first results, in growth in the volume of production;
- consolidation of the boom in Western Europe (particularly in Germany) which, timewise, coincided the reorientation of exports from Slovakia.

The first factor will continue to influence the economy also in the future and we suppose that its weight will grow because the economic structure of Slovakia is far more better now than it used to be at the dawn of the transformation, particularly with the regard to the orientation of exports, which is now in a better balance. Moreover, small and medium sized enterprises have started to play a more significant role in the economy, mainly due to their flexibility. Nevertheless, there are some signals of decline in the growth of many west European economies. Based on the data available to us, we cannot predict which

of the factors will preponderate. There are fairly conflicting opinions on whether Slovakia has really managed to get her foot in the door to western markets or whether the increased volume of exports is a natural consequence of the aforementioned boom in the west. However, the entire economy of Slovakia, including small and medium enterprises, must also be prepared to cope with potential reductions in the percentage of exports.

Periods of growth bring opportunity especially for small and medium enterprises which get most of the profit in such periods. SMEs are still relatively new factor in the Slovak economy and their readiness to take advantage of opportunities as they come has not yet been sufficiently developed. However, the positive fact is that the number of these flexible enterprises is growing fast.

The contribution of individual components of GDP to its overall growth was much better balanced than in 1994. In 1994, it was only the foreign trade surplus which accelerated the growth of GDP. In 1995, each individual component had its impact upon the economic growth and the most rapid growth was recorded in the generation of gross fixed capital (5.8 % in constant prices). However, there was also a growth in the household end-use and government consumption.

#### Household end-use consumption

The household end-use consumption is the most significant component of GDP. In addition, retail business is a sector which gives a large number of opportunities to small and medium enterprises, simply because export and government orders are usually the domain of large enterprises. The growth of this component is, therefore, particularly good news to SME - their profits went up and they paid more in taxes than ever before. Despite its absolute growth, the household end-use consumption's contribution to GDP was less than 50 % and this percentage continues to decline slightly.

#### State administration end-use consumption

After the significant drop in the government's real expenses in 1994 in comparison with 1993, this factor of GDP became more stable and grew by 1.6 %. Those SMEs which participated on state administration activities were not affected as adversely as in 1994, when government expenditures fell by more than 17% compared with 1993.

## Generation of gross fixed capital

This component of GDP involves investment activities and shows, as indicated above, the highest relative growth in comparison with 1994. The share of investments in the purchase of machinery and equipment grew to 50 % and the share of investments in construction and civil works has also grown to 46.5 %, while the share of other investments dropped.

## Foreign demand

The export of goods grew by 18.5 % (9.3 point less), import by 19.1 % (8.6 point more). There was a surplus of trade balance amounting 1.8 billion Sk. The most important foreign trade partners remained unchanged, only their structure is different. (Diagram 2.2).

The Czech Republic remains the major recipient of Slovak goods with 35.2 % of our exports. However, the Czech Republic share of our exports continues to decline (it was 37.4 % in 1994).

The second most important export destination was Germany with 18.8 % (17.2 % in 1994) and Slovakia becomes more and more dependent on this leading European economy. Other leading export countries follow in this order: Austria, Italy, Hungary, Poland, Russia, Ukraine.

Our assumption from previous years that Slovak SMEs will trade mainly with our neighbouring countries has been verified. Poland and for the first time also Ukraine have become important sites for export growing by 50 % over last year. The Russian market is still not sufficiently developed by Slovak enterprises including SMEs and its share fell from 4.1 % in 1994 to 3.8 % in 1995 although the volume of export has grown by 10 % in 1995. (Diagram 2.3).

The share of imports from the Czech Republic fell in 1995 from 29,6 % to 27,5 %. However the Czech Republic remains the major importer to Slovakia. The second position is held by Russia which has relatively unchanged share of the total import market. Other important importing countries are Germany, Austria, Italy, Poland, USA and France. Next are other neighbouring countries Hungary and Ukraine with the least amount of imports being from Great Britain and Switzerland. SMEs have the opportunity to become more selective in the import of suitable commodities and to work toward decreasing the total cost of imports. (Diagram 2.4).

## **Inflation**

The average yearly rate of inflation measured by the index of consumer prices reached 9.9 % by the end of the year. This is a decrease from the double digit inflation of previous years and a drop of 3.5 % in comparison with 1994. The drop of inflation from the two-digits to one-digit area means the overcoming of the psychological barrier dividing stable and unstable environments especially for small foreign investors and we suppose that this development will raise a growth of interest of minor foreign investors to enter Slovak enterprises. (Diagram 2.7).

## **Unemployment**

The stabilisation of the production development reflected also in the rate of unemployment. The average rate of unemployment in 1995 has reached 13.8 % and by the end of the year has dropped to 13,1 % (14.6 % by the end of 1994, average for a year 14,4 %). It is for the first time since 1992 that the rate of unemployment dropped so significantly. Taking in account this decrease and the growing unemployment in EU countries the rate of unemployment does not have such a menacing effect as two or three years ago, however it is a great task and also an opportunity for small and medium enterprises to make use of relatively qualified and still very cheap labour force in Slovakia for the growth of middle class and whole economy of Slovakia. (Diagrams 2.5, 2.6).

## **Deficit of the state budget**

The deficit of the state budget has dropped to 8.3 billion Sk which represents 4.8 of the total budget. For the first time since Slovakia has become an independent country the state spending was less than its income. The level of debt services from the past was less than the debt service in the new budget. (Diagram 2.8). This development in compliance with deliberate monetary policy of the National Bank of Slovakia contributed profoundly to the further stabilisation of the macroeconomic environment for SMEs.

## **Rates of interest**

The development of the rates of interest was marked by the favourable development of the macroeconomic environment, especially inflation, and in its consequence also by double decrease of the discount rate in March and October. According to the NBS data the average rate of interest of state of credits dropped from 16.05 % to 14.78 %. Regarding SME a more meaningful date is the rate of interest of current credits which do not include social loans and administrative-

ly determined credits from the past. The rate of interest of the current credits dropped by 5.55 % from 19.59 % to 14.04 %. The most notable was the drop of the rate of interest of short-term credits from 19.77 % to 13.68 % (6.09 point). The drop of the rate of interest of medium-term and long-term credits was moderate due to lasting overhang of demand over offer: by 2.5 % to 16.7 % concerning the middle term credits and by 2.42 % to 14.37 % concerning the long-term credits.

## **FOREX position**

The foreign exchange reserves of NBS were 3 418.4 billion USD by the end of 1995 which is rise by 1 673.4 billion USD in the course of the year. The foreign exchange reserves provided coverage of four-month import to Slovakia in comparison with 2.5-fold coverage by the end of 1994.

## **Prognosis of Macroeconomic Indicators for 1996**

Based on the trends previously described, the boom tendency of the development of the economy is expected to continue in 1996. The growth of GDP by 6.8 - 7 % in 1996 is expected in comparison with 1995. Other expected indicators are 13,2 % average rate of the registered unemployment, 12,4 - 12,7 % growth of the average monthly wages, and 6,5 - 6,7 % rate of inflation based on the consumer prices. The growth of GDP will be impacted mainly by further dynamisation of the domestic demand. According to the expectations of the Institute of Prognostics of the Slovak Academy of Sciences the growth of real disposable incomes of the population will raise the household end-use in the interval 5.2 - 6.9 %. The Institute of Prognostics expects also that the continuing revival of the enterprises as well as continuity of the growth of total savings will lead to the growth of the generation of the gross fixed capital in the interval of 4.5 - 12.9 %. A moderate growth is expected in the state administration consumption in the range of 0.8 - 2.2 %. Industrial production growth is estimated to at 7,2 %, civil engineering growth is estimated at 3,5 %.

## **2.2. State and development of the business environment**

### **2.2.1. Legislation and regulatory measures**

The development of legislation in 1995 was, similar to the previous period, characterised by further changes. Almost all key pieces of legislation which



have influence on the development of business, were amended or concerned by the amendments to other pieces of legislation. However, it can be stated that in entrepreneurs' opinion these changes have not brought higher quality of the business environment. They were a partial or single solution to some essential problems but from the systemic point of view there still is a persisting need for a deeper analysis of the legislation forming the business environment.

Such an analysis was done by NADSME in cooperation with the Entrepreneurs' Association of Slovakia, Slovak Union of Small Business Owners and other involved institutions in November 1995 at the 1st Conference on SME. The conclusions of the conference unambiguously proved the need of revaluation of the current legislation even from the point of view of the reached standard of the development of SME.

There were 128 amendments or pieces of legislation enacted in 1995 to the legislation concerning SME.

The positive amendments and acts are:

- Act No. 100/1995 Coll. on the State Support of SME, however, the definition of SME is different from that being prepared by European Union (criteria of SME),
- Decree of the Ministry of Finance of SR No. 59/1995 Coll. by which the Decree of the Ministry of Finance No. 55/1994 Coll. on the Registration of Proceeds from Sales via Electronic Cash Registers is amended. This amendment sets forth unambiguous rules for the use of cash registers,
- Act No. 289/1995 Coll. on the Value Added Tax the positives of which are:
  - better and lucid arrangement (it includes only 1 supplement),
  - decrease of the tax base rate to 23 %,
  - reclassification of some services and products to the class with preferential tax rate of 6 %.

The positive evaluation can be attributed also to the preparation of the new **act on income tax**.

The bill of the act which has become a subject of the comment procedures shows up the tendency to accept often repeated objections against some rules of the currently valid act.

Some of the amendments which are in the new proposal were requested in the conclusions of the afore-mentioned conference.

The notable incentives of the bill are:

- elimination of the ambiguous interpretation of several terms and definitions (e. g. concerning deductible items, commercial property, etc.)
- increase of non-taxable part of the tax base for the income tax,
- increase of financial amount in the tax rates for individual income taxes,
- increase of the price of write-offs of ageing property and a possibility of the temporal differentiation,
- possibility of a reflection of technical revaluation of the property,
- changes in the level, system and dates of payment of advances,
- moderation of sanctions and penalties,
- possibility of redemption of losses in a more lax way.

However, it is necessary to mention that the bill consists of 60 articles on 86 pages and includes 116 references to other pieces of legislation. From this point of view the bill is still very complex and confused.

There is still a terminology enabling ambiguous interpretation, such as "analogous performance", "in other authorities" etc.

The individual and corporate tax rates as well as the system of write-offs and revaluation of property are of little motivation for the entrepreneurs and do not correspond with the macroeconomic results of the development of economy.

Some imperfections are mentioned also in the reasoned statement to the bill. The impact of some changes on the state budget is explained and described in details on one hand, but such a description is missing in case of other changes on the other hand. This note concerns particularly the article 19, letter o) on the tax-exemption from incomes falling on revenues obtained from the decreasing the obligations to the Fund of National Property. This provision is considered as significantly protectionistic on one hand, and discriminating on the other hand, and, moreover, it has notably negative impact on the state budget.

Under these circumstances the demand to revise the bill in a wider coordination so that it is simpler, more understandable and of higher motivation appears as well-founded.

However, the currently valid legislation includes many problematic regulations the solution of which will contribute to a higher quality of the business environment for the development of SME. They are mainly:

**Act No. 455/1991 Coll. on Business Activities** as later amended where according to entrepreneurs' opinion

- the definition of a small business owner as a person with earnings on one's own according to certain criteria (e. g. number of employees, incomes, area of business etc.) is missing,
- it would be suitable to define the Business Licensing Authorities as registration offices and put them under the control of the Ministry of Economy instead of the Ministry of Interior,
- there is no definition of a business community,
- the demand of proving of other competency (the Lustration Act) cannot be realised,
- it is necessary to bring its content in harmony with existing more general acts (Civil Code, Commercial Code and the Labour Code) as well as with EU legislation, especially in the field of nomenclature of business activities and crafts, or liberalisation of the role of professional unions, chambers, etc. in the sphere of licensing, registration, checking and verification of businessmen's professionalism and practice.

There are persisting non-solved or open problems in the area of small business concerning:

- the legislation on the chamber of small business owners including its organisation, which is being under preparation at present,
- the establishment of an insurance company of the small business owners, bank for small business owners and guarantee cooperatives,
- the problem of restitution of craft unions and communities,
- the role of sole traders and entrepreneurs in special preparation of youth for business.

**Act No. 273/1994 Coll. on Health Insurance, Health Insurance Funding and on the Establishment of the General Health Insurance and the Establishment of Departmental, Branch, Enterprise and Civil Insurance Companies** as later amended and the **Act No. 274/94 on Social Insurance** as later amended where according to entrepreneurs' opinion

- the size of payments derived from the tax base of the previous year is in fact another form of taxation. It is the payment concerning the sum whereof the income tax was paid for the previous year. The delivery of obligatory insurance payments calculated as a certain per cent of the tax base of the previous year is disputable. The payments for the health insurance should be equal for all citizens,
- the health insurance paid by the persons for whom the health and social insurance is already paid for various reasons (employees having side

business, retired and student businessmen) does not guarantee them a higher level of health care or social security;

**Act No. 511/1992 Coll. on the Administration of Taxes and Dues and of Changes in System of Financial Authorities** as later amended where according to entrepreneurs' opinion

- in case of doubts of credibility, correctness and completeness of the obligatory evidence or records kept by the subject of taxation the duty to prove the doubts should be on the side of a tax administrator,
- the option for the tax administrator to impose the duty of keeping specific records necessary for the administrator on the subject of taxation is beyond the framework of generally binding pieces of legislation concerning the bookkeeping and simplifies the rights of the tax administrator in an inadequate way while complicating the duties of a subject of taxation,
- it is necessary to specify the instruments of the tax administrator for a legitimate determination of the tax base in case the tax return was not done in time,
- it is requested to introduce a dilatory effect of the appeal against the decision made by a tax administrator,
- it would be necessary to begin the dealings not later than 30 days after its announcement and consider it finished in other case,
- it would be suitable to determine the prescriptive period of unextinguishability of a tax debt, its criteria and the obligation of the tax administrator to announce this fact;

**Act No. 289/1995 Coll. on Value Added Tax** where, according to entrepreneurs' opinion, some services are out of motivation and illogically classified in the category of 23 per cent tax rate (upholstery, refreshment, bookkeeping etc.);

**Act No. 18/1996 Coll. on Prices** where according to entrepreneurs' opinion

- it is necessary to regulate prices only in particular cases (strategic commodities),
- the provision on an excessive profit is considered demotivating by entrepreneurs especially in case of innovative businesses in connexion with the principles of the market economy,
- the administrative burden imposed on entrepreneurs in process of calculation of prices is excessive.

The above-mentioned opinions are necessary to be analysed impartially.

There is still missing a legislation regulating the activities of companies based on venture and seed capital therefore it is inevitable to prepare and pass the law which would regulate the activities of such companies. Its passing is important especially with the regard to the fact that venture companies belong to the significant factors of stimulation the development of economy in the market economies because they search for and finance the projects with a high growth potential including considerable competitive advantage (new technology, new user-oriented benefits of a product, lower price, etc.). Moreover, the venture capital companies are capable of taking over a considerable share of business risk, stimulate export, help to retain and create new jobs even in those areas of business where commercial banks refuse funding.

Current legislation, especially the Act No. 21/1992 Coll. on Banks, Act No. 455/1991 Coll. on Business Activities and Act No. 248/1992 Coll. on Investment Companies and Investment Funds, does not regulate sufficiently the activity of such companies.

With the regard to an undisputable importance of venture capital companies for SME the accelerated preparation and enacting of relevant pieces of legislation is the question of further support to SME and improvement of the conditions for its development.

**There is a general demand for such an organisation of the legislation process so that at least basic general acts are more lucid and understandable. It is also requested that the full versions of these laws are published more frequently.**

In the implementation of the **Support Programme for the Implementation of the Spin-off Methodology** the NADSME proposes to pass the legislation defining socially purposeful jobs with a possibility of application for an allowance for funding this job if small or medium enterprise employ a person who is not registered as unemployed as stated in the **Act No. 189/1994 Coll.** Separation of small and medium enterprises from large industrial enterprises within the framework of spin-off process is usually accompanied with a dismissal of persons employed in the separating shop, etc., from their mother company and their new employment in a new company. The new company thus creates the jobs for workers who would sooner or later join the mass of registered unemployed due to the reduction of production or closing down of the shop which is a subject of separation.

In connection with the "Spin-off" Programme it is necessary to say that in the prepared principles of the National Council **act on employment** there is a support of employment of special groups of citizens being solved with the remark that the

financial contribution can be provided per each vacancy to the employer who will employ the school graduate or adolescent, long-term unemployed, person of more than 50 years of age or the person after receiving the parental allowance.

## **2.2.2. Financial Encumbrance**

The financial encumbrance of entrepreneurs is in their view still one of the barriers to the development of SME. Its quantification does not essentially differ from the state described in the Report on the state of SME as of December 31st 1994. If any changes occurred they contributed to a more deeper understanding of the financial encumbrance as an existential and development barrier. It is obvious from the preceding chapter that it is influenced by a rapid and sometimes uncoordinated adoption of pieces of legislation which are dependent on one another, e. g. the connexion with raising of minimum wage and unchanged limit for payments to funds.

The aforementioned facts were proved by a survey done by research company MEMRB Slovakia Ltd. in 1995 where the financial encumbrance is characterised and seen by the entrepreneurs as one of the most relevant factors having a negative influence on the possibilities of starting business and its development. Two other moments have an impact - shortage of sources of credits or venture and seed capital funds and direct or indirect financial support (lack of bonifications, subsidies or tax allowances).

The existing options - tax allowances concerning investments are of little motivation for minor entrepreneurs because they can neither cover the demanded extent of investments nor they can be supplementary covered from cheap resources of credits.

Based on the comparison of the financial encumbrance of entrepreneurs through the taxation in Poland, Hungary, Czech Republic and Slovakia it can be stated that individual income taxes are principally equal and the corporate income tax is lowest in Hungary (36 %). The payments for social and health insurance in various European countries are as follows: Poland - 47 %, Hungary - 61 %, Slovak Republic - 50 %, Czech Republic 45,5 %, Germany - 39,1 %, Belgium - 37,9 %, France - 45,8 %, Italy - 52,2 %, Netherlands - 53,4 %, and their division between employers and employees is different. With the regard to differences concerning the arrangement of the state's social role and taxation policy, which although not being principal, it is not possible to make explicit conclusions out of this comparison. However, it is a fact that the positive macro-economic development should enable an adoption of stimulative measures in the area of the financial encumbrance of entrepreneurs.

The area of the financial encumbrance of SME therefore remains one of the important spheres for looking for tools for support to the development of SME and concerns all involved institutions - National Council of SR, government, ministries but also financial institutions and the entire network of support institutions.

### **2.2.3. Position of entrepreneurs in the society and business culture**

Entrepreneurs are still carry a negative assessment in society, sometimes as an antisocial element, despite of the endeavours of several relevant institutions. It will be necessary to conduct a positive media campaign publicize the documented contributions of business community to the improvement of society's life and the solution of social problems.

It is necessary to note, and several surveys proved it, that the negative position of an entrepreneur is influenced also by subjective features which are manifested in the business culture, either in the relation of an entrepreneur's to the public (clients) or between entrepreneurs themselves. The basic areas of which increased influence can contribute to more realistic assessment of entrepreneurs and improvement of business culture are here education, consultancy and information.

These are the areas which are getting higher appreciation in the entrepreneurs' consciousness, however, they still have no appropriate place in the category of minor entrepreneurs. The reason is also that the institutions engaged in the aforementioned activities have more existential problems than the possibilities for improvement of their service.

Improving the social position of entrepreneurs must be one of the recognised goals of development and support for SME. The NADSME's publication of the journal *PODNIKANIE*, the organisation of the 1st Conference on Small and Medium Enterprises in December 1995 with wide participation of entrepreneurs and representatives of ministries and institutions for support to business, the publication of the Guide to the Initiatives for Support to SME and an intensive cooperation with mass media creates a basis for improvements in the business culture.

## 3. Development (1991 - 1994) and State of SME in 1995

### 3.1. Sole proprietors

Based on the applicable legislation doing business, i. e. to pursue in the capacity of entrepreneur in one's own name (trade name) and at one's own responsibility to make profit, is possible in the Slovak Republic in the following forms pursuant to the Commercial Code:

- sole proprietor not registered in the Commercial Register
- sole proprietor registered in the Commercial Register
- person doing business on the other basis than Act on Business pursuant to specific regulations
- partnership and corporation
- cooperative
- foundation
- association

Sole proprietor, as one of the organisational forms of business, can do business on the basis of a business license (not registered in the Commercial Register) or can be registered in the Commercial Register by which it acquires the character of so-called legal entity. In the former case we speak about sole proprietors, in the case of subjects registered in the Commercial Register about legal entities - small, medium and large enterprises. The criterion for the division is pursuant to the Act No. 100/1995 Coll. the number of employees. Small enterprises have 1 to 24 employees, medium enterprises 25 to 499 employees and large enterprises 500 and more employees.

Since 1992, the number of registered entrepreneurs has been showing the declining trend which continued also in 1995. The total number of registered entrepreneurs 275 100 showed the following percentual changes in comparison with 1994:

licensed entrepreneurs	248 204	90,2 %	- 5,9 %
freelance professions	7 307	2,7 %	+ 194,6 %

The decrease of the number of licensed entrepreneurs was significant in Košice and in the regions of Žilina, Čadca and Nitra. In case of Žilina, Čadca and Svidník the decreasing trend is persistent. The growth was recorded in the Southern dis-



tricts of Galanta, Levice, Vranov nad Topľou but also in that of Liptovský Mikuláš. In other cases the changes are less essential. The least number of the licensed entrepreneurs is registered in the district of Veľký Krtíš although the growth of the absolute number was recorded in 1995. (Diagrams 3.1, 3.2, 3.6).

There was a significant cancellation of business licenses and concessions in the first two months of the year and then again, in June and July when sanctions were imposed upon entrepreneurs who violated the now compulsory use of the cash registers in their business. However, new license applications kept the decline to 7,400 by June 30, 1996 and 15,529 by the end of 1995).

This number involves mostly unregulated licenses, i. e. trade, purchase and sales of goods, agent's services (about 70 %). Other decrease involved regulated activities and crafts. The social structure of these entrepreneurs is made up by groups who mostly have side businesses or who are retired or who are students as well as by entrepreneurs who work out of their homes and do not have an office or shop.

Significant growth has occurred in the category of freelance professions which rose 200 % over 1994. This growth is a reflection of the privatization in the health services whereof the total number of 7,314 are 2,703 casualty wards, 1,684 dentists, 568 manufacturers of medical instruments and 448 pharmacies. (Diagram 3.3).

In some sectors there was a moderate drop in the issuance of licenses in industry (- 0.8 %), civil engineering (- 2.1 %), economic and financial services (- 1.3 %). Growth was recorded in the sectors of trade (+ 2.4 %) and tourism (+ 0.4 %). (Diagrams 3.4 and 3.5).

In order to make the look on the development of the business environment as realistic as possible NADSME established contacts with Datacentrum, an organisation commissioned by the Ministry of Finance of SR to process tax return accounting closures for 1994. The data acquired will contribute to a more detailed picture of the dynamism of business in Slovakia from an economic point of view.

Significant differences in the total registration of sole proprietors and legal entities have been noted between the list maintained by the commercial register maintained in the region offices and those which are based upon data from the Statistical Office of SR and Datacentrum as of December 31st 1994. The data of Datacentrum shows a less significant difference in the outlying districts and the biggest difference in Bratislava, Nitra, Trnava, Žilina, Košice. Bigger differences were noted in the differences in the numbers of registered sole proprietors as opposed to those of legal entities.

This difference is caused by several factors. The most considerable moment is the fact that following the great interest in business activities in 1991 to 1993 a reduction of the interest came especially with the entrepreneurs doing their business beside their main job which was not reflected in the statistical statements. Such entrepreneurs did not make accounting closures then and this group includes also those whose income from business activity is minimal or those who state their costs as a lump sum deductible from their income. Sole proprietor or legal entity may be pursuant to the law a holder of several licenses and concessions which causes a lower accuracy of the entire survey.

The results from this category of the sole proprietor are recorded in the statistical register but not in the outputs from the processing of accounting closures. This fact is more apparent in larger towns where the percentage share of side business activities is much higher than in rural areas.

## **3.2. Legal entities**

The dynamic growth in the number of small and medium enterprises - legal entities - continues. The total number of such profit-oriented enterprises (exclusive of those active in the field of agriculture, hunting, fishing and forestry) grew up by 17.6 % from 1994 to a new total of 41,126. There is strong growth in small enterprises with up to 24 employees. But the same is not true of SME employing 100 to 499 employees. In this sector the number is declining. The greatest is occurring in the larger towns of Slovakia (Košice, Banská Bystrica, Žilina) including Bratislava. No reduction in the number of registered SMEs was not recorded in any region. (Diagrams 3.7, 3.8, 3.12).

Regarding the legal form of SMEs the number of the companies with limited liability grew by 23.8 % and joint stock companies by 25 %. The number of sole proprietors registered in The Commercial Registers grew by 126 (3.2 %). The number of state enterprise declined by 18.7 % and the number of cooperatives declined as well. There was a considerable growth of the percentage of the private property and property owned by foreign and international entities. (Diagrams 3.9. to 3.11.).

There were 760 state enterprises as of December 31st 1995. Thereof 273 state enterprises are in the process of liquidation. The enterprises in the process of liquidation include mainly various district and municipal enterprises, Komunálne služby (local authorities' services), Domáce potreby (distribution network of household appliances), Otex-odevy (distribution network of garments and tex-

tile), Reštaurácie (restaurants), building enterprises and some research and development institutes.

The structure of current 487 state enterprises is heterogenous. The highest percentage is constituted by cargo and bus transportation enterprises, civil engineering and food processing industry.

### 3.2.1. Contribution of SME to Employment

2,019,800 persons were employed in the national economy of SR in 1994 that is 2.2 % growth in comparison with 1994. The number of employees decreased circa by 0,8 % in the large companies. The development was influenced especially by the growth of employment by 46.8 % in small organisations with up to 24 employees and a moderate decrease in the organisations with 25 and more employees. These trends are even more favourable in the selected SMEs according to the following structure where the employment in the first category grew by 54 % or 7.4 % respectively. (Diagram 3.14). Similar situation is in the case of the employees in crafts where, according to the estimation of the Statistical Office of the SR 360,000 workers are employed.

#### The development of employment in enterprises by the number of employees

<i>Indicator</i>	<i>Number of employees</i>			
	<i>up to 10</i>	<i>11 to 24</i>	<i>25 to 99</i>	<i>100 to 499</i>
Industry	8 309	23 103	39 022	141 512
Index 1994 = 100	99,1	155,3	118,6	104,0
Civil engineering	3 366	13 300	19 974	36 692
Index 1994 = 100	121,3	113,9	119,0	89,0
Road carriage of freight	1 285	643	2 303	8 443
Index 1994 = 100	56,7	118,4	108,2	146,4
Inner trade	19 356	3 475	10 794	18 934
Index 1994 = 100	234,8	105,9	104,5	100,1
Services	19 843	7 483	23 681	29 483
Index 1994 = 100	186,3	64,8	137,4	110,7

These data show the obvious growth of the number of employees excluding the categories of industry up to 10 employees, civil engineering 100 to 499 employees, road carriage of freight up to 10 employees and services 11 to 24 employees. The most considerable growth was recorded in the category of microenterprises (up to 10 employees) in the inner trade and services and the most considerable decline was recorded in this category of enterprises active in road carriage of freight.

### **3.2.2. Contribution of SME to the total output of selected branches of NE**

Industrial production has continued to grow for the second year. Total output rose by 8.3 % over 1994 to a total of Sk 497.2 billion. The efficiency of transport measured by the volume of added value declined by 3.9 % in current prices in comparison with 1994. The revival of investment activities was reflected in the stoppage of the two-year decline of the output of building construction. The market services even with the moderation of the growth pace belonged to the development areas of economy. The largest share consisted of the revenues from consultancy, advertising, immobilities business and from the area of holiday, cultural and sports activities.

The SME sector (including sole proprietors) showing the highest growth compared to 1994 was in the industrial production (39.1 % in comparison with 35,4 %), trade (92.1 to 88.4 %) and transportation (91.8 to 89.3 %). (Diagram No. 3.15).

**Small enterprises** had the biggest share in trade, industrial production, immobilities business, trade services and building construction. The most favourable development of production in sector was reached by the small enterprises in industry, building construction and trade. Their share on the total output of the individual sector was 4.8 % in the industry, 16.8 % in building construction, 16.1 % in the road carriage of freight, 23.8 % in retail sales and 31.6 % in selected market services. The investment activity of small enterprises represented 8.7 % of the total volume of investments.

**Medium enterprises** produced 23.3 % of the industrial output, 37.7 % of building construction, 34.3 % of road carriage of freight, 10.9 % of trade sales and 31.3 % of selected market services. The most favourable development of the production by sector was reached by medium enterprises in the road carriage of freight and selected market services. The share of medium enterprises on the total volume of investments reached 37.7 %.

There was a higher number of **sole proprietors** in trade, repair services and transport by the end of the year. However there were declines in some sectors as well. Civil engineering declined by 17.1 % and the trade services sector decreased by 12.6 %. According to the estimation of 1995 the sole proprietors contributed 11 % to the total production of industry and 21 % to the total output of civil engineering. They contributed also 41.3 % to the road carriage of freight, 57.4 % to retail sales revenues and 33.6 % to selected market services.

### **3.3. Dynamics of the SME Development**

Tendencies and reasons of the establishment and extinction of entrepreneurial subjects create the separate chapter of the monitoring of the entrepreneurial environment development which gives the evidence of the whole dynamics of this sphere. Partially we have touched this problem in the chapter 3.1. According to the fact that the Statistical Office of the SR registers 59,422 abolished businesses in total in 1995, but the overall decrease is only 15,529 businesses, the difference of circa 44,000 newly established businesses (FO) corresponds with the data processed by the Ministry of Interior Affairs of the SR from the inputs of trade departments. It is clear that by this way circa 18 - 20 % of trade licences has "changed" in 1995. (Diagrams 3.16 and 3.17)

In the category of SME - legal persons circa 865 enterprises were abolished, but the overall increase is circa 6,151 enterprises, it means that during the evaluated period 7,016 enterprises in total have been established, which represents a "variation" of circa 17 % enterprises registered in the Commercial Register. (Diagrams 3.18 and 3.19)

## **4. State Support to SME**

### **4.1. Ministry of Economy of the SR**

The Ministry of Economy of the SR, being the responsible authority for the government's economic policy, is also the creator of the economic strategy. It considers the support to development of SME one of its priorities. This is the main reason why it paid attention to the further fulfilment of the Programme of the complex support to SME in framework of which NADSME has been active for more than 3 years. New programmes of the development of SME were prepared in 1995 in cooperation with NADSME, approved by the government and being prepared for implementation.

Another important result of the cooperation between the Ministry of Economy of the SR and NADSME is preparation and adoption of the Act No. 100/1995 Coll. on the State Support to Small and Medium Enterprises as a legislation tool of the Programme of the complex support to SME.

**State development programmes** are the third area of activities implemented by the Ministry of Economy with the aim of support to the development of SME. In 1995 the support to SME was implemented through the following state development programmes:

- Programme of the support to the development of tourism in the SR
- Programme of the support to the economic activities leading to savings in energy and imported raw materials
- Programme of Energy Consumption Reduction in residential houses and apartments

Evaluation of these programmes is shown in the section 4.5.2.

The Ministry of Economy of the SR carries out the support to small and medium enterprises through the National Agency for Development of Small and Medium Enterprises and the Slovak Guarantee Bank.

### **4.2. National Agency for Development of Small and Medium Enterprises**

The most important institutional tool of the support to small and medium enterprises is the National Agency for Development of Small and Medium

Enterprises. During more than three years of its existence it has confirmed its necessity as a coordinating body for all activities aimed at the support to the development of SME, as an universal information centre for domestic and foreign entrepreneurs, as an organiser of educational and consultancy programmes as well as a provider of a wide scope of financial support programmes for SME.

It develops intensively the multilateral (PHARE PMU) as well as bilateral cooperation with the institutions oriented on the support to the development of SME in Slovakia.

A detailed evaluation of all NADSME's activities is shown in the following sections.

### **4.2.1. Coordinating function**

In 1995, NADSME continued in the coordination of the activities in this area. Contacts were established and the coordination developed in various areas leading to the formation of more positive business environment in Slovakia as well as to improving the status of SME and entrepreneurs' organisations.

**As part of the process of drafting and implementation of government's policy of the development for small and medium enterprises, NADSME prepared the Report on the State and Development of Small and Medium Enterprises and Its Support in 1994 under the supervision and in cooperation with the ME SR. This report was reviewed by the government of SR in September 1995. The resolution of government of SR No. 707 dated 26 September 1995 formulated the tasks required to begin the implementation of the medium-term state policy of SME support.**

The report on the state of small and medium enterprises and its support in the first half of 1995 was also submitted to the discussion at the government session. The part of the aforementioned reports were the pieces of quarterly information on SME finance support programmes execution.

By the end of December 1995, the Programme of the Support of Small and Medium Entrepreneurship in 1996 was prepared and submitted to the discussion at the government session. This material was a proposal of 14 programmes for the implementation in 1996. The following ones were approved by the government:

- Programme of the support to industrial production based on domestic raw materials
- Programme of the development of crafts and services for the population
- Seed Capital Programme

- Support programme for the implementation of the spin-off method
- Programme of SME advisory services enlargement
- Programme of education and trainings for SME
- Housing Programme
- Programme of housing seasonability

In November 1995, NADSME in cooperation with Entrepreneurs' Association of Slovakia and Slovak Union of Small Business Owners organized the 1st Conference on SME in Slovak Republic under the auspices of the Prime Minister of SR. The participants in three sections discussed legislation and taxation questions, problems of training, education and information support of SME and SMEs' access to capital resources. Special attention was paid to the financial support programmes. The conclusions of the conference contributed to our greater understanding of the perceived desires of entrepreneurs as they affect these areas of concern.

**Legislative drafting activities** were carried out by NADSME in cooperation with the Ministry of Economy of Slovak Republic. Based on this cooperation the Act No. 100/1995 Coll. on the State Support to Small and Medium Enterprises was passed by the National Council of SR in May 1995. NADSME has been involved in its preparation since the beginning of the legislation process.

The National Agency in cooperation with entrepreneurs' organisations, especially with Entrepreneurs' Association of Slovakia and Slovak Union of Small Business Owners, as well as utilising other initiatives from the business sphere submitted proposals of amendments to several acts defining the business environment within its yearly reports on the state of SME.

Regular updating of the acts and regulations relevant to SME is sent by NADSME to the RAIC and BIC network for the purposes of advisory services provided to small and medium entrepreneurs.

**Cooperation with unions and associations of entrepreneurs** is of a special importance. In 1995 the cooperation with the Entrepreneurs' Association of Slovakia continued aimed at support of the Association's activities to form more positive business environment and improving the situation of the Association itself. A training seminar and an international seminar for the members of the Slovak Union of Small Business Owners were organised in cooperation with the respective Union. The headquarters of the Union and several regional small business owners communities were equipped with computers and office devices. The positive output of this cooperation is an involvement of the Union in the international cooperation with similar organisations in Europe.



An important issue was the cooperation with the Association of Civil-Work Entrepreneurs of Slovakia concerning the project of information systems in civil engineering.

### **4.2.2. Advisory and Educational Activities**

The qualitative level of knowledge is an essential determinant of the quality of work in any area of economy. The formation of the market economy demands that quality advisory, consultancy, information and educational services are provided also in the area of small and medium enterprises.

RAICs and BICs provide complex advisory and information services to the persons showing the interest in starting business, starting and well-off businessmen in all areas involving business, organise training courses, seminars and participation of entrepreneurs in domestic and international exhibitions.

The basic activity of RAICs and BICS is provision of advisory services and expertises. The basic advisory services concerns all issues necessary for the establishment of an independent firm. The essential part of advisory and information services was provided free of charge to the small and medium entrepreneurs in 1995 because the services were funded from the PHARE Programme. These were especially basic advisory and information services for starting and existing entrepreneurs but also business plan assessment or its preparation to receive the credits from the Support Credit Programme, commercial credits or subsidies from the labour offices.

RAICs and BICs elaborated 945 and made assessments of 626 business plans in 1995. (Diagram No. 4.1). The major part of the prepared business plans was from the area of production and services. The entrepreneurs were provided 6,072 expert consultations focused on business plans, marketing, book-keeping, legislation and credit schemes of NADSME (Diagram 4.2.).

A basic focus of the BICs' activity included the selection of innovative firms who could be part of a programme providing so called incubator services for new or young firms. BICs provide such firms with long-term assistance (2 to 3 years) which helps them reduce the costs required for starting-up.

In 1995, there were altogether 53 firms in BICs' "incubators": 15 in BIC Bratislava, 14 in BIC Prievidza, 13 in BIC Spišská Nová Ves, 11 in BIC Košice.

The incubator firms are oriented especially on new technologies from various areas of production and services.

One of the goals of activities of RAICs and BICs is the contribution to the solution of the unemployment problem. They therefore pay considerable attention to the clients intending to start their own business or to create a new job opportunity. There were 519 new enterprises established and 1,769 jobs created or retained with the assistance of RAICs and BICs. (Diagrams 4.3, 4.4).

There were 110 training courses and seminars in 1995 organised by RAICs and BICs in which 1,748 small and medium entrepreneurs from starting-up and existing enterprises took part.

**The training and seminars were oriented on the following fields:**

- essentials of business, ISO 9000 quality management, marketing, international cooperation and promotion of export, rural tourism, inventions and patents, lands development, financial management, amendments to the Acts on Income Tax and VAT, amendment to the Act on Cash Registers, bankruptcy proceedings, price policy in the market economy, low cost water cleaning stations, double entry accounting, spin-off training and others.

The project of the education for unemployed who want to set their own firm and start business was successfully implemented during all the year.

**This complex programme of education and consultancy** is coordinated by the CEPAC Slovakia Association the founders of which are CEPAC Soissons from France, Fund for Employment of the SR and NADSME.

The programme is implemented through RAICs and BICs. There were 14 training and consultancy programmes organised in 1995 within the framework of which 180 participants were trained. The participants of the courses were selected in the cooperation with labour offices. 64 participants of the total number of 180 started to run their business, thereof 12 in industrial production, 5 in agriculture, 36 in services and 11 in trade. They created also 59 more job positions.

Keeping line with the global trend the employees of RAICs and BICs spread their range of knowledge improving thus the quality of their work. In compliance with the individual growth of the employees' qualification RAICs and BICs are trying to acquire the quality certificate of ISO 9000 for advisory and educational institutions.

RAIC Poprad implemented a pilot project ISO 9000 in cooperation with English advisory agency Project North East. The main goal of the project was

an application for ISO 9000 standards for providing advisory services in SR. The acceptance of this application will result in the registration and acquisition of ISO 9002 quality certificate. An additional goal of the project was a creative application of the knowledge and experience of the English business agency PNE in this field in the conditions of Slovak business centre which was intended to result in a greater expertise in the preparation of documents concerning quality in Slovak export-oriented small and medium firms.

The activities of individual RAICs and BICs are shown in the attached table.

## **Institutional arrangement of the state support functions**

The Regional Advisory and Information centres and Business Innovation Centres form the institutional network supported by the National Agency for Development of Small and Medium Enterprises. The phase of an establishment of RAICs and BICs was principally completed in 1994. Besides RAICs and BICs the Ministry of Economy of the SR supported the following local initiatives through NADSME: Technology Centre in Trnava, Science and Technology Innovation Centre in Banská Bystrica, Advisory Centre for Small and Medium Enterprises in Dubnica nad Váhom, Pro-Orava Foundation in Dolný Kubín, Regional Development Agency Banská Štiavnica and environs, Regional Information Centre in Rovinka and Labour Foundation in Martin.

As only one BIC in Banská Bystrica should be established in future NADSME in cooperation with RAICs and BICs prepared the project of the establishment branch offices whereby the institutional arrangement of the state support functions would be spread to yet uncovered regions. The original proposal anticipated a transformation of the existing Business Advisory Centres and incorporation of their employees in the branch offices. As the aforementioned centres were abolished it was not possible to make use of them, and new branch offices were established in cooperation with regional government administration, local governments, associations of entrepreneurs and other regional authorities.

The goal in this area of funding is to encourage the RAIC and BICs to develop their own funding sources besides the sources provided by the PHARE Programme. There is a plan to reach this goal by increasing support from the state budget, from membership fees in local organisations and fees from client's services as well as gradual attachments to the programmes of the European Union.

RAICs, BICs and their branch offices ensure an essential part of the regional development through the support to small and medium enterprises and by solv-

ing of projects having impact on the respective region. This enables them to develop the activities implemented by regional development agencies in general. The hitherto activity of RAICs and BICs must be completed with a specific part with a separate plan to ensure the coordination of multisectoral activities. Such a method is successfully proved in the BIC Prievidza where the Council for the development of the region of Upper Nitra incorporated a part of coordination of the multisectoral activities of the regional development agency instead of the establishment of a new institution.

## **SME and the Regional Development**

The development of small and medium enterprises is one of the basic tools which should be implemented in all parts of the state economic policy including regional policy. The tools of the regional policy are in fact the tools of support to business and they should create preferential conditions for the solution of regional disparities making use of natural conditions and sources of the concrete regions.

The network of RAICs and BICs ensures the essential part of the regional development through the support to small and medium enterprises. Very good knowledge of the economy of particular regions, preconditions of the region for further development as well as background of knowledge, information and technology are the main prerequisites for the incorporation of the functions of regional development agencies in the centres' activities. The activities of the RAICs and BICs in the area of the regional development are in compliance with the resolution of the Slovak government No. 707 dated September 26th 1995 stipulating the utilisation of existing network of RAICs and BICs in the process of establishment of regional development agencies with goal of an elimination of the duplicity of institutions and of simultaneous spreading of the network ensuring the regional development and the support to small and medium enterprises.

Besides basic advisory services and education RAICs and BICs solve also the projects of the regional development. One of the important projects aimed at the contribution to the development of several regions is the Project of enlargement of the territorial responsibility of the centres through their branch offices.

The aim of the projects of the formation of the branch offices is bringing the advisory services to the entrepreneurs in the regions which are not covered by the RAIC and BIC network.

During 1995, the branch offices Rimavská Sobota and Veľký Krtíš of RAIC Lučenec and the branch office Zlaté Moravce of RAIC Nitra were established.

RAIC Prešov prepared the project of establishment of the branch office in Vranov nad Topľou, RAIC Zvolen of the branch office in Krupina and BIC Bratislava prepared projects of establishment of Regional Information Centre Rovinka and Regional Development Agency Banská Štiavnica and environs, Ltd., and the project Formation of a branch office for the Technology Centre Trnava. These projects were carried out in cooperation with NADSME.

RAIC Považská Bystrica was the first of the centres to provide funding for the Micro-loan Scheme which is aimed at providing financial assistance to graduates of the long-term CEPAC course. It is hoped that this Micro-loan Scheme will lead to a decrease of unemployment where it is operational. In cooperation with the Department of the Regional Development of the District Office, the RAIC Považská Bystrica became involved in the preparation of the project of Revitalisation of the Považská Bystrica District implemented in the cooperation with the French organisation ICOSI Paris.

In 1995, the centres carried out and began implementation of several projects of the regional development.

BIC Spišská Nová Ves commenced the project Opening of BIC branch offices in Krompachy and Gelnica which helps to solve the development of SME and job creation in the region.

RAIC Trebišov implemented the project of the promotion of business activities and sightseeings of the region.

RAICs Zvolen and Martin were involved in the project aimed at building business links between Slovak and British enterprises which was financed by Know How Fund.

RAIC Trenčín prepared the project Potential and Limits of the Development of the Region aimed at economic development of small and medium enterprises.

RAIC Martin within the framework of the support to SME in the region of Turiec implemented several projects, e.g. establishment of the Guild of Manufacturers of Toys and preparation of a permanent exhibition in the Municipal Office in Martin.

RAIC Trenčín was preparing the project Potential and Limits of the Development of the Region aimed at the preparation of a document on potentials and barriers to the development of the region with a regard to economic development and small and medium enterprises.

**Activities of Regional Advisory and Information Centres and BIC  
Period: January - December 1995**

Activities	RAIC, BIC information expertise prepared by FS NADSME assessed by FS NADSME prepared others assessed others training for entrepreneurs numb. of particip.	Region												Total			
		Poprad	Martin	Nitra	Zvolen	Lucenec	Pov. Bystrica	Prešov	Trenčín	Trebíšov	Košice	Dun. Streda	Bratislava		Prievidza	Košice	Sp. Nová Ves
Consultation		227	408	354	418	235	177	266	253	184	520	134	277	416	417	159	4445
Business plans		789	733	541	803	270	251	252	181	181	529	71	475	338	301	357	6072
		11	4	8	1	9	8	25	25	12	0	2	55	9	14	17	200
		21	14	22	5	20	15	36	6	31	5	0	70	9	39	23	316
		81	29	97	14	15	45	25	66	31	25	106	34	125	20	32	745
		2	45	0	2	0	3	12	11	5	20	18	142	0	11	39	310
Training		18	10	5	5	5	14	11	4	8	8	0	1	2	6	17	114
		267	102	88	78	93	260	133	99	168	195	0	15	89	89	241	1917
Newly est. enterprises		22	154	53	23	7	18	49	11	6	31	52	32	21	24	16	519
	innovative (only with BIC)												21	14	15	8	58
Newly created /retained jobs		128	245	165	70	63	268	49	87	60	31	52	132	183	154	82	1769

RAIC Nitra together with NADSME implemented the project Promotion of RAICs Nitra at exhibitions through which a participation of selected entrepreneurs at LIGNUMEXPO'95 and INTERRÁCIO'95 exhibitions was supported.

BIC Prievidza participated in the solution of the projects aimed at assistance in restructuring four enterprises in the region, revitalisation of mining site and creation of new jobs for miners.

BIC Košice prepared the project Establishing a Business Incubator the main goal of which is a direct support to the new enterprises with innovative character, export orientation and utilisation of domestic resources and regional potential.

### **4.2.3. Information Functions**

In 1995, the NADSME's activity in this area was oriented on the development of bilateral relations with partner organisations, on the participation in the programmes with the partners from EU countries oriented on the support to the development of the business environment in Slovakia implemented through NADSME, and on the stabilisation of the position of the Corresponding EuroInfoCentre (EICC) in the structure of the information centres established by the DG XXIII Commission in Brussels.

The EICC in 1995 was spreading its activities in field of consultancy for domestic and foreign entrepreneurs along with execution of the proved activities of identification of cooperation partners for small and medium enterprises and organising Slovak participation at professional events abroad. The centre makes use of EU accessible databases (e. g. CELEX, CORDIS) which form the basic information structure on legislation and scientific and technical projects as well as the databases on Slovak business environment which gradually emerge from the centre's direct contacts with domestic subjects.

The number and structure of the reactions to requests of foreign partners is shown in the attached diagram. The absolute growth of demands in comparison with 1994 is 12.5 per cent.

### **Information activities for SME**

The information support and promotion of SME was ensured also by publishing the first two issues of the monthly PODNIKANIE in 1995 which was free of charge distributed to small and medium entrepreneurs mainly through the network of RAICs and BICs.

## **Cooperation contacts**

EICC has been working in the BRE system since 1994. The system links more than 470 coordination offices in 61 countries and enables an exchange of information leading to business cooperation by foreign firms with Slovak industry. The EICC publishes selected offers from foreign partners in the nation-wide press business sections and distributes them in the business information system to regional centres. In 1995, the EICC monitored 1,860 offers from abroad and sent 125 processed business profiles of Slovak companies for the central processing in Brussels. The centre also responded to 255 foreign demands concerning the selection of potential Slovak cooperation partners. EICC started also the negotiation of the implementation of further so-called BC-Net system.

## **Support of Slovak SMEs at domestic exhibitions**

In 1995, the National Agency for Development of Small and Medium Enterprises has for the first time made a financial contribution to support the participation of domestic exhibitors at the following exhibitions:

1. Interstone'95
2. Lignumexpo'95, SOSp'95 + Conex
3. Glasscer + Chemplast + Interráció'95

NADSME prepared the criteria for the provision on the financial support to cover a part of costs on participation of small and medium entrepreneurs in exhibitions. The purpose is help to small producers for whom a participation in such a specialised action is crucial for the development of their firm.

To participate in this programme, an organiser of an exhibition executes a contract with NADSME setting forth its plans for participation in the exhibition and confirms its agreement to adhere to rules established by NADSME. The total number of small Slovak companies supported by this programme up to date is 33.

## **Organising of participation in international business activities**

EICC, as a national coordinator, has been organising the participation of Slovak firms in business exchanges organised by European Union known as Europartenariat and Interprise for more than two years. (The survey of the development of the participation of the Slovak entrepreneurs in the individual Europartenariats is shown in the diagram 4.6.).



In 1995, the participation in the following events was organised:

1. Interprise Fair Gorizia, Italy, January 26 to 28, 1995
2. Europartenariat Nordrhein-Westfalen '95, Dortmund, March 20 to 21, 1995
3. Spring Trade Fair Celje, Slovenia, May 15 to 17, 1995
4. Europartenariat Portugal '95, Lisbon, November 24 to 25, 1995
5. Brussels Eureka 1995

Interprise in Gorizia covers the sectors of agriculture, textile industry, wood and furniture industry, civil engineering, tourism and information technologies.

The event was attended by 170 companies from Italy, Germany, Spain, France, Estonia, Scotland, Slovenia and Hungary. Slovakia was represented by 17 small and medium enterprises at Interprise.

The twelfth Europartenariat took place in Dortmund, Germany, in spring. Eighteen Slovak companies which attended the event had almost 200 business meetings with German enterprises and other meetings with the firms from other participating countries.

In May, we organised the Slovak participation in the international fair in Slovenian Celje. The Slovak exhibitors presented their products and services by promotional materials and small exhibits.

Europartenariat in Lisbon was a presentation of 406 enterprises from Portugal and their potential partners from 52 countries (EU countries, and countries receiving the assistance from PHARE and TACIS programmes). Slovakia was represented by 10 firms oriented mainly on mechanical engineering.

The 44th international fair of inventions and innovations Brussels Eureka 1995 occurred on November 8 to 15, specialised on presentation of brand new inventions, models, know-how, design and innovations. Through this presentation, the proprietor can find a potential manufacturer or an investor for the next research. The average yearly amount of contracts signed between the researchers and producers at this fair exceeds billion of Belgian francs.

NADSME accepted the offer of the Belgian partner to take part at the event as a member of Euro-Info-Centres network and presented inventions and innovations from Slovakia in its booth. It was a total of three companies which we presented together with the Office of Industrial Property of SR, and all of them were awarded in their categories.

For all of these events, the EICC prepared a publicity campaign to notify Slovak firms about the opportunities available to participate in these events.

## **Business Information System**

NADSME began the operation of a pilot business information system (BIS) in the RAIC Martin. The BIS software will help solve database problems at regional and at the national level. The database contains information concerning the entrepreneurs and their activities, demography and regions which are continuously updated. The BIS system and its software will be modified and upgraded as improvements occur. The communication system connecting the RAICs and BICs based on a BBS station has been established on a trial basis. The BBS is regularly updated with news from VANS and BRE systems and other sources of information. The main advantage of this form of communication is that it allows rapid exchange of information between participants in this programme.

### **4.2.4. Support to the restructuring of enterprises**

NADSME also supports a project which is concerned with the restructuring of large enterprises or in the cooperation of SME with large enterprises.

#### **Spin-off Project**

The Spin-off Project was implemented in 1995 in cooperation with the French National Agency for the Development of SME (ANCE). Its goal is the verification of a method used in more developed countries to provide a set of measures for the strategic management of enterprises and their post-privatisation restructuring resulting in the formation of new SMEs and retaining or creating jobs that otherwise would be lost. The spin-off method can be simply defined as

- a separation of small and medium enterprises from large state or privatised enterprises while the object of separation are non-strategic activities having direct or indirect links to the carrier operations of the enterprise
- a strategic human resources management, i.e. the solution of the employment problems: either acute unplanned overemployment, or planned and expected adaptations of an enterprise to a new situation, e.g. an excess of employees in connection with an implementation of new technologies.

The small and medium enterprises established in this way can partially cooperate with the "mother enterprise" and later they can find their own market segment with a possibility of further development.

More than 70 large enterprises were contacted within the pilot project in 1995 and 12 spin-off projects were identified. Based on their business plans 9 SMEs were established by separation.

Pursuant to the results reached and a supposed synergic effect of other support tools, the NADSME proposed the promulgation of the state support spin-off programme in cooperation with and through the Ministry of Economy of the SR.

## **The Subcontracting Exchange of Slovakia (SES)**

The crucial task of the Subcontracting Exchange of Slovakia (SES) is to make contacts with local manufacturers and involve them in the SES's activities which will result in the development of potential foreign partners. 100 industrial enterprises became members of SES between the January 1st and December 31st 1995. Both small and medium enterprises as well as large and important companies are represented in the SES. The utilisation of UNIDOSS know-how for the Exchange's growth as well as the nation-wide network of external experts allowed intensive contacts with member firms. The two-way flow of industrial information speeded up the search for the most appropriate international contractors. Employees of SES participated in important fairs and cooperation meetings where they learned about the needs of international contractors for the cooperation with Slovak partners and subcontractors (Europartenariat '95 in Dortmund, Cairo Fair '95, Hannover Messe '95, Kooperation Börse '95 in Graz, Midest '95 in Paris). The identification of individual demands and particular negotiations including the drawing documentation (Germany, France, Austria, Egypt) led to the identification of suitable partners and subcontractors in Slovakia for foreign contractors. The result was an improvement of the attractiveness of Slovakia as a subcontracting site for foreign firms where there was a positive ability of performance on the Slovak side. Mutual advantages on both sides and cooperation in the area of production was established. SES facilitated access to the industrial information from Slovak enterprises what contributed to an increase of exports by some participants.

One result of the active collaboration between NADSME and the Association of Cooperators of Slovak Mechanical Engineering Enterprises was the 1st International Cooperation Exchange which created the foundation for effective penetration of Slovak mechanical engineering into the markets of EU countries. This event, which took place in September 1995, was attended by 100 Slovak enterprises and 10 foreign firms who presented their demands directly to the Slovak firms at meetings agreed to in advance. Based on the personal meetings of representatives of the companies involved, production agreements were made with Siemens and Reilang.

SES members presented their subcontracting offers, industrial and technological information by multimedia in the greatest subcontracting fair MIDESEST '95. Three Slovak enterprises exhibiting the offered products took part in the common exposition of NADSME/SES with the assistance of French partners. The Slovak participation resulted in a flow of demands by foreign contractors which were analysed and the Slovak partners were gradually identified and addressed.

The priorities for the cooperation with home and foreign government institutions and professional unions were determined. The indicated intentions were being fulfilled on the basis of the the bilateral cooperation with France (ensured by the French expert group), Austria and FRG.

#### **4.2.5. Financial support products of the ME SR implemented by the NADSME**

The financial support programmes are designed to bring assistance to small and medium enterprises who have insufficient financial resources to start or expand business and to establish reasonable criteria to enable such SME to obtain State support. It is suggested that attention to be paid to using these supporting programmes to assist those industries which will have macroeconomic significance on the society. Examples of these types of industries include production, services and tourism. Educational and advisory services provided through these programmes encourage the entrepreneur to adapt to the demands of the market environment. In this fashion, the financial support programmes differ from common commercial activities of banks and financial institutions.

#### **Credit Support Programme (CSP)**

By its resolution Nr. 740 dated 19 July 1994, the Slovak government approved the implementation of the Credit Support Programme in the total amount of 600 million Slovak crowns. The programme envisioned additions to the fund over a period of 5 years resulting in a total revolving fund of Sk 3 billion. The funds for this credit support programme were generated by pooling three Sk 200-million contributions from each of three participants: (1) the Slovak Government, (2) the PHARE programme of EU (whose contributions are administered by the National Agency for the Development of Small and Medium Enterprises) and (3) three selected Slovak commercial banks: Slovak Savings Bank, j.s.c., Poľnobanka, j.s.c., and Tatrabanka, j.s.c.. The credit support programme is designed to help small and medium entrepreneurs with up to 500 employees whose line of business involves production, services, crafts and

tourism, and who intend to use local assets and environment. Within the programme it is possible to provide the loan in the amount of maximum 5 million Sk with the maturity of 5 years, while the interest rate is in the amount of the NBS discount rate + 2,5 %. The loan use is designated for the purchase of machines and equipment, purchase and reconstruction of premises and purchase of basic stock and raw necessary for the further processing, at a maximum of 50% of a loan provided. The programme was launched in October 1994 and by the end of 1994 credits totalling the amount of Sk 154.4 million were given. Other credits totalling the amount of Sk 430 million were provided in 1995.

The provision of the credit sources took in account regional aspects and thus the resources were deployed equally over the entire territory of Slovakia. In case of lack of business projects in several regions by the end of 1995 the disposable financial resources were used for funding suitable projects in other locations. The provision of the credits helped to create or retain 5,691 jobs.

Following the revolving character of the programme the second phase of the Credit Support Programme was launched by the end of 1995 when the state budget contributed with the sum of Sk 200 million and the same amount was added to the fund by European Union, PHARE Programme and Slovak commercial banks (Slovak Savings Bank, j. s. c., Poľnobanka, j. s. c., Tatrabanka, j. s. c., and Istrobanka, j. s. c.). By pooling the resources the fund for the provision of credits reached the sum of Sk 1.2 billion.

The review of the number and deployment of the qualified projects and of the granted credits is shown in the tables.

The review of the participation of individual banks in provision of credits by business sectors is shown in the diagrams No. 4.7., 4.8., 4.9.

### **Review of the recommended business plans qualifying for the CSP criteria by districts (the period of 1994 - 1995)**

District	No. of applics. as of 31/12/95	Amounts applied for as of 31/12/95
Bratislava	138	499 660 500
Banská Bystrica	19	69 170 000
Bardejov	7	21 535 000
Čadca	7	19 800 000
Dolný Kubín	11	25 850 000
Dunajská Streda	19	65 432 000
Galanta	21	77 650 000
Humenné	4	13 200 000

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Košice	50	166 240 000
Komárno	10	39 920 000
Lučenec	23	62 890 000
Liptovský Mikuláš	16	51 965 000
Levice	14	36 650 000
Michalovce	7	25 000 000
Martin	17	53 030 000
Nitra	27	94 550 000
Nové Zámky	22	55 050 000
Prievidza	11	41 170 000
Prešov	23	75 200 000
Poprad	35	96 200 000
Považská Bystrica	19	48 150 000
Rimavská Sobota	13	29 850 000
Rožňava	18	50 920 000
Senica	9	42 000 000
Svidník	1	5 000 000
Stará Ľubovňa	9	11 300 000
Spišská Nová Ves	49	122 000 000
Topoľčany	6	23 600 000
Trenčín	26	62 400 000
Tmava	32	112 270 000
Trebišov	14	26 850 000
Veľký Krtíš	4	13 200 000
Vranov nad Topľou	6	9 330 000
Žilina	19	58 000 000
Žiar nad Hronom	6	19 400 000
Zvolen	17	53 720 000
<b>Total</b>	<b>729</b>	<b>2 278 152 500</b>

**Review of credits given within the Credit Support Programme by regions  
(the period of 1994 - 1995)**

District	No. of loans as of 31/12/95	Amount of loans as of 31/12/95
Bratislava	22	79 870 693
Banská Bystrica	10	34 220 000
Bardejov	3	10 800 000
Čadca	3	5 000 000
Dolný Kubín	5	6 500 000
Dunajská Streda	9	26 750 000

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Galanta	8	27 800 000
Humenné	1	4 000 000
Košice	14	30 545 000
Komárno	2	3 000 000
Lučenec	11	28 000 000
Liptovský Mikuláš	7	17 200 000
Levice	1	600 000
Michalovce	1	5 000 000
Martin	9	25 879 500
Nitra	8	17 874 500
Nové Zámky	13	30 200 000
Prievidza	8	23 300 000
Prešov	9	20 318 500
Poprad	7	18 000 000
Považská Bystrica	6	16 600 000
Rimavská Sobota	5	5 000 000
Rožňava	8	14 920 000
Senica	2	5 000 000
Svidník	-	-
Stará Ľubovňa	5	4 980 000
Spišská Nová Ves	11	22 250 000
Topoľčany	2	5 000 000
Trenčín	6	9 640 000
Trnava	12	32 060 000
Trebišov	4	5 000 000
Veľký Krtíš	-	-
Vranov nad Topľou	3	3 145 000
Žilina	9	15 240 000
Žiar nad Hronom	3	5 400 000
Zvolen	9	30 020 000
<b>Total</b>	<b>236</b>	<b>589 113 190</b>

**Basic information on the Credit Support Programme**

Credit support programme	Poľnobanka	Slovak Sa- vings Bank	Tatra banka	<b>Total</b>
Number of loans	76	129	31	<b>236</b>
Total amount of loans (in Sk mill.)	227,980	246,883	112,11	<b>589,113</b>
Average loan amount (mill. Sk)	2,99	1,914	3,616	<b>2,496</b>

No. of "problem" credits (unpaid 2 payments of interest or 1 payment of capital)	5	8	0	13
Amount of the unpaid interests (in Sk mill.)	1,8	0,344	0	2,1
Amount of the capital unpaid back (in Sk mill.)	1,4	0,8	0	2,2

### Small Loan Scheme (SLS)

The Small Loan Scheme as a pilot project with the total of ECU 1 million proved the possibility of providing the credit lines to small entrepreneurs through "soft" loans (denominated in Slovak crowns). The programme was implemented through the Slovak Savings Bank, j. s. c.. Loans up to 800,000 Slovak crowns were extended to small entrepreneurs fulfilling the preconditions and criteria principally applied in the Credit Support Programme. The first loans were provided in April 1994 and the total amount of financial resources was exhausted by the end of August 1994. In 1995, the loans were being paid back and new loans were provided from the back payments. Thus 30 new loans were provided in 1995. The business activities are from the area of small-scale civil engineering, goods processing, wood production, services such as repair of sports equipment and cars, laundries and active tourism.

### Review of loans given to SME in 1995

	total as of 31/12/94	total as of 30/6/95	total as of 31/12/95
No. of applications	150	181	194
No. of qualified applications	59	75	89
Amount advanced	38 526 000	40 156 000	44 802 260
No. of problem loans	0	5	9
Amount of unpaid capital	0	616 696	1 011 949
Amount of unpaid interest	0	223 144	466 663,4

### Review of the loans provided through the Small Loan Scheme by districts (in the period of 1994 - 1995)

District	No. of loans as of 31/12/95	Amount advanced as of 31/12/95
Bratislava	13	5 360 959
Banská Bystrica	4	2 795 560
Bardejov	-	-



*National Agency for Development of Small and Medium Enterprises*

Čadca	2	1 600 000
Dolný Kubín	2	1 100 000
Dunajská Streda	2	800 000
Galanta	-	-
Humenné	-	-
Košice	1	500 000
Komárno	-	-
Lučenec	1	700 000
Liptov. Mikuláš	2	791 667
Levice	1	800 000
Michalovce	1	800 000
Martin	6	3 034 000
Nitra	3	1 060 000
Nové Zámky	4	3 200 000
Prievidza	2	950 000
Prešov	6	3 159 800
Poprad	3	1 799 553
Považs. Bystrica	3	1 600 000
Rimavská Sobota	4	2 500 000
Rožňava	3	1 952 800
Senica	-	-
Svidník	-	-
Stará Ľubovňa	-	-
Spišská Nová Ves	2	1 584 229
Topoľčany	2	1 600 000
Trenčín	10	2 404 908
Trnava	5	2 123 780
Trebišov	-	-
Veľký Krtíš	-	-
Vranov n/ Topľou	-	-
Žilina	4	800 000
Žiar nad Hronom	1	189 905,5
Zvolen	2	1 595 099
<b>Total</b>	<b>89</b>	<b>44 802 260</b>

**Number of jobs created through the Small Loan Scheme**

Bratislava	71
Western Slovakia	138
Central Slovakia	180
East Slovakia	104
<b>Total</b>	<b>493</b>

## **Guarantee Scheme**

The NADSME's guarantee programmes are implemented through the Slovak Guarantee Bank. The guarantee fund with the total amount of ECU 5 million was established with the contribution of ECU 3 million from PHARE funds and ECU 2 million denominated in Slovak crowns from the state budget. The guarantees for commercial credits to small and medium entrepreneurs can be provided from the aforementioned programme up to the maximum amount of Sk 10 million, while the enterprise must be in operation not shorter than 2 years, employ less than 100 persons and its business plan is aimed at the sphere of production, tourism, crafts, repairs and maintenance, or similar activities. The commercial loan maturity for which a guarantee is being required, shall be up to 5 years. The guarantee might cover maximum of 75 % of the demanded credit capital in 1995. The total of 93 guarantees were provided amounting the total volume of Sk 173.5 million. Detailed information on the programme is in the section 4.5.2.

## **Programme of Seed Capital**

The Seed Capital Company, Ltd., was established by NADSME. The company manages the Seed Capital Fund which was authorised to make equity investments up to Sk 5 million in small and medium enterprises in Slovakia especially to the following sectors: production, production services and active tourism. In the first half year of its operation the company was engaged in its organisational and registration phase. The intention was to allow the company to operate in compliance with its own statute so as to prevent conflict with the Act No. 248/1992 Coll. on Investment Companies and Investment Funds and the Act No. 21/1992 Coll. on Banks.

The company began its operation in accordance with the approved statute in October 1995. There were 3 sessions of the Investment committee in 1995 and 2 investments amounting Sk 2.5 and 4 million to mechanical engineering enterprises were approved.

## **4.3. NADSME as the Programme Management Unit for PHARE Programme for Small and Medium Enterprises**

In connexion with the entrusting the NADSME with the function of programme management unit of PHARE programme for small and medium busi-

ness the funds from the EU Commission were allocated through the so-called Financial Memoranda as follows:

Financial memorandum 1991	ECU 6,799,000
Financial memorandum 1993	ECU 6,550,000
Financial memorandum 1994	ECU 2,250,000

The funds are disbursed with the half year work programmes and the state as of December 31st 1995 was as follows:

<b>I. Policy and Development of SME</b>	<b>ECU 520,000</b>
Institutional support to other activities in the area of SME, support to the participation of SME in domestic and international exhibitions and contracting fairs, support to the regional studies on the business development	
<b>II. Education, Advisory and Information Services</b>	<b>ECU 3,155,000</b>
Project and institutional support to the network of RAICs, BICs and NADSME, trainings for the employees of the network and entrepreneurs, publicity campaign for SME, mediation of contacts and information.	
<b>III. Financial Support Programmes</b>	<b>ECU 10,350,000</b>
of which:	
- Guarantee Scheme	ECU 3,000,000
- Small Loan Scheme	ECU 1,000,000
- Credit Support Programmes	ECU 5,350,000
- Seed Capital Fund	ECU 1,000,000
<b>Total I. + II. + III.</b>	<b>ECU 14,023,000</b>

## **4.4. Bilateral Cooperation**

### **Cooperation with Germany**

The programme of the establishment of an independent institution for the support to middle class is implemented on the basis of the cooperation between RKW (Rationalisierungs-Kuratorium der deutschen Wirtschaft e. V.) and NADSME. In the first half of the year most of the planned seminars for starting-up and developing Slovak enterprises were organized. In the second half of the year the advisory services for enterprises and so-called advisory days were practised. The projects designed for the training of branch specialists for mechanical

engineering, civil engineering and repair of cars were also launched. A working seminar oriented on the textile and clothing industry sector was organised. In June, a week's strategic seminar was held in Germany with the aim of learning the support programmes of the province's government to small and medium entrepreneurs, function and activity of the support banks in the respective programmes, and functions and tasks of the unions of small business owners and RKW in the course of the implementation of the programmes.

NADSME acts as an intermediating organisation facilitating the participation of the Slovak party in the process of initiating and funding a project within the programme of the Ministry for Economical Cooperation of the FRG for the support to the development of the small business owners' communities and technology parks in Slovakia. Mapping of the regional structure of the Slovak Union of Small Business Owners with the aim to identify appropriate recipients for support was carried out in 1995. The Union's statute was amended, and 2 trainings for its officials and members were organised to establish the organisational structures of the Union and the arrangement for the certification of craftsmen and small entrepreneurs in accordance with ISO 9000. During a two week's stay in Germany, 36 participants studied the problems concerning the activity of the craftsmanship chambers and provisions for giving services to their members. Visit of exhibitions for the Guild of Joiners and the Guild of Stonedressers were displayed and business contacts established. Two employees of the Slovak Union of Small Business Owners and one short-time local expert are paid by the German party within the framework of the cooperation. The Union obtained support to their activities through the mass media (2 press conferences of the Union) and by doing an analysis of the needs of craftsmanship in the regions of Slovakia. Based on the results of this cooperation the goals and priorities are being prepared and established. The first phase of the project will continue until the end of 1997.

Within the cooperation with the Kreditanstalt für Wiederaufbau in Frankfurt, an expert was provided who trained NADSME's employees in the foundations of financial analysis and assisted in starting up the Seed Capital Company.

## **Cooperation with the Netherlands**

The Dutch model of planning and management used by IMK Agency (an analogy of NADSME) was presented to improve the management of NADSME, RAICs and BICs. NADSME recommended to implement an unified model of accounting software in the network of NADSME, RAICs and BICs as the first step of its possible application what will be especially important in the process of the switch of this network to the funding from the state budget. The project of the

Manager Information System and its basic modules (clients, projects, human resources) is gradually applied in NADSME. In the area of the direct cooperation between companies NADSME contacted about 120 Slovak enterprises with the aim of the facilitation the contacts with the Dutch firms whereof more than 30 showed interest in cooperation with a foreign partner.

The Dutch model business plan was translated and adapted to conditions in Slovakia and its programme version was prepared in the framework of this cooperation. This model will be used for the preparation of the business plans as part of the Credit Support Programme. Gradually it will be offered in other programmes managed by NADSME.

## **Cooperation with France**

The staff of Subcontracting Exchange of Slovakia (SES) working within the NADSME together with the members of the French team continued in the analysing of the demands of French firms for the industrial cooperation with Slovak partners. They searched for and identified suitable subcontractors and provide a complex assistance in the execution of contracts. These bilateral activities culminated in the SES's participation in the largest subcontracting fair MIDEST'95 in Paris.

The project of establishment of small and medium enterprises with the help of the spin-off method was implemented in cooperation with the French agency ANCE.

There is a considerable deal of international cooperation in the area of trainings for unemployed organised by CEPAC Slovakia described in the section 4.2.2.

## **Cooperation with the USA**

Based on the Agreement on technical assistance of USA to the business environment in Slovakia 15 members of the U.S. Peace Corps were deployed in Slovakia during 1995 and started to work in NADSME, selected RAICs and BICs, regional development agencies and two municipality offices.

Fifteen employees of NADSME, RAICs and BICs were trained within the two-phase Personal management course organised in cooperation with USAID. The training oriented on problems of recruiting, identification of demands for a particular job, implementations of techniques and experience in recruitment, etc.

A project of a programme for the provision of the microloans to small and medium was prepared in cooperation with the Peace Corps along with the consultation of its funding by the American party.

## **Cooperation with Japan**

The NADSME had intensive contacts with the Japanese organisations active in the support to small and medium enterprises in 1995. In the first half of the year, 2 experts of the Japanese Ministry of Foreign Affairs made a short-term visit to Slovakia to learn about the business situation in Slovakia necessary to allow them to make determination about how they potentially could be of further assistance to Slovakia. Their stay was organised by NADSME. On the basis of intergovernmental agreement three employees of NADSME attended the courses organised by the Japanese party through the Japan International Cooperation Agency (JICA). NADSME proposed three projects for further cooperation with the Japanese party focused on technology transfer and its development for Slovak SMEs through the Ministry of Foreign Affairs of the SR.

NADSME was visited by the representatives of the financial institutions and governmental institutes interested in the state and development of SME in Slovakia. They discussed the possibilities of the support to the development of SME, evaluated the hitherto assistance including the credit line of the EXIM Bank of Japan and consulted the preparation of a new credit line planned for 1996.

## **Preparation of the Cooperation with Other Countries**

NADSME has well developed working contacts with the partner institutions involved in the business development countries adjacent to Slovakia as well as in other countries. There are good contacts with partners in the Czech Republic, Poland, Hungary and Slovenia. The first working contacts were established with the institutions in the Baltic republics and in Ukraine in 1995.

The EICC responded to the first demands of the South Korean trade agencies as a result of contacts with the Agency for the Support of Foreign Investment of Seoul. This contact informed the Korean government about the existence and capacity of NADSME. Similar contacts were established with Technology Innovation Centre (TIPS) in Beijing which is interested in reciprocal exchange of cooperation offers.

## **4.5. Ministry of Finance of the SR**

In compliance with the authority, vested in the Ministry of Finance (MFSR) by the Act No. 347/1990 Coll. as later amended, the MFSR is responsible for the formation and implementation of the taxation regulations through the tax offices. Its support function in the relation to the development of SME is therefore very important within the framework of this authority. It is manifested mainly in the possibilities of granting certain tax reliefs or exemptions. These reliefs were mainly:

- income tax reliefs and exemptions pursuant to the Act No. 286/1992 Coll. as later amended,
- income tax exemptions pursuant to the Act No. 124/1993 Coll.,
- income tax exemptions pursuant to the Decree of the Slovak Government No. 145/1993 Coll.

Based on the information of the Ministry of Finance of the SR only an aggregate data concerning these exemptions are available and no analysis of these data is possible. According to the tax returns from 1993 and 1994 (the year 1995 has not been processed yet) 2,241 reliefs were granted in 1993 amounting Sk 1.2 billion and 22,373 in 1994 amounting Sk 2.5 billion.

However, as it is defined in the construction of the regulations concerning the reliefs they can be applied to all enterprises. It is therefore impossible to state that this is a specific tool for the support to SME. SME are only included in these data.

It is obvious from the aforementioned data the option to apply for the tax reliefs is used to a great deal and the volume of reliefs grows. However, it is not favourable for the development of SME if these reliefs cannot be granted during a long-term period (at least 8 to 10 years). Moreover the entrepreneurs who start their business at present cannot make use of two of three aforementioned reliefs (the Act No. 124/1993 Coll. and the Decree of the Slovak Government No. 145/1993 were abolished and the applicable reliefs concern only a limited group of entrepreneurs and a limited time span).

Based on the aforementioned it is obvious that it is necessary for the development of SME to consider the possibilities of granting certain tax reliefs or exemptions in the similar extent as it was possible pursuant to the aforementioned pieces of legislation along with the long-term possibility of their application.

The Slovak Guarantee Bank can be depended upon as another tool of financial and economic support to SME with support from the Ministry of Finance of the SR.

### **4.5.1. Slovak Guarantee Bank**

Slovak Guarantee Bank (SGB) launched its activities as a specialised bank institution for the support to the private business in 1991. Its task is developing and supporting the rise of private businesses, especially the category of small and medium enterprises, through the supporting mechanisms.

The Slovak Guarantee Bank has implemented 10 guarantee programmes in 1995 (from which 2 state development branch programmes) and 5 state development branch programmes in the form of the contribution for the partial cover of interests from the commercial loans.

### **4.5.2. State Development Programmes, Guarantees and Contributions Guarantee Programmes**

#### **Guarantees Programmes**

The basic principle of the overtaking of the guarantee for the provided credit rest on the distribution of a risk on the SGB, a funding commercial bank and an entrepreneur. The guarantee is possible to provide up to 75 % of the loan principal by the loans at maximum to 20 mil. Sk, or up to 85 % of the principal by the loans up to 250 mil. Sk, while carrying out projects within the privatisation or by the loans at maximum to 100 mil. Sk in other business targets.

In 1995, the Slovak Guarantee Bank implemented the guarantee programmes for SME (except the programmes from the sphere of agriculture) from the previous years:

- Programme of the support to SME,
- Programme of the support to large business and privatisation,
- Programme Phare (in co-operation with the NADSME),
- Programme of the support of the development of the compound transport in the SR,
- Programme of the support of the building and reconstruction of the small water power plants through the overtaking of guarantees,

and prepared 3 new ones:

- Programme of the support to SME through the overtaking of guarantees for the home financial leasing,
- Programme of the support to business through the overtaking of the counterguarantees for foreign credits,



- Programme of the support to SME through the overtaking of guarantees in the selected regions.

The following table shows the review of results achieved by the end of 1995.

**Review of the results of the guarantee programmes**

Name of the programme	Total as of 1/1/95	1/1/95- 31/12/95	Total as of 31/12/95
<b>Programme of the support to SME</b>			
- number of guarantees	1 135	324	1 459
- amount of guar. in '000 Sk	2 102 712	773 058	2 875 770
<b>Programme of support in areas of construction and reconstruction of small water plants through the assumption of guarantees</b>			
- number of guarantees	1	1	2
- amount of guar. in '000 Sk	11 475	9 800	21 275
<b>Programme of support to large enterprises and privatisation</b>			
- number of guarantees	32	22	54
- amount of guar. in '000 Sk	526 841	597 135	1 123 976
<b>Programme of support to the development of the combined transport</b>			
- number of guarantees	0	0	0
- amount of guar. in '000 Sk	0	0	0

**Review of the provided guarantees within the PHARE programme**  
(coordinated by the National Agency for Development of Small and Medium Enterprises)

	1/1/95 to 31/12/95	Total from launch
No. of applications	36	121
No. of given guarantees	35	97
Total amount of guarantees	70,5 mil.Sk	191,423 mil.Sk
Percentage of the guarantee of the capital of credit	65 %	64 %
Average guarantee per project	2,01 mil.Sk	2,050 mil.Sk

## State Development Programmes - Contributions

They are implemented through the SGB by provision of contributions covering a portion of the interests derived from the commercial credits in accordance with approved state development branch programmes in co-operation with the Ministry of Economy of the SR, Ministry of Transport, Post Offices and Telecommunications of the SR and Ministry of Agriculture of the SR. Contributions were carried out up to 70 % of interest costs and by this they assisted to reduce the interest encumbrance of the entrepreneurs doing business in those branches which are the most needed for the economic stability. The review of the implementation and the amount of the extended contributions is shown in the table.

Name of the programme	Total as of 1/1/95	1/1/95 to 31/12/95	Total as of 31/12/95
<b>Programme of support to tourism</b>			
- No. of applications	306	43	349
- No. of fin.contributions	167	33	200
- amount of fin.contributions	60 196 000	19 728 000	80 389 000
<b>Programme of support to industrial production on the basis of domestic raw-materials (contributions exhausted in 1994)</b>			
- No. of applications	26	0	26
- No. of fin.contributions	17	0	17
- amount of fin.contributions	87 515 000	0	87 515 000
<b>Programmes of support to business activities helping to reduce the energy consumption and import of raw materials</b>			
- No. of applications	87	15	102
- No. of fin.contributions	55	9	64
- amount of fin.contributions	114 545 000	49 880 000	164 425 000
<b>Programme of reductions in energy consumption in residential houses and apartments</b>			
- No. of applications	26	3	29
- No. of fin.contributions	23	3	26
- amount of fin.contributions	7 359 000	10 965 000	18 324 000

<b>Programme of support the the development of the combined transport in the SR</b>			
- No. of applications	0	0	0
- No. of fin.contributions	0	0	0
- amount of fin.contributions	0	0	0
<b>Programme of support to SME in the area of agriculture</b>			
- No. of applications	32	16	48
- No. of fin.contributions	21	11	32
- amount of fin.contributions	4 538 000	3 338 000	7 926 000

## 4.6. Ministry of Labour, Social Affairs and Family of the SR

The employment policy ensured by the Ministry applies several tools of economic and social policy through the district job offices. The source of funding of these tools is the Fund for Employment of the SR which resources are used for passive and active policy of employment. The endeavour for more effective use of the resources for the employment policy is proven by the growing share of the total resources used for the active policy of employment:

- as of December 31st 1994 52,4 %
- by the end of the first half of 1995 55,8 %
- as of December 31st 1995 63,5 %

Creation of socially purposable jobs is considered still the most important tool of the active policy of employment (Decree of the Ministry of Labour, Social Affairs and Family of the SR No. 210/1994 Coll.). The evidence of that is 71.1 % share of the resources for the active policy of employment used for this purpose.

The second most important tool of the active policy of employment is the organisation of the works for public welfare. Financial means used for this tool represented 20,8 % of the total amount of the resources for the active policy of employment in 1995.

The growing significance and share of these two most important tools for the active policy of employment is documented by the following data

**Coverage of the costs for socially purposable jobs (SPJ) and organisation of the works for public welfare (WPW)**

SPJ	1991	1992	1993	1994	1995
No. of created jobs	24 436	95 713	35 945	38 983	43 958
total contrib.'000 Sk	281 077	2 857 235	748 047	1 530 811	2 698 649

WPW	1991	1992	1993	1994	1995
No. of created jobs	1 875	41 964	13 331	16 084	21 210
total contrib.'000 Sk	10 759	402 903	163 932	169 256	788 993

The active policy of employment makes also use of other tools which directly or indirectly contribute to the development of SME. They are mainly the contributions for the requalification, contributions to the establishment and operation of protected workshops and positions, contributions to the support to employment of school-leavers and youth, contributions to enterprises for cut-off hours, consultancy and other. For these purposes 309,424,000 Sk were spent in 1994.

Respecting the needs of regional labour markets, labour offices evaluate projects of applicants for the financial support from the PALMIF Fund. In 1995, a new strategy for the criteria regulating the selection of pilot projects was prepared and approved. On this basis the group of experts from the Ministry (ATF) chose 2 pilot districts within the "from down" approach (Čadca and Galanta) and 2 pilot districts within the "from above" approach (Spišská Nová Ves and Rimavská Sobota).

In 1995, 12 pilot projects were contracted and implemented with the total amount of the subsidy of ECU 300,000.

## **4.7. Ministry of Transport, Post-offices and Telecommunications of the SR**

The Ministry of Transport, Post-offices and Telecommunications of the SR initiated the Programme of the support to the development of combined transport in 1995 which, however, was not launched. In the course of the year several business plans concerning the programme were prepared and there is an assumption that they will be implemented during 1996. One project successfully applied for the bank credit amounting Sk 31 mill. It is the company OZÓN Nové Zámky with the aim of building the terminal of the combined transport in Nové Zámky.



## **5. Bank Institutions and Funds in Support of SME**

### **5.1. Commercial Credits**

The credit development in 1995 was characterised by a high growth of the credits denominated in crowns whereof a great deal were the interests from the unpaid credits, by the deceleration of the growth of credits denominated in foreign exchange on the month-to-month basis, and by a considerable growth of the private sector's share on the total amount of the credits denominated in crowns. A significant share of the total growth of the credits denominated in crowns (89.3 %) was represented by the growth of the credits provided to the business sphere of non-financial institutions. The volume of credits for small and medium enterprises was low and stagnating in the course of the whole year, influenced also by the demand of high guarantee coverage by the commercial banks. The structure of the total of credits was characterised by an uneven development of the share of short-term credits, a stable share of medium-term credits and the decline of the share of long-term credits. The relatively high share of long-term credits was influenced by their starting-point where the credits from the past dominated.

55.3 % of the total volume of the provided credits in 1995 were directed to the private business sector. Short-term credits constituted 71 to 90 % of the total amount of the aforementioned percentage which could not be a considerable support to the development programmes of the sectors and were used mainly for the coverage of operational costs of enterprises.

The interest rate in 1995 was marked by the favourable macroeconomic situation of the SR, especially by the reduction of inflation and consequently by gradual decline of the discount rate in March and October. This decline indirectly influenced the level of the rates of interest from credits and savings. The significant decline of the average rate of interest from the provided credits by 5.5 points from 19.59 % to 14.04 % in the course of the year was influenced by decline of the discount rate of the NBS and an abundance of disponible short-term resources. The interest rate on short-term credits declined from 19.77 % in January to 13.68 % in December. The lack of resources and backlog of demands over supply caused the average rate to decline to 16.17 %. According to the preliminary survey made by NADSME in the commercial banks 1 to 50 % of credits were provided to small and medium enterprises where the banks keep these clients under review. The

average rate of interest on such credits ranged from 16 to 18 % with an average pay-back period of 30 to 37 months. The number of problem credits provided to small and medium entrepreneurs differs and depends on the implementation of the cautiousness principle in the process of the provision of clients and spans from 0.1 to 15 % of the total amount of the problem credits.

Despite the generally improving situation in the area of credits, the previous facts present the need for the creation of sufficient financial support programmes which will facilitate the access of the small and medium enterprises to the required financial resources, especially long-term credits.

## **5.2. Supporting Funds and Capital Assistance**

### **5.2.1. Slovak-American Enterprise Fund (SAEF)**

The mission of the fund is to help the development of small and medium enterprises in Slovakia. This programme has a two sided investment programme including both a capital investment as well as a credit programme for qualifying projects requiring from Sk 10 million to Sk 50 million. Prior to 1995, 30 projects were approved amounting the total investment of USD 22 million. These funds helped to create or retain about 2 000 jobs. In 1995, 3 projects were approved amounting the total investments of USD 2.52 million.

Another tool of the fund's assistance is the provision of credits through the American Credit Program. This programme provides credits spanning from Sk 600,000 to Sk 7.5 million in cooperation with Poľnobanka. Under this scheme 26 projects were approved amounting the total investment of Sk 85 million which helped to create or retain 470 jobs. In 1995, 6 projects were approved amounting the total investment of Sk 29.5 million.

### **5.2.2. Považský and Kysucký Enterprise Fund**

The PKEF was founded in 1994 upon the PHARE funding and is designed to help the development of the Upper Považie and Kysuce regions. The method of assistance to small and medium enterprises should be the capital investment. The PKEF received totally 188 applications for funding whereof 133 were cancelled after the entrepreneurs lost their interest in funding having learned the preconditions for the investment. In 1995, the Fund made 3 capital investments amounting Sk 32 million. The investments were directed to the timber produc-

tion and processing and in the production of sports garments. The investments succeeded in creating or retaining of 228 jobs.

### **5.2.3. Young Families Support Fund**

The Young Families Support Fund is a foundation established in 1994 by the International Centre for the Family Studies with an effective support of the Slovak Government which provided 3 million Sk from the Prime Minister's reserve fund.

The purpose of the fund is finding of principles and consequent measures to solve the problems of young families, to remove an unsound dependance of a young family on the state and parents, and establishment of foundations of such a form of concrete aid which would stimulate an active approach of young people to overcome the initial obstacles when settling down their families.

The fund provides returnable loans amounting maximum of Sk 200,000 for:

- a/ the development of small family business of young families,
- b/ the development of lacking services for young families,
- c/ projects for the solution of temporary social family accomodation.

The majority of applications concerned putting into operation small shops, the reconstruction of flats, family houses or a purchase of lots for future business. As of December 31st 1995, the loans were given to 21 projects.

## **5.3. International credit lines**

**The European Investment Bank** and the National Bank of Slovakia signed an agreement through which ECU 28 million were allocated to finance small and medium projects with a credit limit spanning from ECU 40,000 to ECU 20 million. The credit is provided to cover up to 50 per cent of the investment costs. The remaining 50 per cent will need to be invested from the resources of the entrepreneur investor or by credits from other financial institutions. The credit currency is ECU and the credit is extended in a currency denomination designated by the borrower who bears the exchange rate risk.

Credits from the **EXIM Bank of Japan** amounting USD 42 million is designed to finance development projects including modernization, renovation and reconstruction to increase productivity and efficiency. The loans are



designed to cover a maximum of 70 % of investment costs with the balance financed by the entrepreneur from other resources including also the credit support programme. This credit is denominated in Slovak crowns; none of the loans can exceed the equivalent of USD 5 million.

Všeobecná úverová banka (VÚB) as the bearer of the line set up an advisory commission of the representatives of Entrepreneurs' Association of Slovakia, Slovak Guarantee Bank, Ministry of Economy of the SR, Ministry of Finance of the SR and National Agency for the Development of Small and Medium Enterprises for the purpose of looking for suitable projects for the utilisation of this credit, their reviewing and recommendation.

Based on the data provided from the VÚB to NADSME, 127 applications were approved out of a total of 268 initial applications as of December 31st 1995. The total amount of the projects was Sk 1,721,144,977. The volume of extended credits was Sk 915,000,631.

**Amount of loans per individual sectors:**

- machinery production	Sk 64,548,500
- food processing	Sk 177,235,681
- chemical industry	Sk 66,000,000
- services	Sk 209,413,000
- tourism	Sk 4,900,000

**Legal form of enterprises to which the loans were extended:**

- joint stock companies	17
- companies with the limited liability	54
- partnerships	1
- sole proprietors	27
- other forms	28

These enterprises were employing 16,793 before the extension of the loans and the creation of 1,275 new jobs is foreseen.

Československá obchodná banka, j. s. c., signed a framework contract with the National Bank of Slovakia for the implementation of the credit contract between the NBS and EXIM Bank of Japan on November 2nd 1994. The bank received 7 applications and the amount of the demanded funding was Sk 78,850,000. Four projects were approved in a total loan amount of 156,382,000 Sk. 49,800,000 Sk were disbursed to business enterprises in the sectors of machinery production, services and chemical production. The successful appli-

cants included 2 joint stock companies and 2 companies with limited liability who employed 65 people before the credit extension with a plan to employ an additional 81 new jobs as a result of the credit extension.

Tatrabanka received 7 application for the provision of a credit with the total amount of demanded funding of 112,100,000 Sk in 1995. Four credits were granted covering the amount of 19,500,000 Sk to joint stock companies and companies with limited liability. Under the credit line of the European Investment Bank 2 applications were filed and the amount of disbursed resources is 323,132,650 Sk.

According to the NBS data, the volume of the approved projects for the funding from EIB reached ECU 22.05 million, i. e. 80 % of the credit resources as of December 31st 1995. The volume of the approved projects for the funding from EXIM Bank of Japan reached Sk 1,347,034,681 i. e. disbursement of 99.41 % of the credit resources.

#### EXIM Credit line

	No. of applications	No. of approved applics.	Total sum approved (in Sk)	Amount disbursed (in Sk)
VÚB	268	127	1 721 144 977	915 000 631
ČSOB	7	4	156 382 000	49 800 000
Tatra banka	7	7	58 600 000	19 500 000
Pol'nobanka	67	45	594 200 000	362 734 050
<b>Total</b>	<b>349</b>	<b>180</b>	<b>2 530 326 977</b>	<b>1 347 034 681</b>

#### EIB Credit line

	Amount disbursed (in Sk)
VÚB	492 717 380
Tatra banka	323 132 650
<b>Total</b>	<b>815 850 030</b>



## **6. Proposed Measures for Further Development of SME**

Majority of the developed countries in the world implement various forms of the state policies in support to small and medium enterprises. These policies, however, do not have an impact on the market mechanism of the economy. The influence of state authorities is represented mainly as an element of coordination, stabilization and development either in large-scale measures or as a tool of other parts of the economic policy. Such state influence should be represented in the formation of the business environment, including the support programmes, which will enable the development of small and medium enterprises.

### **6.1. Proposal of the state medium-term policy for SME**

The participation and role of the state is motivated by several circumstances.

The experience from the developed countries with market economy unambiguously confirms the development of small and medium enterprises. They represent more than 90 % enterprises, have 45 to 75 % share on the employment and produce 40 to 60 % of the gross domestic product.

Besides these basic examples the following advantages support the existence of small and medium enterprises:

- creation of jobs with relatively low capital inputs,
- capability of absorption of a considerable number of unemployed - creation of new jobs
- better adaptation to the needs of the space economy
- better possibilities of a utilisation of technological changes, results of innovative processes and research, and technology transfer
- faster adaptability to the market's demands
- faster information transfer between management and staff
- lower cost of production
- better utilisation of services in large enterprises.

The basic prerequisite for the development of SME is the existence of a suitable business environment. The suitable business environment stimulates business activities, and forms favourable conditions for business decision-making in the sense of positive as well as negative risks. The business environment is formed by legislation, taxation, credit and customs policy as well as access to the financial services, forex regulation, educational and qualification adaptability of management and labour force, information systems and a system of supporting programmes.

It is necessary to co-ordinate the developing SME sector with the sector of large enterprises and the other sectors of economy so that they lead to a common effort resulting in the overall development of the economy of Slovakia. This result can be reached through the formation of a sound political framework, with significant institutional support, some development programmes for SME and suitable forms of state stimulation.

The implementation of the state medium-term policy of the support to SME itself will never be realised only by the state's central authorities. The cooperation of regional authorities, association of entrepreneurs, educational institutions, representatives of research and science, banks and also trade unions is necessary. Only such a cooperation can ensure the rapid and efficient exchange of information and the possibility of finding the consensus in favour of formation of suitable business environment.

The main goal of the policy for the support to SME is ensuring the growth of the SME sector through removing the barriers to its development and proposing of such measures which will contribute to the fulfilment of the partial missions of small and medium enterprises such as creation of new jobs, growth and improvement of economy in the individual regions and development of necessary branches of production and services.

Other missions which ensured the policy of the support to SME are the maximum implementation of the Act No. 100/1995 Coll. on the State Support to Small and Medium Enterprises. This act monitors, reviews and updates educational, information and the financial programmes of SME. Support to the institutions involved in the educational and support activities for SME, takes into account the needs of SME within the process of privatisation through the suitable restructuring of the privatised enterprises. Banks in the regions direct credit policy so that it becomes an efficient tool to aid the development of SME.

The mission of this policy, along with emphasizing SME as a multisectoral segment of economy, is to define the SME target groups in the area of SME,

determine the measures required for the development of SME including the support tools, and the overall relationship of that policy to the state's economic policy as a whole. The results of this effort should be a proposal of measures and programmes for the support to SME for the 5-year period including the identification and quantification of resources for its implementation.

The contributions of the policy must correspond with the expended state's funds as well as with the resources provided within the framework of the multi-lateral and bilateral assistance.

## **6.2. Proposed Measures for 1996 - 1997**

### **6.2.1. Measures concerning Legislation and Regulations**

As mentioned in the previous section and in the section 2. 2. 1. it is necessary to form the business environment with suitable measures of legislation and regulations. In this connexion, it is necessary to review the objectivity of the entrepreneurs' demands and if they are well-founded it is necessary to pass amendments especially to:

- **the Act No. 273/1994 Coll. on Health Insurance, Health Insurance Funding and on the Establishment of the General Health Insurance and the Establishment of Departmental, Branch, Enterprise and Civil Insurance Companies and the Act No. 274/94 on Social Insurance** which should be adapted to the macroeconomic achievements with the simultaneous implementation of classical insurance instead of the secondary taxation and thus ensure lower financial encumbrance of entrepreneurs.

In this connexion the amendments to the acts are proposed including the solutions of basic insurance which should be a real insurance, not an additional income tax, additional insurance schemes, derivation of the base for payments from the incomes earned in the real time, connexion of the category of the the minimum wage with the health insurance and pension insurance especially with the persons with incomes resulting from own economic activity (8-multiple of the minimum wage).

The prepared act on the social insurance which should be valid from 1 January 1997 and enter into force from 1 January 1998, deals with some proposals mentioned above, and it is necessary to analyse the sugges-

tions from the entrepreneurial sphere in its preparation. Also while solving the question of additional insurance, where there is a concept of additional pension insurance under preparation, it is necessary to take into consideration the views of the entrepreneurial sphere.

- **Act No. 511/1992 Coll. on the Administration of Taxes and Duties and on Changes in the System of Territorial Financial Authorities** in order to remove inaccuracy and inflexibility,
- **Act No. 289/1995 Coll. on the Value Added Tax** in order logical classification of some services to the category of 6 % VAT,
- **prepared act on taxes from incomes** to be adjusted on the basis of impartial evaluation of comments,
- to pass amendments to **the Act No. 18/1996 Coll. on Prices** in the sense of the motivation of innovative businesses and removal of excessive administration especially in the case of small entrepreneurs or sole proprietors,
- to take in account the demands concerning the completion and improvement of **the Act No. 455/1991 Coll. on the Business Activities** because they deserve an individual approach due to their significance and extent on the creation of jobs, regional development, provision of services and possibilities of apprentice schools.

Current legislation covers in principle the business activities of sole proprietors. However, many problems occur the solution of which will contribute to its development and keeping a steady place in the sphere of SME. Based on the opinion of sole proprietors the main problems are:

- legislation and organizational solution of the problem of the chamber of small business owners,
- the solution of the small business owners' insurance, bank and guarantee cooperatives,
- the initiation of the restitution of the property of sole proprietors' associations and communities or reviewing of the possibility of use of the current houses for technology for the purpose of so-called sole proprietors' houses,
- proposal of the modification of the system of the apprentice schools in cooperation with the Ministry of Education of the SR, Ministry of Labour, Social Affairs and Family of the SR and Ministry of Economy

of the SR so that it suits also to the needs of education of qualified labour force for SME,

- use of bilateral and PHARE programmes to ensure the apprentice training in small enterprises with modern technologies abroad and supply of such technologies to apprentice centres (programme of "model workshops"),
- proposal and implementation of the system of motivation of SME to the education of apprentices,
- specification of financial support programmes for sole proprietors,
- transition of the authority of Ministry of Interior of the SR concerning the registration of businesses to the Ministry of Economy of the SR.

Except this the NADSME proposes:

- to prepare **the legislative framework of the venture capital operation,**
- to adopt **the changes in legislation** (Act of the National Council of the SR No. 189/1994 Coll.), the proposal of which comes from **the Spin-off programme application,**
- in connection with the preparation of **new definition of small and medium enterprises in the European Union and its recommendations,** it will be necessary to amend the Act No. 100/1995 Coll on the **State Support of Small and Medium Enterprises.** Criteria of the prepared SME definition concern the number of employees, turnover, assets and independence, where for example the maximum share of larger company can be 25%.

## **6.2.2. Institutionally Ensuring the State's Support Functions**

The National Agency for Development of Small and Medium Enterprises as one of the most important and internationally accepted institutions of the support to SME in the Slovak Republic ensures important services for the development of SME along with the network of RAICs and BICs and other organizations. To ensure the activities and operation of NADSME in 1996 there will be financial means designated from the state budget through the chapter of Ministry of Economy of the SR

It is proposed to fund the RAIC/BIC network, whose significance and activities in favour of the development of SME are documented in the previous sections of the report, through the Programme of education and training for SME and Programme of enlargement of advisory services for SME. The aforementioned



tioned programmes were adopted by the government's resolution No. 72 dated 1 February 1995 and their funding by the government's resolution No. 298 dated 30 April 1996. The continuation of the aforementioned programmes is proposed also in 1997 including the funding of the activities of RAICs and BICs.

### **6.2.3. Programmes of Support to SME**

The programmes of support to SME of which implementation is proposed in the future are both the continuing programmes which should be reviewed, and the programmes funded by the state budget and other sources and their implementation for the next period must be prepared.

Another group consists of new programmes which will be proposed by sector ministries.

#### **6.2.3.1. Programmes with proposed implementation in 1996 and/or 1997**

**Credit Support Programme** which implementation was launched by NADSME in 1994. This is designed for small and medium enterprise active in the area of production, crafts, services and active tourism. The continuation of the programme in 1998 is proposed based on the resources of the state budget for 1997.

**Small Loan Scheme** for provision of credits up to 800,000 Sk to small entrepreneurs. The implementation of this scheme funded by PHARE Programme is ensured from the back-payments of the existing loans.

Both credit programmes are funded by PHARE Programme. The Credit Support Programme makes use also of domestic assets, participation of the state budget and involved commercial banks. The programmes have the character of assistance based on lower rate of interest and enables an access to the credits through lower guarantees.

The sector ministries implement the following programmes of support to SME:

**Programme of support to tourism (MESR)**

**Programmes of support to business activities helping to reduce the energy consumption and import of raw materials (MESR)**

**Programme of reductions in energy consumption in residential houses and appartments (MESR)**

**Programme of support the the development of the combined transport in the SR (MTPOT)**

**Programme of support to SME in the area of agriculture (MASR)**

Guarantee programmes of the Slovak Guarantee Bank and the programmes implemented through the SGB

**Programme of the support to SME (SGB)**

**Programme of support in areas of construction and reconstruction of small water plants (MESR)**

**Programme of support the the development of the combined transport in the SR (MTPOT)**

**Programme of the support to SME through the assumption of guarantees for the home financial leasing (SGB)**

**Programme of the support to business through the assumption of the counterguarantees for foreign credits (SGB)**

**Programme of the support to SME through the assumption of guarantees in the selected regions (SGB)**

It is proposed that the involved ministries and SGB after reviewing the programmes consider their continuation and discuss their funding in 1997.

Within the coordinating function, the Ministry of Economy and NADSME prepared proposals of 14 support programmes in cooperation with MTPOT SR and Ministry of Housing and Public Works whereof the Government of SR approved 8 following programmes in 1996:

**Programme of Support to Industrial Production on the Basis of Domestic Raw Materials (ME SR)**

The goal of the programme is the creation of advantageous conditions for the rise, development, modernization and revitalization of the industrial production with the regard to the fact that the protection of their utilisation is one of the significant duties of the state and each of its citizens. The support rest on the provision of unreturnable financial contribution up to the amount of 70 % of basic interest on the commercial credit provided for the realization of a business plan. The refundment of interest is limited by the amount of 5 million Sk.

**Programme of Development of Crafts aimed at the Provision of Services to Population (ME SR)**

The goal of the programme is to support small enterprises defined in the Act No. 455/1991 Coll. on the Business Activities. It concerns mainly the completion of the network of basic services which were cancelled under the influence

of the process of transformation (privatisation) and are essential for the population in towns and villages.

The support rests on provision of an unreturnable financial contribution up to 80 % of basic interest on the commercial credit provided for the realization of a business plan. The refundment of interest is limited by the amount of 500,000 Sk.

### **Programme of Seed Capital (ME SR, NADSME)**

The goal of the programme is to help small and medium enterprises in overcoming the lack of the initial capital vital in the period of starting or extending business. The mission of the seed capital is investment of financial resources in proposed projects and after achievement of their financial independence the resources are shifted to the projects of other entrepreneurs. This activity is linked with economic consultancy for small and medium entrepreneurs covering accountancy, taxation, investment, trade, etc.

The support is provided in the form of:

- a/ equity investment - i. e. the inputs in the enterprise's own property thereby the Seed Capital Company becomes an associate in a company with the limited liability or a shareholder in a joint stock company for a limited period of 1 to 5 years,
- b/ combination of equity participation and an additional and convertible credit,
- c/ direct financial support linked with economic consultancy and identification of business partners, etc.

The amount of the financial investment is limited by the spanning from Sk 200,000 to 5 million for an individual case and can be extended either as a single investment or in tranches.

### **Programme of education and trainings for SME (ME SR, NADSME)**

The programme will be oriented on current problems of new and existing small and medium enterprises in the areas of management, marketing, preparation of a business plans, regional mapping of the business conditions and problems of law, finances and taxation.

The support rests on the financial participation of the state budget. The amount of the support is differentiated by the type of training activity.

### **Support Programme for the Implementation of the Spin-off Method (ME SR, MLSAF SR, NADSME)**

The spin-off method is described as establishment of small and medium enterprises by separation of non-strategic activities from large state and privatised enterprises as well as a technique of management of employment or internal organisational and economic relations.

The purpose of the programme is formation of the conditions for the implementation of the spin-off method as an important element for strategic management of enterprises and a significant factor of the development of small and medium enterprises.

### **Housing Programme (MHPW SR)**

The goal of the programme is support small and medium enterprises in housing as it results from the Act No. 455/1991 Coll. on Business Activities as later amended.

The support rests on the provision of unreturnable financial contribution up to the amount of 75 % of basic interest on the credit provided by a commercial bank for the specific business plan. The refundment of interest is limited by the amount of 1 million Sk.

### **Programme of Housing Seasonability (MHPW SR)**

The purpose of the support is to ease the housing activity for small and medium enterprises in the winter period between December 1st and the end of February when there is the decline of the demand for housing works and their realisation is more costly and limited by the climate conditions. The support rests on the provision of unreturnable financial contribution to refund the single payment of the amount of a guarantee.

### **Programme of Enlargement of Advisory Services for SME (ME SR, NADSME)**

The basic intention of the programme is the provision of complex information and advisory services and their availability on the entire territory of Slovakia.

The administrator will ensure the following types of the support to SME within the programme:

1. Basic advisory and information services
2. Support to the projects for regional development

### 3. Completion of the RAIC/BIC network - branch offices in the regions not covered by the RAIC/BIC network

The **basic advisory and information services** will be funded by the form of "a contract for services" which will be provided to small and medium enterprises free of charge or at favourable prices.

The programmes will be implemented in 1996 on the basis of the the resolution of the Government of SR No. 72 dated February 1st 1996 whereby the involved sectors were bound to ensure the implementation of these programmes, and of the government resolution No. 298 dated April 30th 1996 whereby the funding of the aforementioned programmes is ensured.

It is suggested that the involved ministries after reviewing the programmes consider their continuation and discuss their funding in 1997. The Ministry of Economy of the SR fills this task.

### **6.2.3.2. New Programmes for 1996 - 1997**

NADSME is preparing further programmes for 1996 which will improve the scope of services for SME. The programmes are as follows:

#### **1. Microloan Scheme Programme**

##### **Purpose of the programme:**

Provision of microloans up to the amount of Sk 300,000 to small enterprises in the form of credit programme with a favourable rate of interest and lower guarantees than usual in standard banking practice. The programme will help the starting small enterprises in retaining created jobs.

The programme will be used as a tool of active policy of the regional development in the selected regions of Slovakia. The funding will be covered by the resources of PHARE Programme allocated for this purpose, resources of the state budget and local resources.

The decision about the provision of microloans will be made by local authorities.

##### **The prerequisites for provision of a microloan:**

The microloan will provided on the basis of an application and a business plan submitted to NADSME or closest RAIC/BIC.

The following prerequisites are necessary for the provision of the loan:

- small entrepreneur employing up 10 people or sole proprietor,
- holder of the business license or a concession,

- its activity involves crafts providing the services to population,
- the entrepreneur is active up to 2 years,
- business is conducted in the territory of Slovakia
- the applicant is a citizen of the Slovak Republic
- the applicant must pass through the basic training organised by NADSME or the RAIC/BIC network.

Based on the submitted documents the credit board will evaluate the eligibility of an applicant and economic efficiency of the business plan and make the decision on the provision of the microloan.

**Recipient of the support:**

Small entrepreneur employing up to 10 people.

**Promulgator of the programme:**

ME SR

**Administrator of the programme:**

NADSME

**Financial demands on the state budget:** 40 million Sk

## **2. Bank Windows Programme**

The mission of the programme of NADSME is improvement of the access of small and medium enterprises to the sources of credits. Well designed training and education for credit staff of banks can persuade them that funding of SME can have a favourable return with a limited risk. The programme will be oriented on the banks implementing the Credit Support Programme and concentrating on the SME sector along. They must also have proved their willingness to participate in the creation of credit lines from their own resources. The programme will concentrate on the analysis of the problems obstructing the acquisition of bank credit resources, streamlining of the procedures and creation of appropriate working methods for the provision of credits to small and medium enterprises.

The professionalism of the programme of the technical assistance will be ensured by the transfer of expertise of practitioners for credit line for small and medium enterprises in the Western Europe. The programme will be funded by the PHARE resources and implemented in the selected banks. It will not be promulgated in accordance with the Act No. 100/1995 on the State Support to Small and Medium Enterprises.

### **3. BC-NET Cooperation System**

#### **Purpose of the programme:**

Implementation of the system of formation of business cooperation (Business Co-operation Network) known as BC-NET which is a complex tool for the enforcement of interenterprise cooperation between the EU countries and other partner states. The system enables:

- speeding-up of identification of perspective partners for cooperation,
- broadening of the scope of the perspective international partners for Slovak enterprises,
- broadening of the offers of services for Slovak enterprises,
- improvement of services,
- broadening of the complementary activities to already implemented activities,
- formation of prerequisites for the development of commercial activities.

NADSME will be functioning as a National Contact Point (NCP) within the BC-NET. The NCP is a country's representative towards the EU Commission and builds a network of local consultants. The consultants will concentrate on the active work with Slovak enterprises and processing of their offers for cooperation. The offer of services includes:

- support to the creation of partner relations,
- visit to companies,
- active identification of partners,
- evaluation of potential partners,
- selection of suitable partners,
- preparation of business plans,
- negotiation of contracts,
- marketing consultancy,
- public procurement consultancy,
- scientific and technological consultancy,
- legal, financial and economical consultancy,
- human resources consultancy.

#### **Prerequisites for the provision of the support:**

This support is designed for all small and medium enterprises in accordance with the Act on the State Support to Small and Medium Enterprises.

**Recipient of the support:**

Any enterprises having a contract on utilisation of the system with a local consultant of NCP network.

**Promulgator of the programme:**

ME SR

**Administrator of the programme:**

NADSME

**Financial demands on the state budget:**

None

#### **4. Programme of the Development of Information Services for SME**

NADSME launched building of a complex information system for entrepreneurs in the form of business information system (BIS) beyond the services provided by the EICC in 1995. This system is aimed at the provision of information on business environment on the regional and national level.

**Purpose of the programme:**

Filing of the system with up-to-date pieces of information, formation of an effective method of organisation of the data collection by regional centres. Updating and completion of the database of entrepreneurs and an efficient interconnection of individual members of the information network. The active BIS communication system was built to interconnect the NADSME and regional RAICs and BICs for this purpose. This interconnection is a basis of the system accessible for business public. Based on the implementation of the introductory phases of building of the business information system it is necessary to broaden its user oriented assets aimed at

- monitoring of Slovak enterprise and their filing in the BIS,
- data update,
- 
- establishment of a WWW server for a presentation of Slovak enterprises
- expertise oriented on the analysis of the business environment in the regions with the use of mapinfo and video.

**Prerequisites for the provision of the support:**

All enterprises in accordance with the Act on the State Support to Small and Medium Enterprises.



**Recipient of the support:**

RAIC and BIC network on the primary level, NADSME on the secondary level.

**Promulgator of the programme:**

ME SR

**Administrator of the programme:**

NADSME

**Financial demands on the state budget: 2 million Sk**

Hardware and software, communication tools and the costs covering the creation of the database on the regional level represent 4 million Sk per year. It is assumed that a part of costs will be covered by the PHARE Programme resources.

## **5. State Sectoral Programmes of Support**

**Pursuant to the Act No. 100/1995 Coll. on the State Support to Small and Medium Enterprises** the ministries and other central authorities adopt the measures to support the small and medium enterprises and provide funding within the approved programmes of support.

**Purpose of the programme:**

Formation of favourable conditions for the development of business in selected sectors defined in the proposed Industrial Policy of the Slovak Republic and other materials concerning the concepts of sectoral development. The programmes of support to such economic activities are aimed at stimulation of establishment and development of business intentions contributing to the development of economy through the utilisation of skilled labour force, domestic raw materials and other assets and inputs of energy, efficient production and services competing with world and having arguable sales.

**Forms of support:**

The programmes are aimed at ensuring of guarantees up to the amount of 75 % for credits provided for selected efficient projects having no guarantees from an entrepreneur. Another form of the support can be the provision of an unreturnable contribution to refund a part or a total amount of full interests on the bank credits. A combination of the two manners of support is possible.

**Prerequisites for the provision and the recipient of the support:**

The programmes are implemented through the projects proposed by entrepreneurs. The projects are put in programmes on basis of selection with no legal

entitlement to the support.

The support is provided on the basis of application and business plan submitted to the promulgator of the programmes.

The criteria and prerequisites for the provision of the support will be determined by individual ministries.

It is recommended that the involved ministries propose the promulgation of the state sectoral programmes and discuss their funding for 1997.

In connexion with the need of the development of the production of medical aids and privatisation of the health service and with the regard to the state budget it is recommended to implement **the programmes for the support to small and medium enterprises in the medical sector** pursuant to the proposal of the Ministry of Health of the SR:

- manufacture of the medical aids and special devices
- provision of the health care in the contractual medical facility on the basis of the "Permission pursuant to the Act No. 277/1994 Coll. on the Health Care regarding:
  - primary health care,
  - secondary health care (special, casual)
  - home nursing care.



# Diagrams

Diagram No. 2.1: Development of GDP in 1990 to 1995

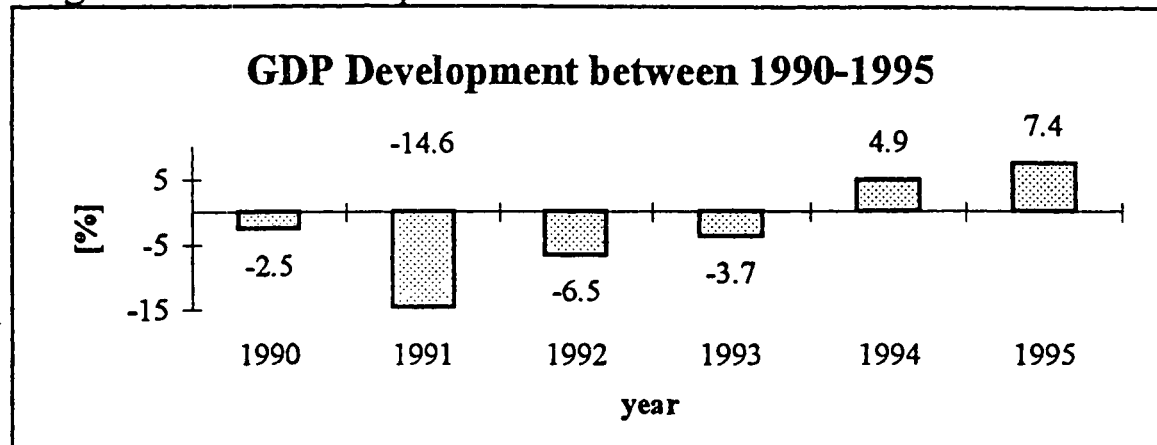


Diagram No. 2.2: Development of the trade balance in 1993 to 1995

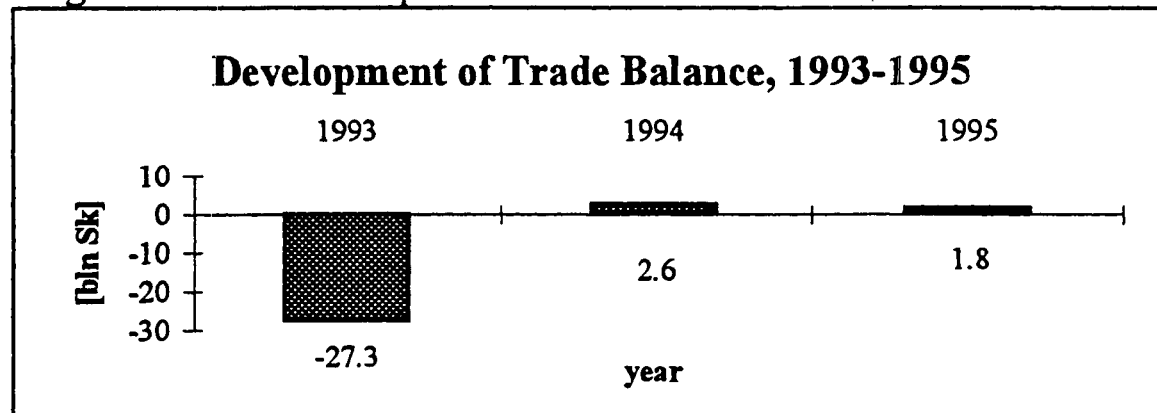


Diagram No. 2.3: Export of goods in 1995

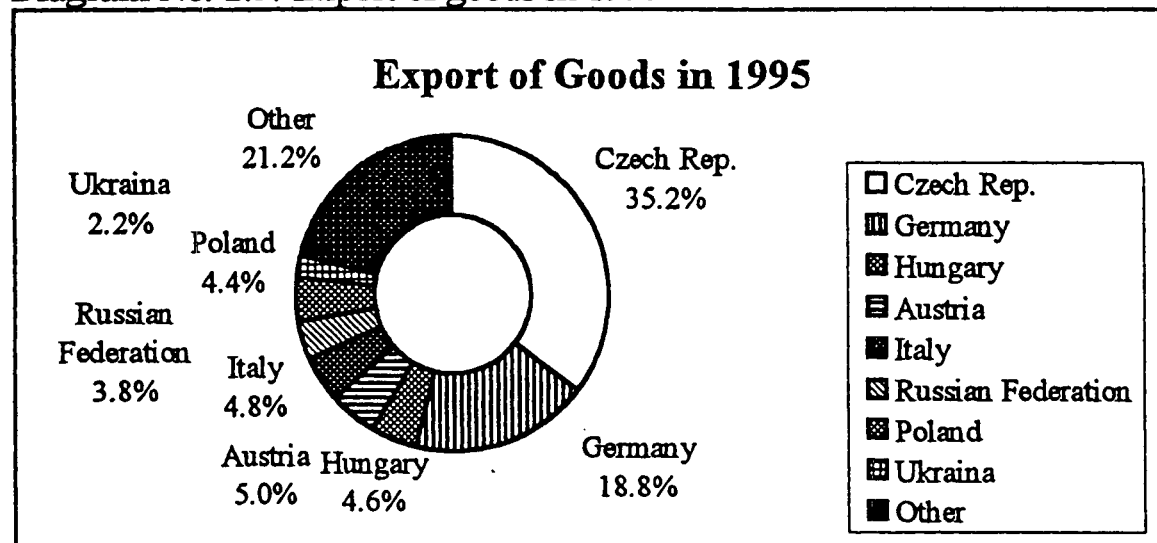


Diagram No. 2.4: Import of goods in 1995

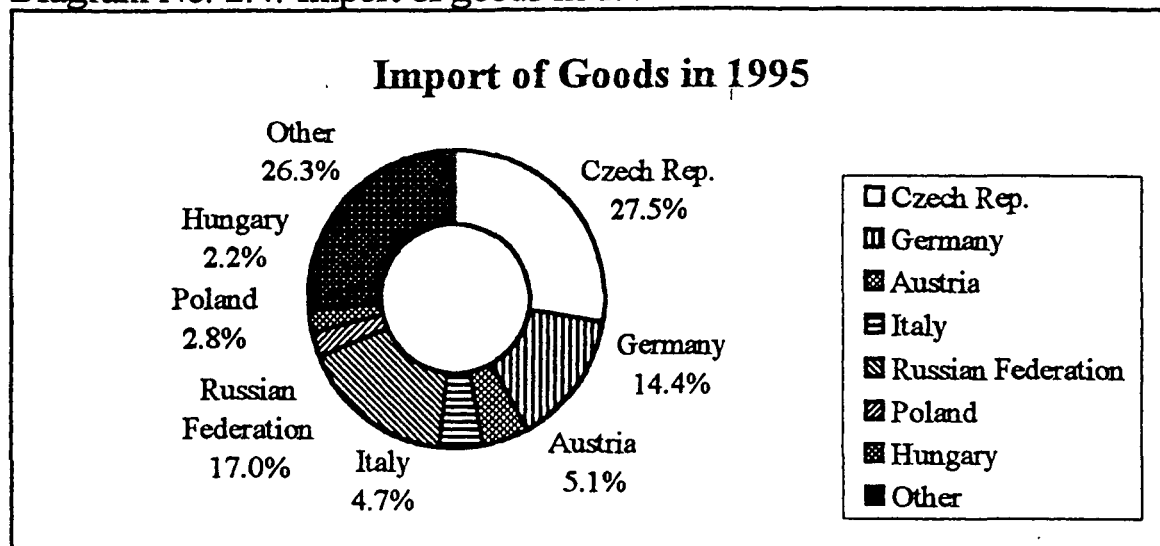


Diagram No. 2.5: Development of unemployment in 1990 to 1995

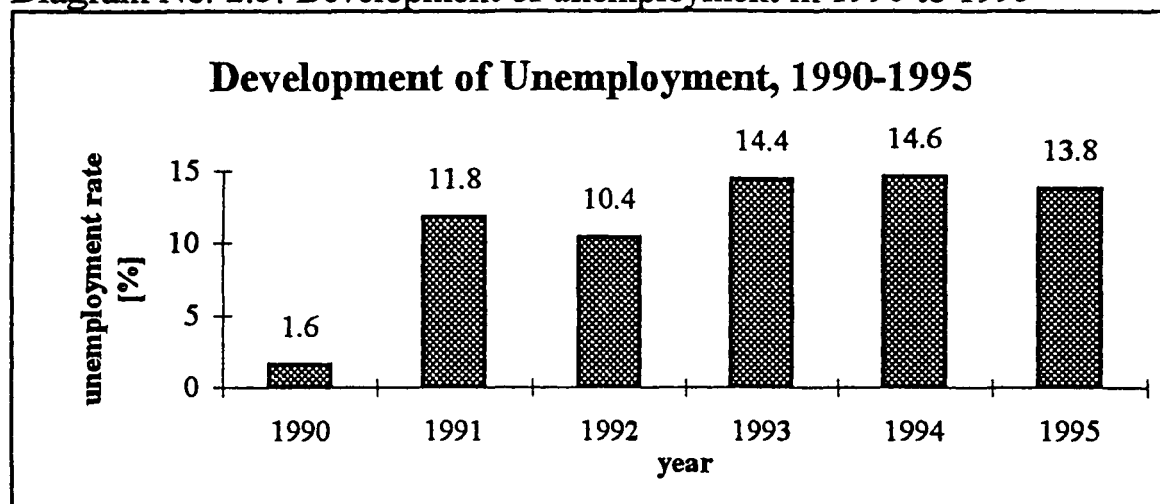


Diagram No. 2.7: Development of inflation in 1990 to 1995

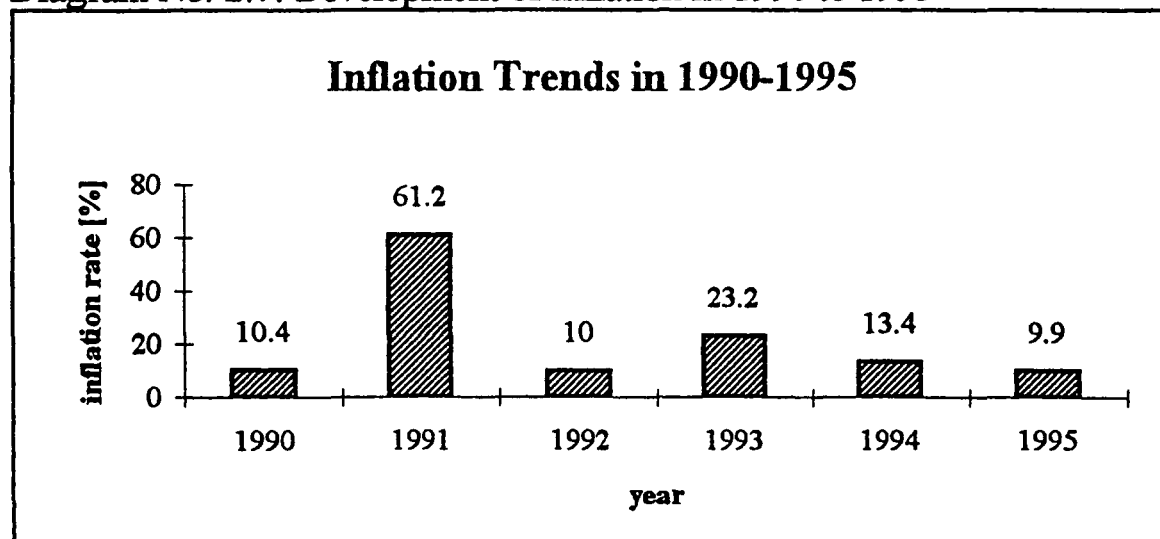


Diagram No. 2.6: Rate of unemployment

Unemployment Rate as of 31/12/1995

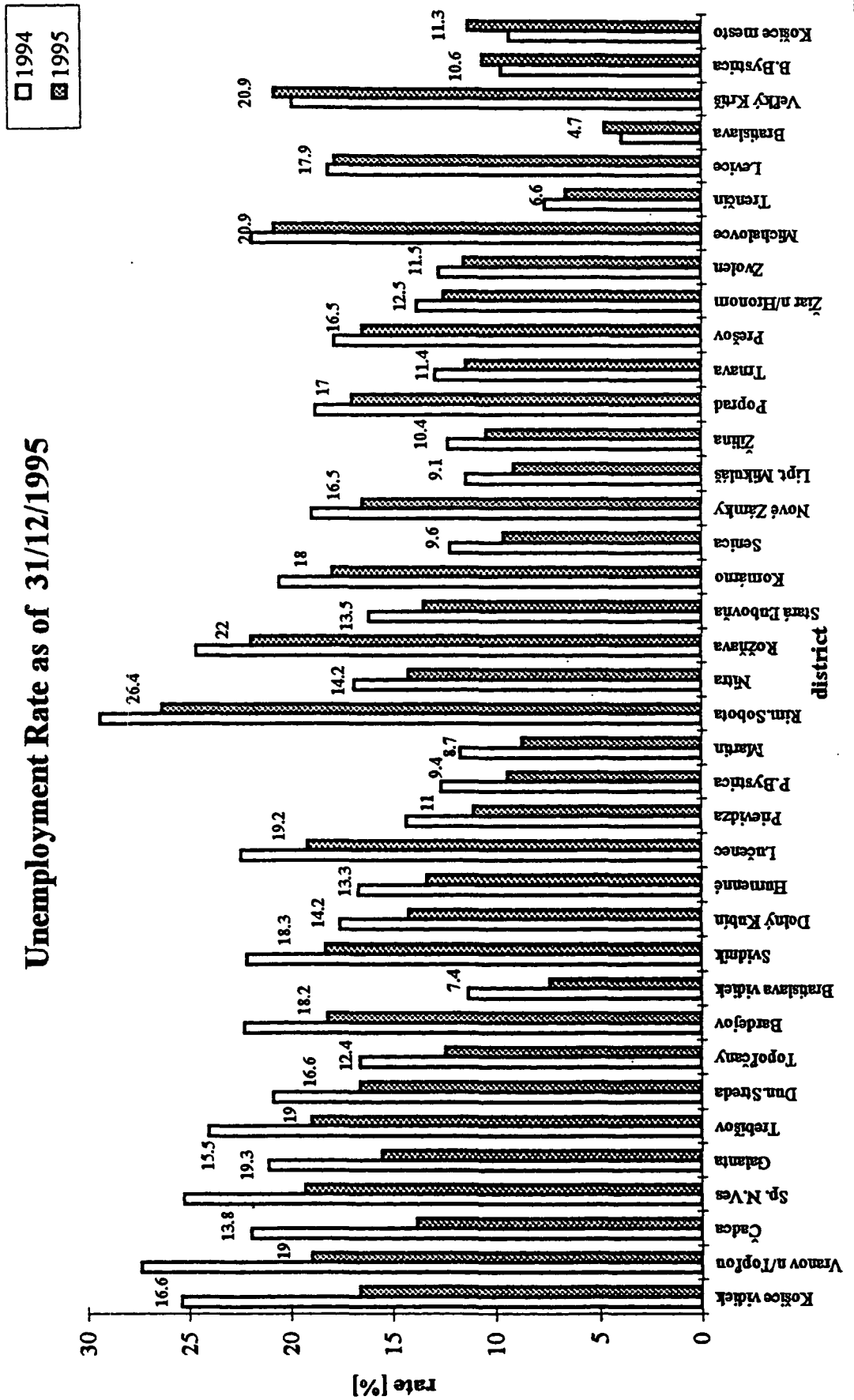


Diagram No. 2.8: Development of the state budget balance in 1992 to 1995

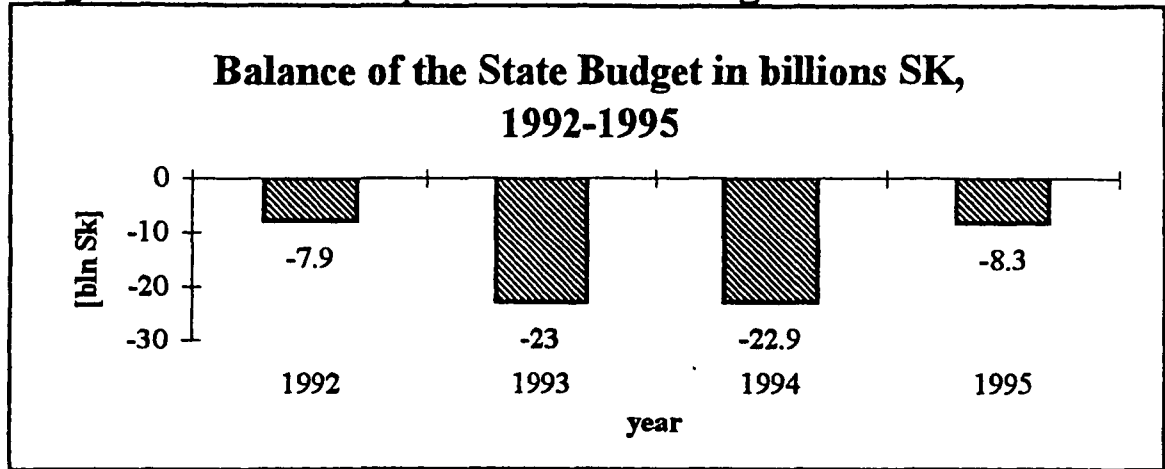


Diagram No. 3.1: Development of the number of sole proprietors

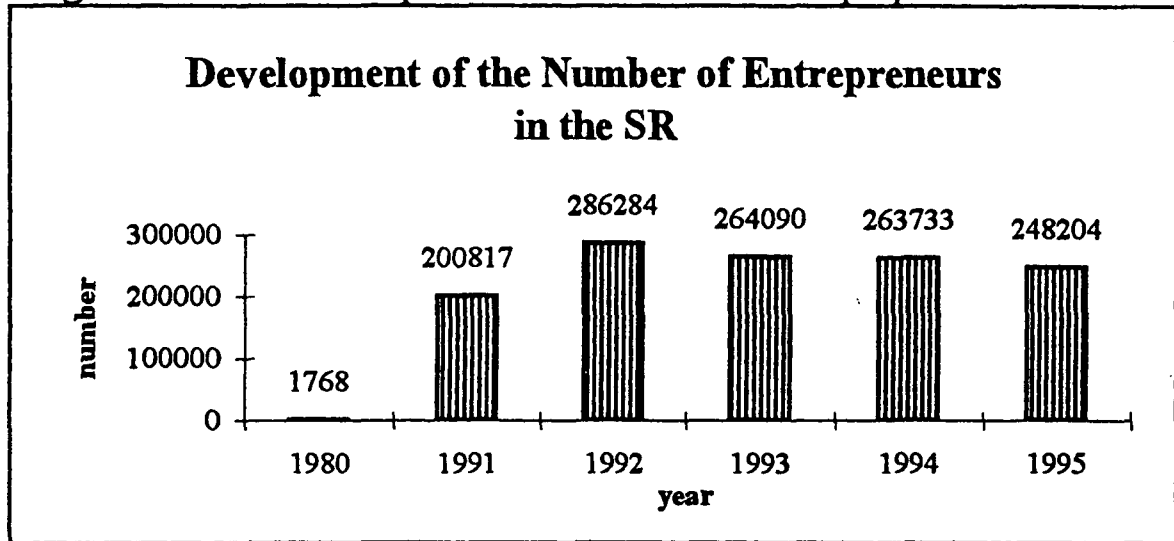


Diagram No. 3.2: Development of the number of sole proprietors by regions

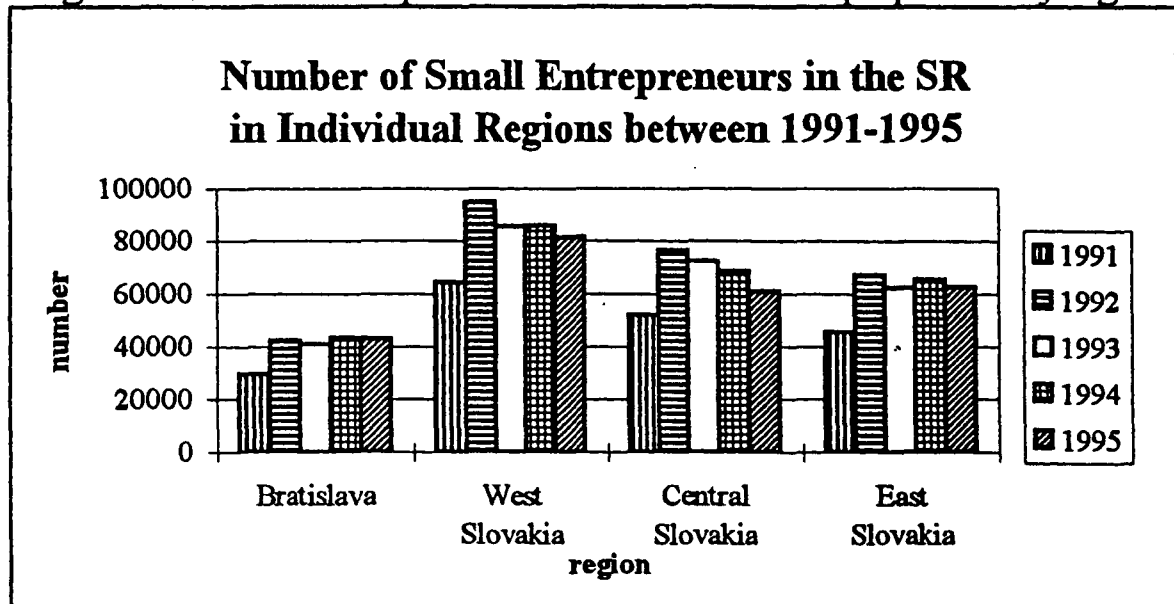


Diagram No. 3.3: Develop. of the No. of sole proprietors - freelance professionals

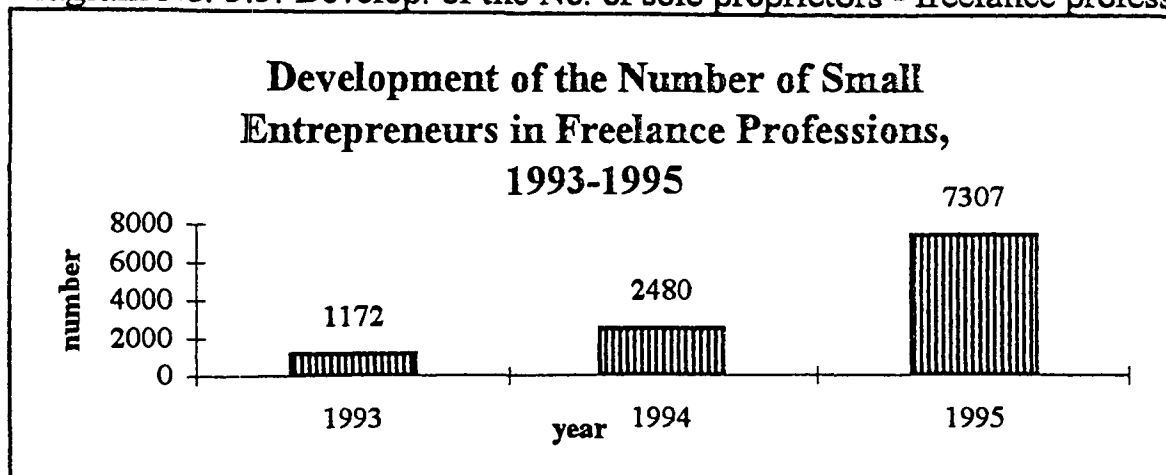


Diagram No. 3.4: Structure of businesses

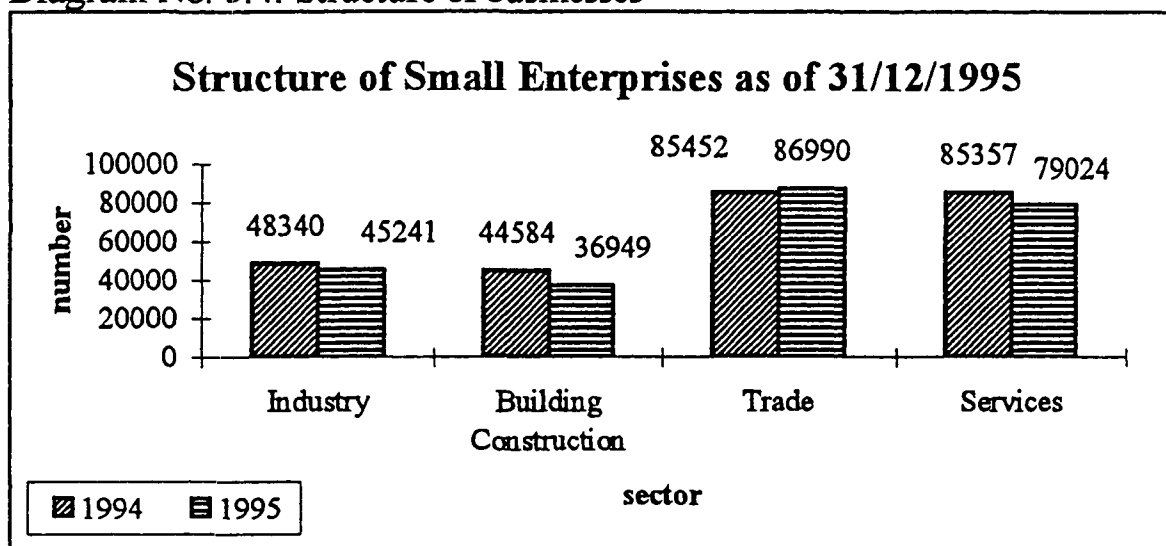


Diagram No. 3.5: Structure of businesses by sectors

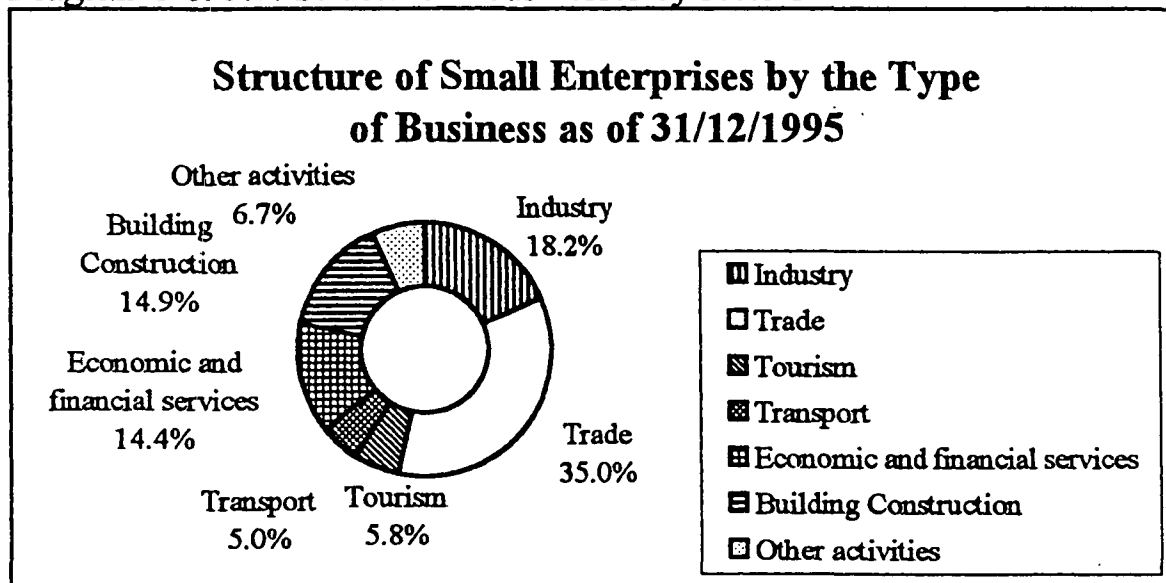




Diagram No. 3.6: Development of the number of sole proprietors by regions

**Number of Small Entrepreneurs in the districts of Slovakia between 1992 and 1995**

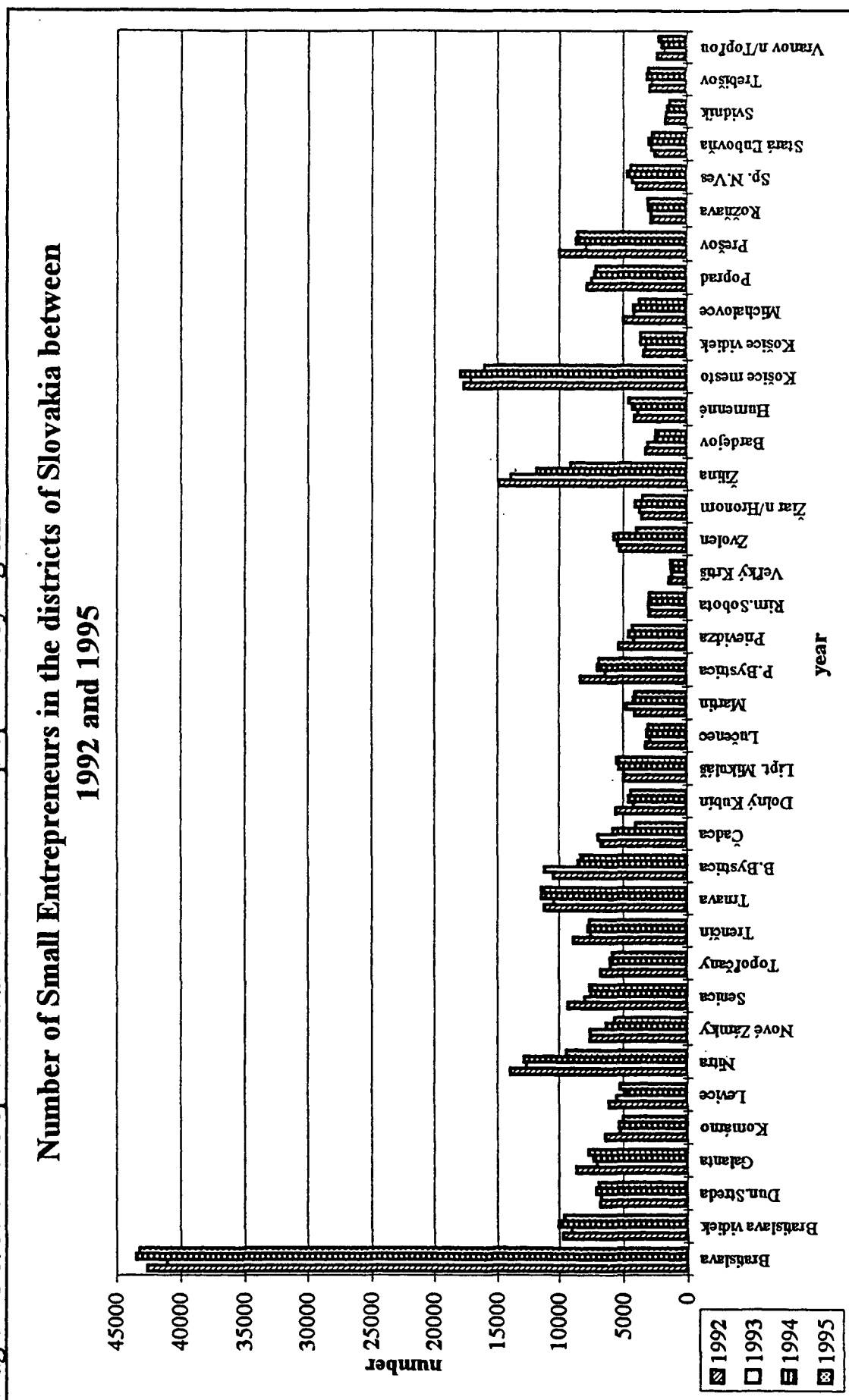


Diagram No. 3.7: Development of the number of SMEs

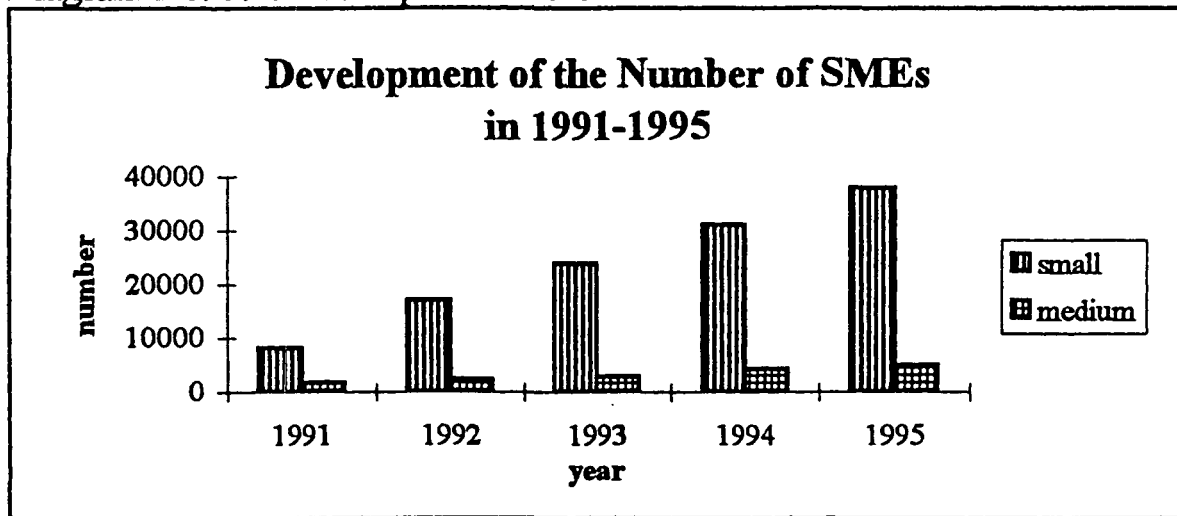


Diagram No. 3.8: Development of the number of SMEs by regions

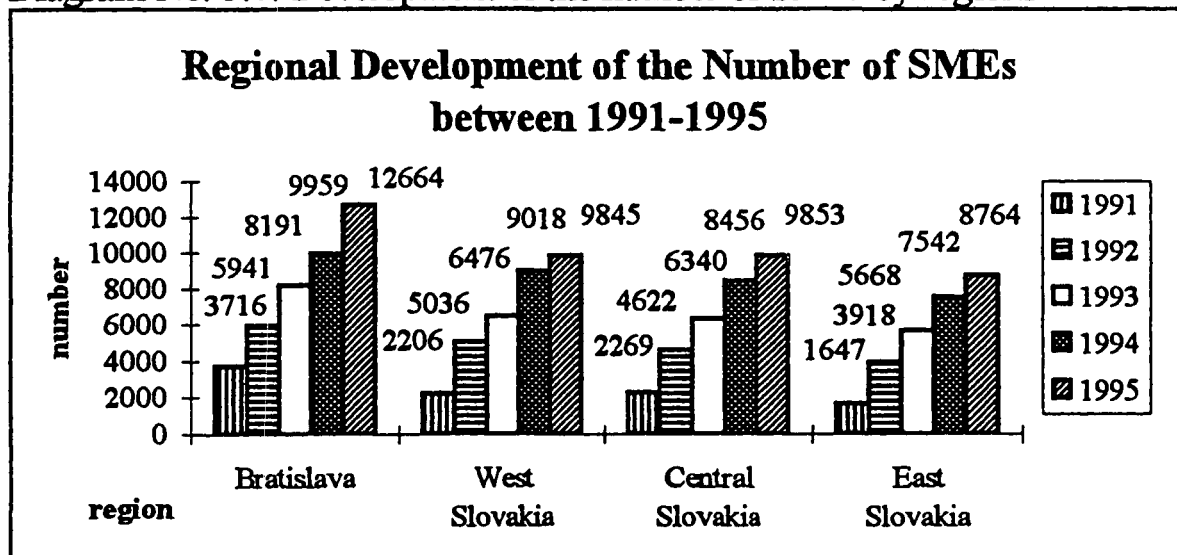


Diagram No. 3.9: Structure of selected legal forms of SME

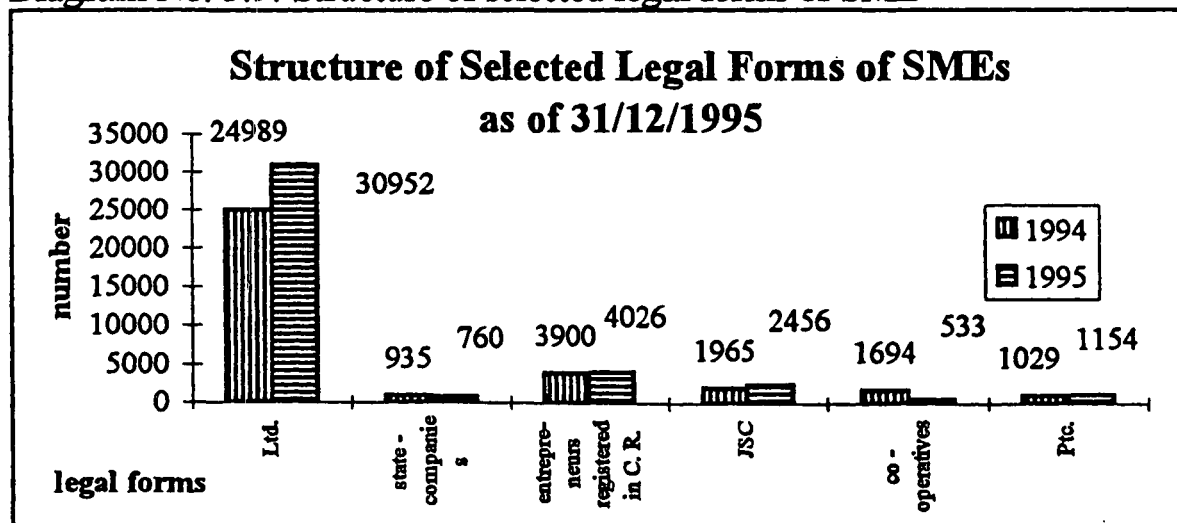


Diagram No. 3.10: Development of the number of selected forms of SME

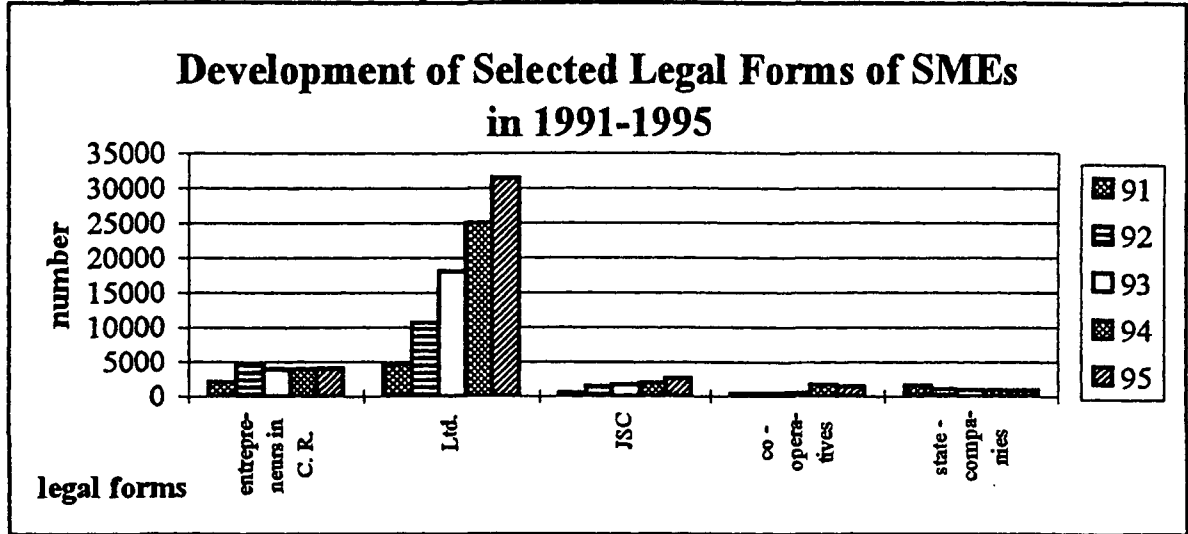


Diagram No. 3.11: Development of the No. of SMEs by the type of ownership

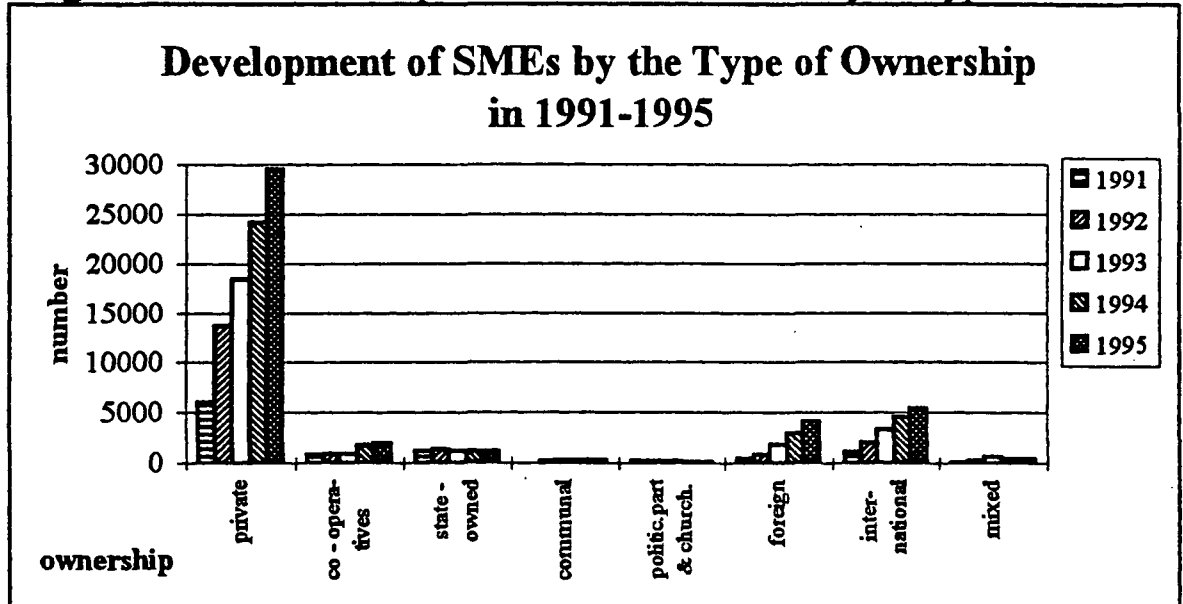


Diagram No. 3.13: Structure of profit organisations - European itemization

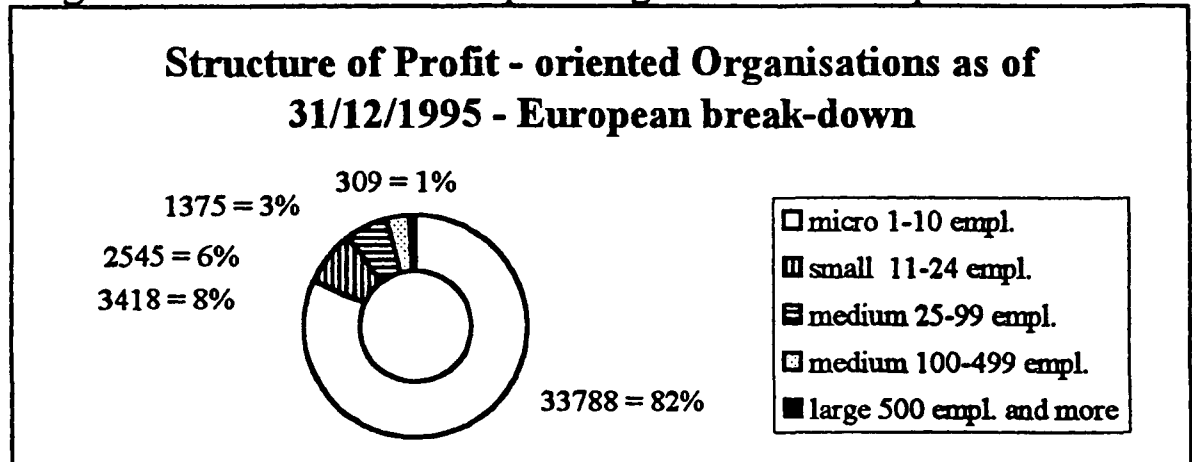
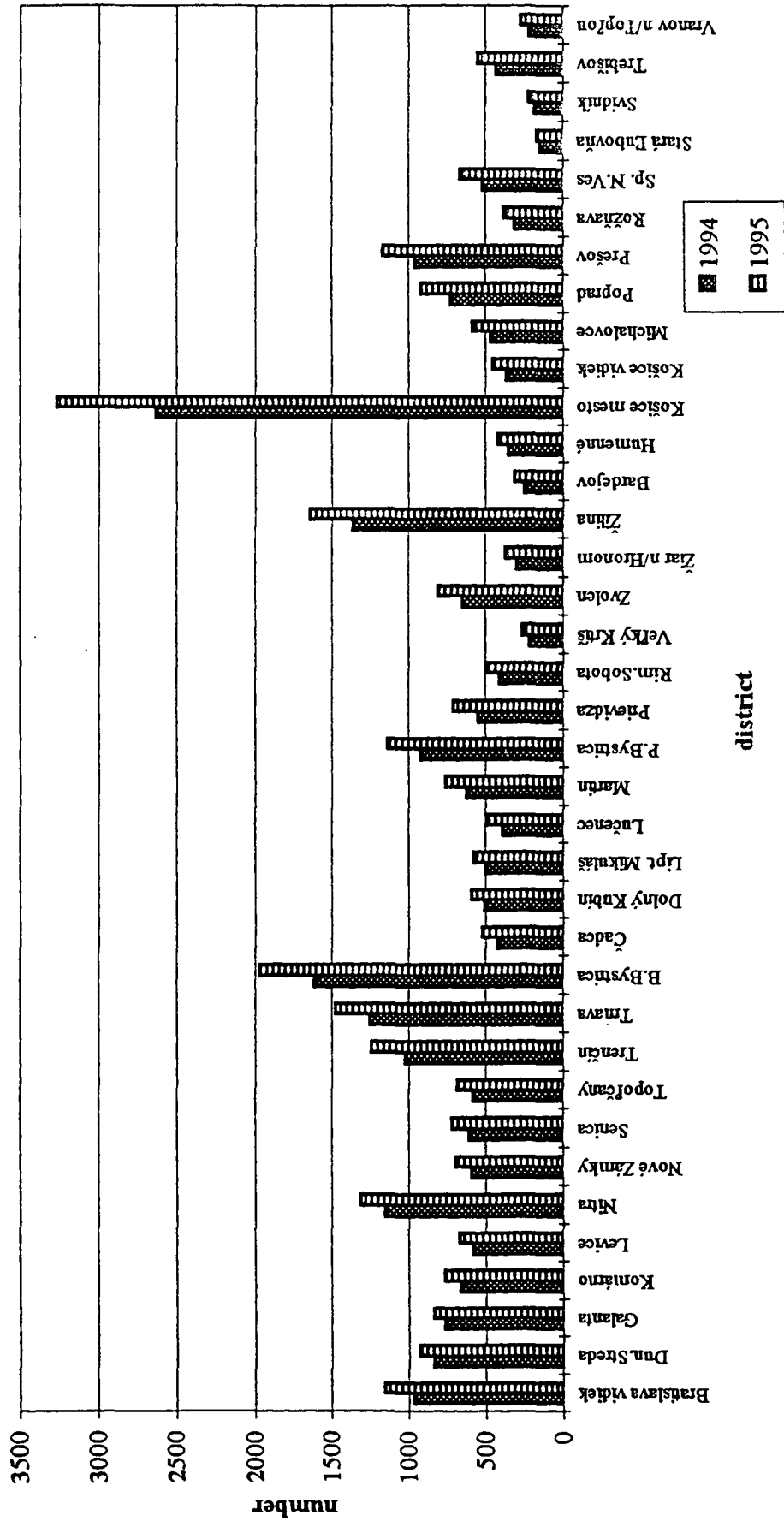


Diagram No. 3.12: Development of the number of SMEs by districts

**Development of the Number of SMEs by District Except for Bratislava,  
as of 31/12/1995**



	1994	1995
Bratislava	10318	12706

Diagram No. 3.14: Development of the number of employees as of 31/12/95

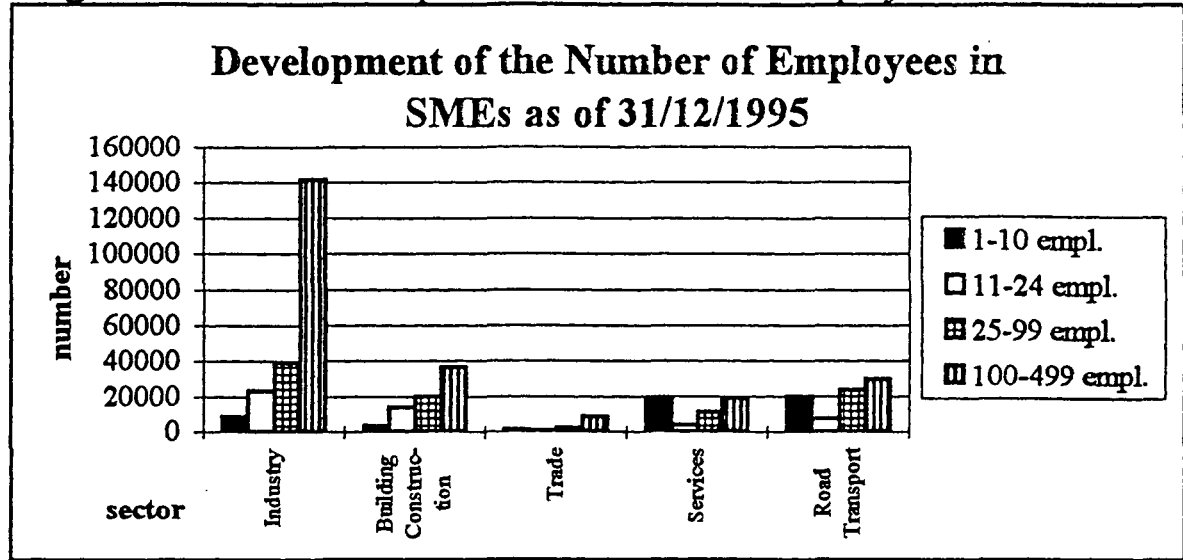


Diagram No. 3.15: Percentage of SME on the total production of the sector

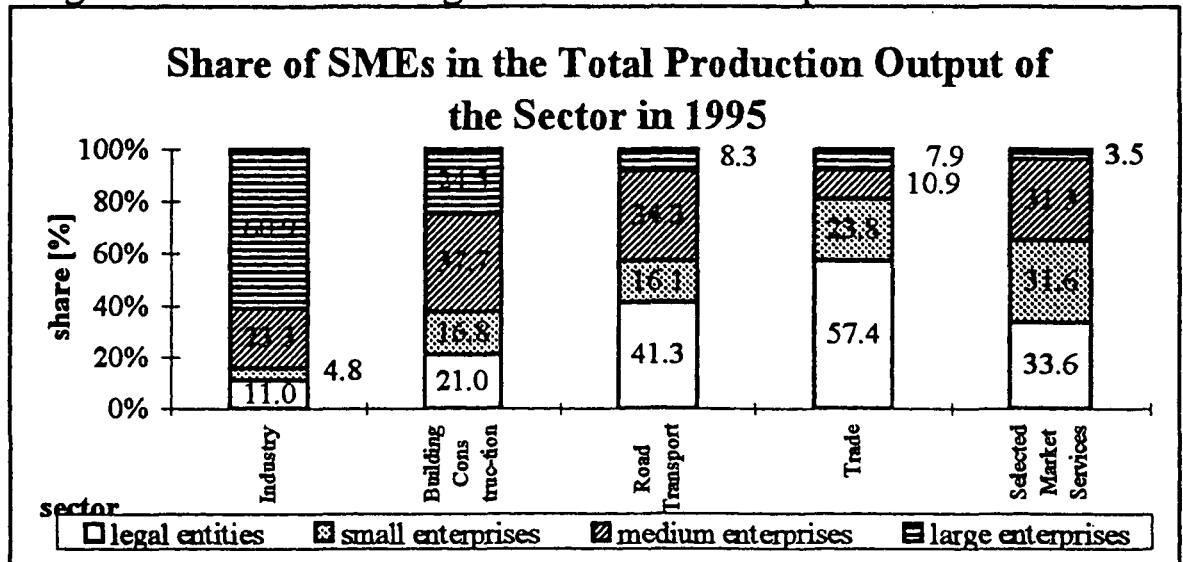


Diagram No. 3.16: Dynamics of the development of sole proprietors to 1995

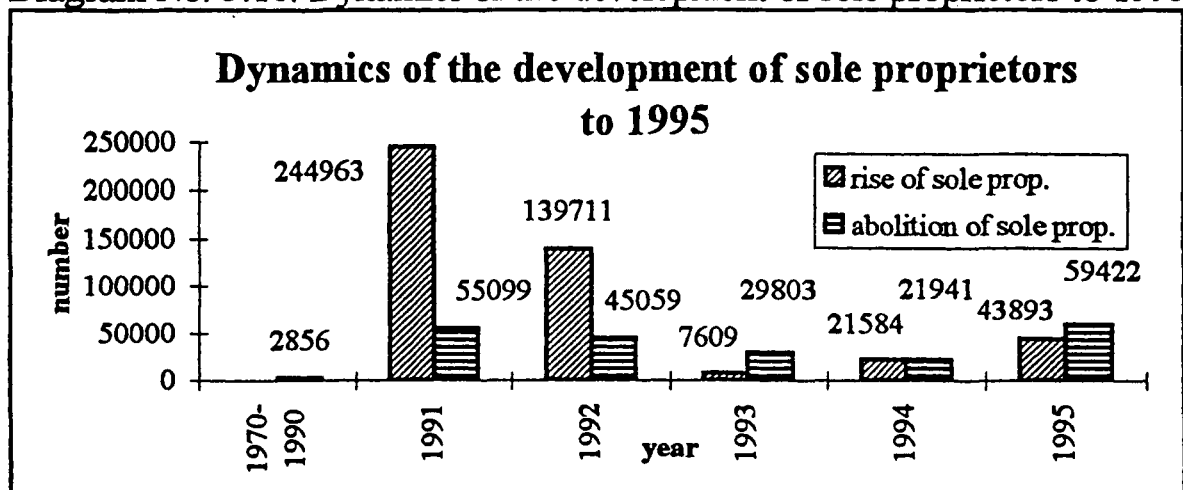


Diagram No. 3.17: Dynamics of the develop. of sole prop. by branches to 1995

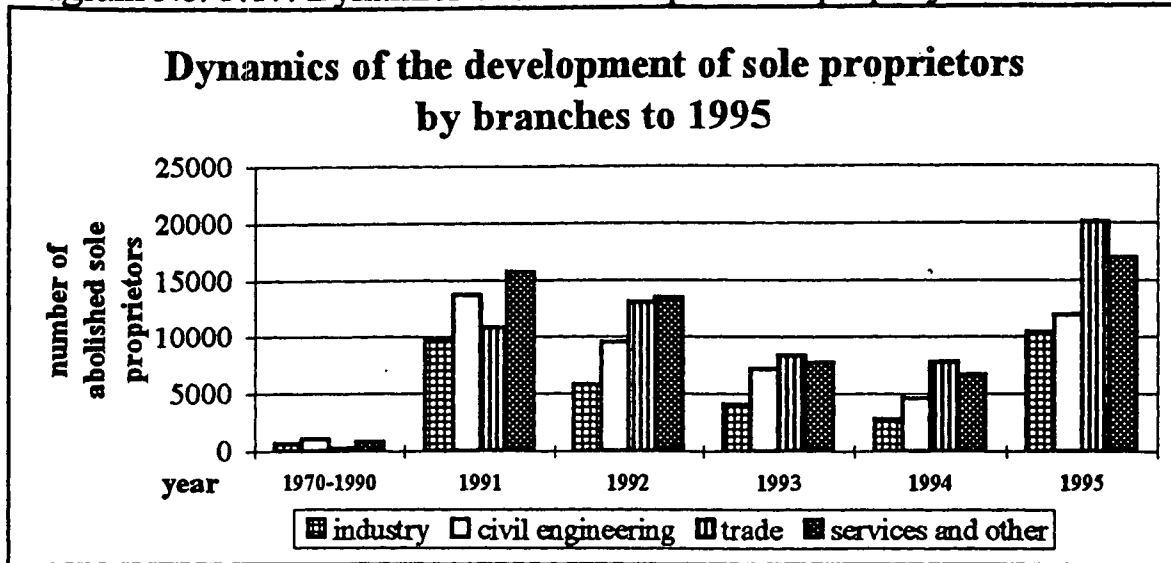


Diagram No. 3.18: Dynamics of the develop. of legal entities - SME to 1995

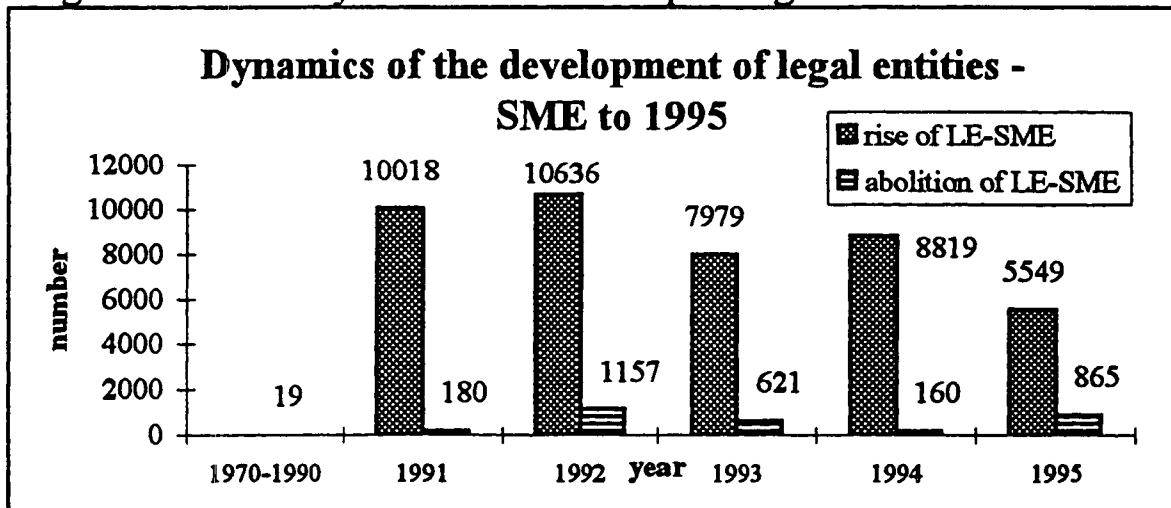


Diagram No. 3.19: Dynamics of the develop. of LE - SME by branches to 1995

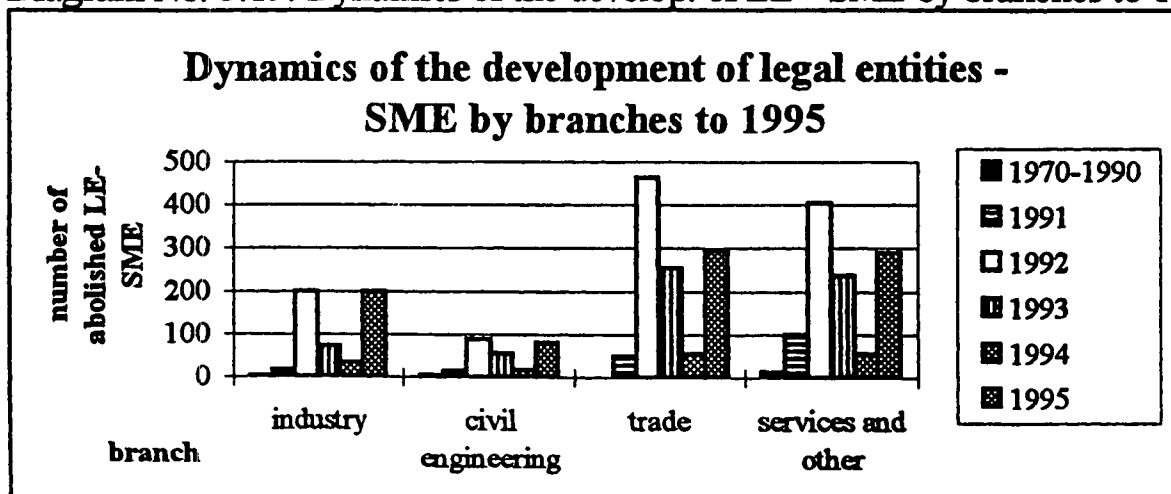


Diagram No. 4.1: Number of prepared business plans

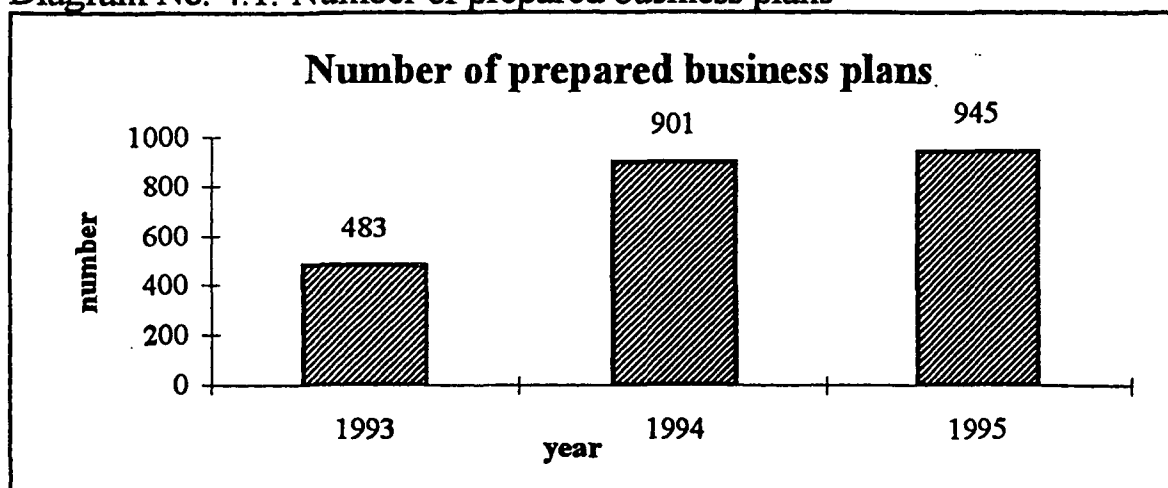


Diagram No. 4.2: Number of consultations

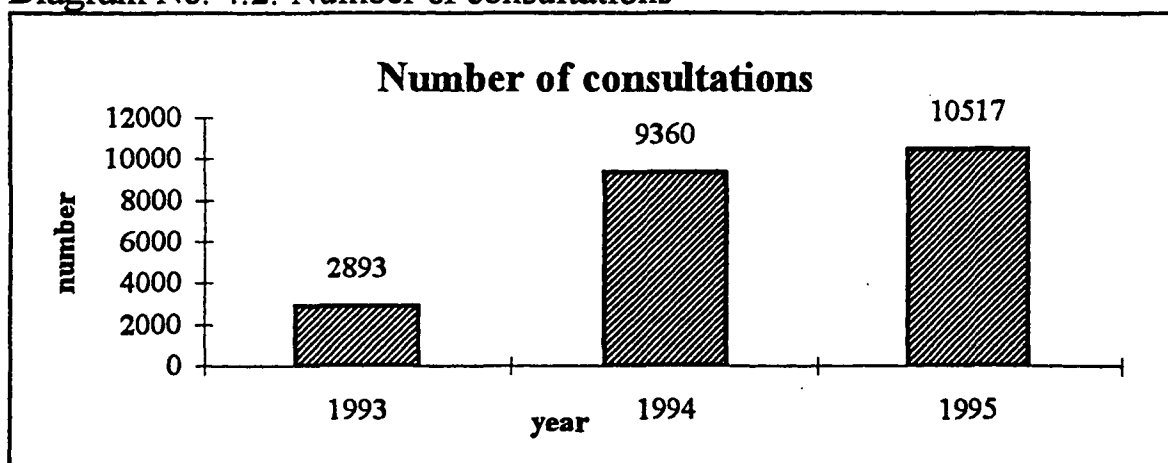


Diagram No. 4.3: Growth of the newly established enterprises

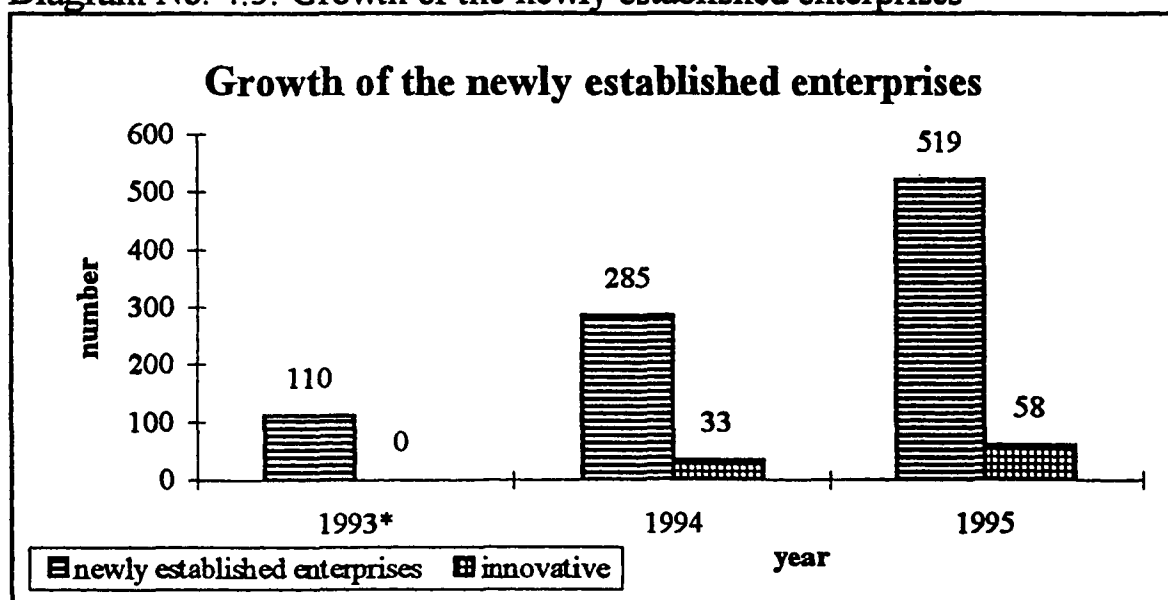


Diagram No. 4.4: Growth of the newly created jobs

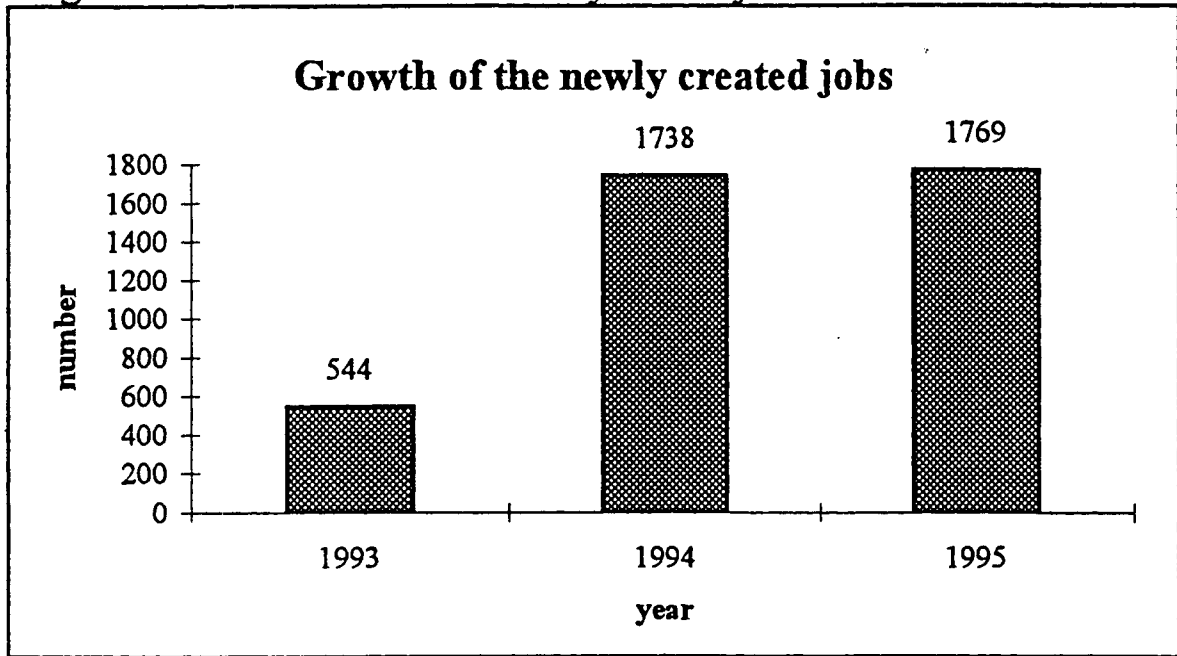


Diagram No. 4.5: Review of the demands on EICC in 1995

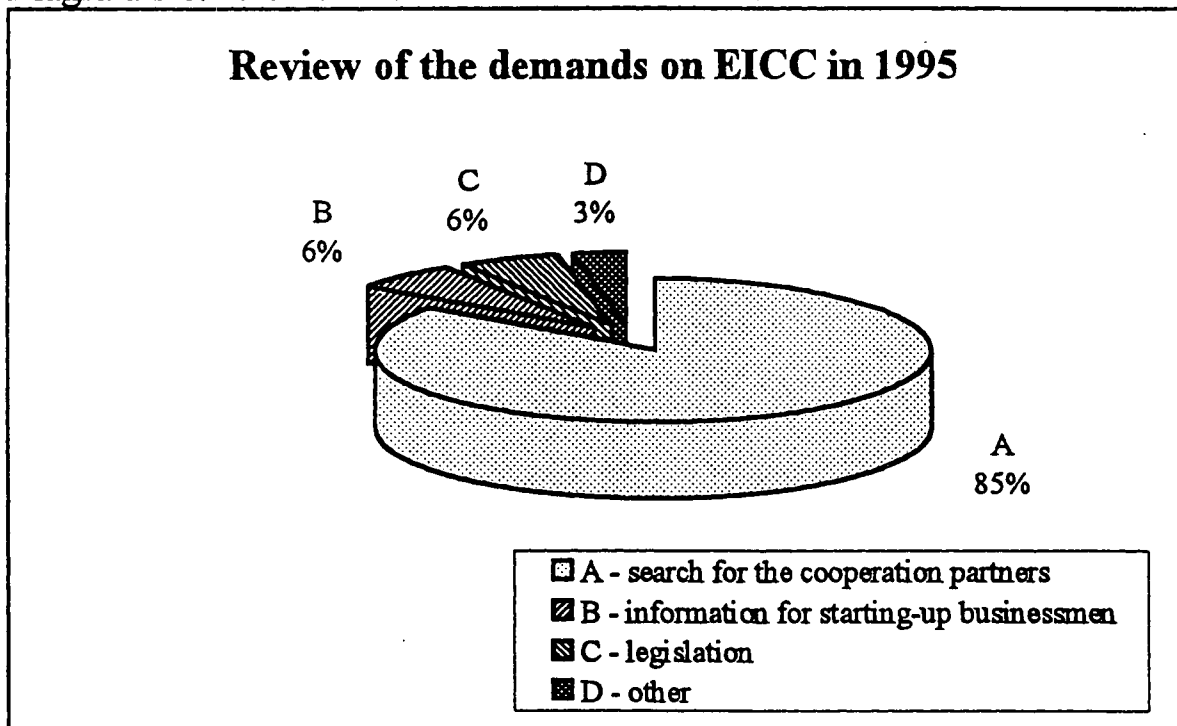




Diagram No. 4.6: No. of Slovak firms and No. of meetings in Europartenariats

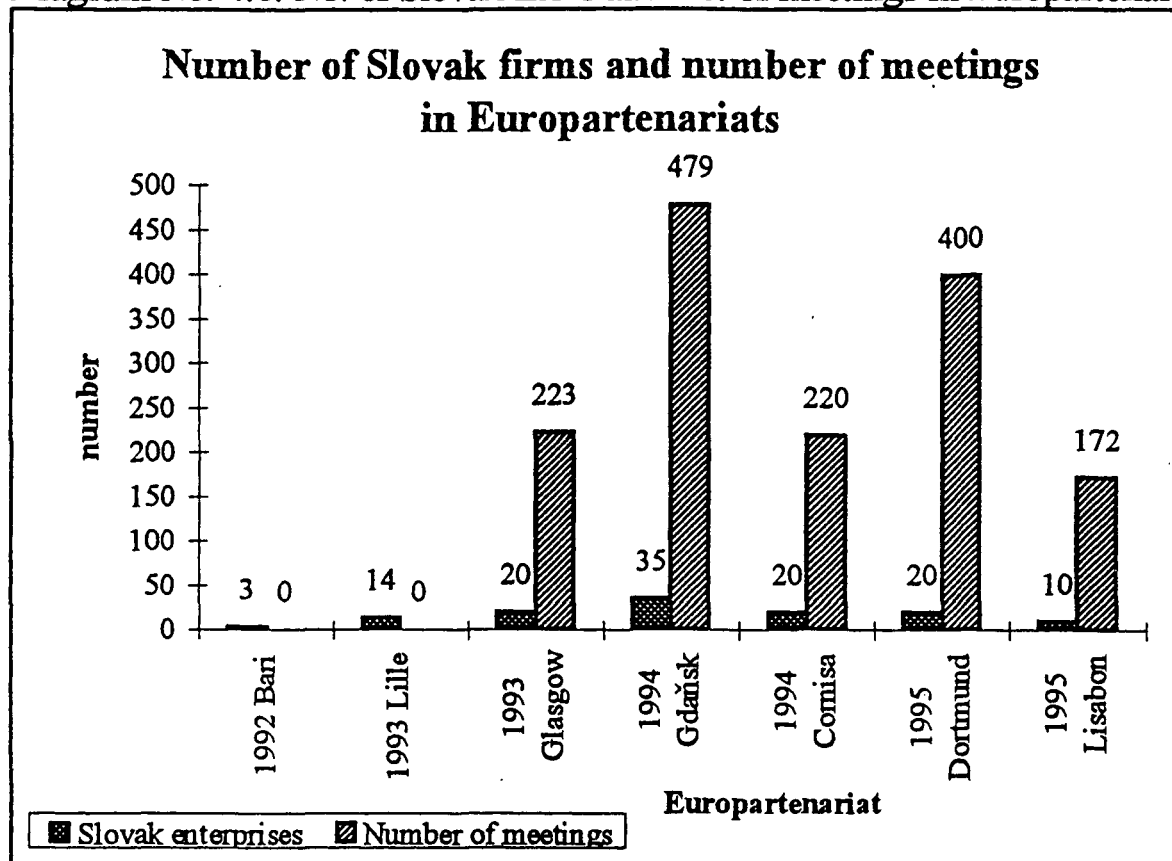


Diagram No. 4.7: Review of the credits provided by Poľnobanka by sectors

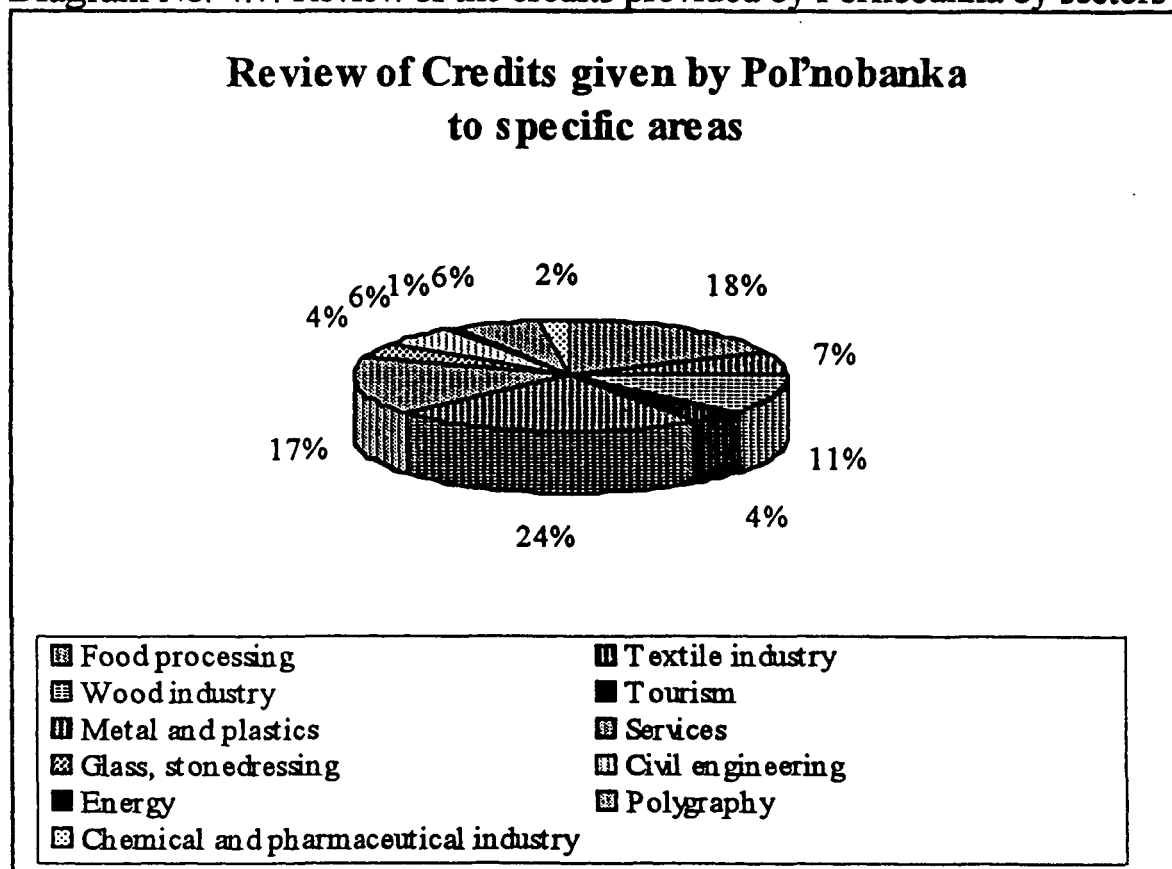


Diagram No. 4.7: Review of the credits provided by Slovak Savings Bank by sector

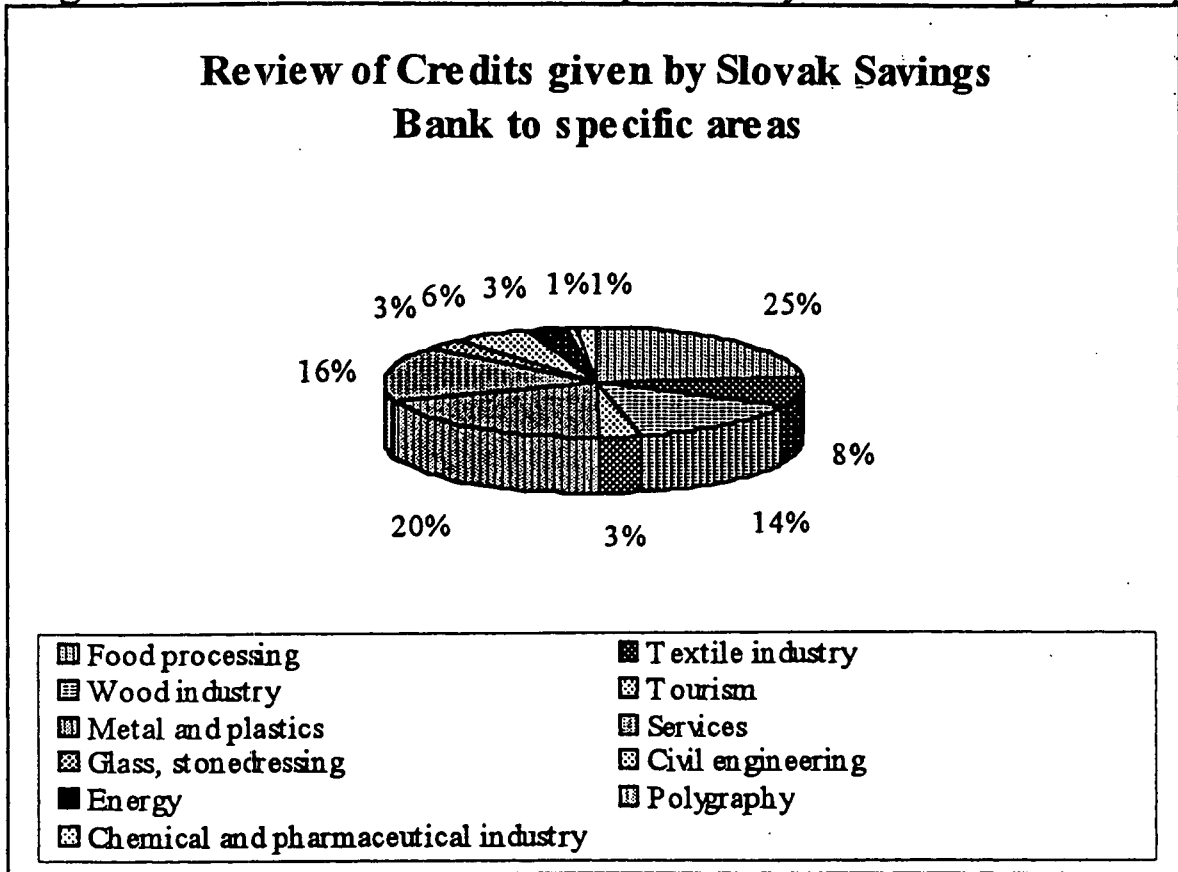
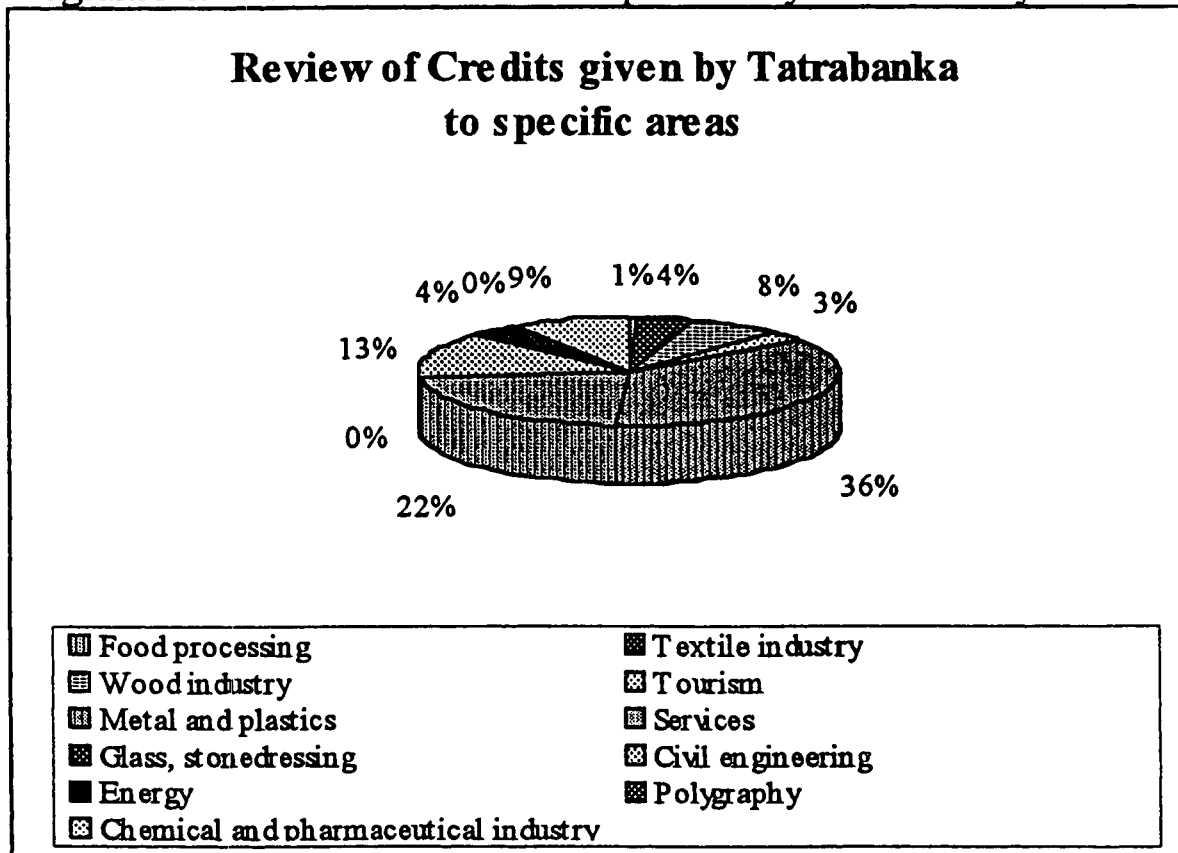


Diagram No. 4.7: Review of the credits provided by Tatrabanka by sectors



**ANNEX II**

**CONCLUSIONS FROM THE CONFERENCE ON SMEs  
HELD IN BRATISLAVA IN NOVEMBER 1995**

## **Conclusions from the Conference on SMEs held in Bratislava on November 27, 1995**

The aims of the conference were to discuss the problems of SMEs and to draft proposal and measures in all areas of SME support.

The conference took place under the patronage of the Prime Minister of the Slovak Republic, Mr. Vladimir Meciar. In his address he evaluated the task, development and support of SMEs, also in a broader macro-economic and international context. He expressed his satisfaction with multilateral support of SMEs from the EU side, as well as with the bilateral help provided by the developed countries.

More than 100 participants took part in the conference from different ministries, central administration, commercial banks, Slovak Guarantee Bank, Slovak Chamber of Commerce, Association of cities and villages of Slovakia, RAICs, BICs as well as the entrepreneurs themselves. Important guests were Mr. Theodor Russel, the Ambassador of the USA, Mr. Maximilian Pammer, the Ambassador of Austria, Mr. H. Gajus-Scheltema, Chargé d'Affaires of the Netherlands, Mrs. Ulrike Knotz, the Counsellor of the Embassy of FRG, Mr. Jean Marie Schott, Commercial Counsellor of the Embassy of France, Mr. Domenico Giugliotti and Mr. Mark Griffin, representatives of the EU.

The participants of the conference worked in three sections:

- A. Legislative and taxation section headed by Mr. Miroslav Knitl, the President of the Entrepreneur Association of Slovakia
- B. Company counselling, education and information support to SMEs headed by Mr. Ján Foltín, Director General of the NADSME
- C. Finance support programmes headed by Mr. Jozef Brhel, the State Secretary of the Ministry of Economy of the Slovak Republic

Review results of the discussion in sections:

- A. **Legislative and taxation section**
  - I. *Confirmation of the strategy of incorporation of the associated countries as members of the European Union and this fact following necessity of approximation of their legislation with the aim to create conditions for their working within the internal market of the EU.*

In this connection it is necessary:

- 1. To carry out the analysis of the legislative norms connected with enterprises, mainly with SMEs

2. To set a list of legislative norms connected with SMEs which will create the subject of approximation.
  3. To incorporate into the plan of legislative directives of the government for the next years up-dating and preparation of SME legislation connected with the approximation.
  4. In the process of approximation to take into consideration the state of the economy and the specifics of the transformation process in the Slovak Republic.
- II. *In the field of legislative norms there are proposed the following modifications and approaches with the aim to improve the legislative environment and support of SMEs.***
1. Act on the Management of Taxes and Charges
  2. Act on the Value Added Tax
  3. Act on the Income Taxes
  4. Act on Prices
  5. Act on the Estate Duty
  6. Act on the Road Duty
  7. In case of tax distraint application of the existing law. Implementation of no new legislative implementation is recommended.
  8. Act on the Health Insurance, Financing of the Health Insurance, Establishment of the General Health Insurance, Act on the Social Insurance
  9. The means of the Active Policy of Employment to be oriented towards development of SMEs (craftsmen, restructuring business plans, spin-off)
  10. Act on the Craft Entrepreneurship
  11. Act on the Chamber of Craftsmen
  12. To solve the problem of the Craftsmen Insurance and the Craftsmen Savings Bank
  13. Initiation of the Restoration Act (returning the property to the Craftsmen Associations and the Craftsmen Unions)
  14. Requirement of publication of the legislation in full wording to enable a better approach to the legislative and to increase its intelligibility

## **B. Company counselling, education and information support to SMEs**

### *I. Counselling*

1. The basic counselling for SMEs provided through RAICs/BICs is on a satisfactory level and the needs of SMEs in this branch are saturated.

A system of specialised SME counselling oriented towards quality, management, export support, technical and technological counselling for particular branches through the creation of groups of professional external advisers is required.

2. In connection with point No. 1 to analyse and to propose a solution of the question of rating and certification of external advisers.
3. To find a solution of financing of counselling by the state with special emphasis on subsidies for counselling for start-ups. Financing is supposed to be based on the number of services provided.
4. As one of the main problems of the advisers is unclear interpretation of legal norms regarding SMEs, to oblige particular government departments to provide interpretation of particular legal norms and to its publication in the NADSME journal "Enterprise".

### *II. Education*

1. In co-operation with the Ministry of Education and the Ministry of Economy of the Slovak Republic to propose modification of apprentice school system so that it complies with the needs of education of highly qualified school-leavers for SMEs. In this connection there has to be considered also the problem of reviving the status of the foreman.
2. To use bilateral co-operation programmes to secure training of apprentices to enable them to get familiar with the latest technologies abroad.
3. Through the PHARE programme and bilateral programmes to help increasing of equipment the apprentice centres for craftsmen, for instance establishment of "sample workshops".
4. To analyse the possibilities of utilisation of research capacities and application of the results of research of the Slovak Academy of Science and universities to cover the needs of SMEs.
5. In co-operation with one of the Slovak universities to realise the pilot programme Centre for development of SMEs.
6. To check the possibilities of utilisation of existing "Technical Centres" for the needs of so called "Craftsmen Houses".
7. To design a system of motivation of SMEs to train apprentices.

8. To employ the lecturers from practice for the purpose of teaching in high school and universities with the aim to educate managers for SMEs.
9. Through the NADSME and the network of RAICs/BICs establishment of an educational system for SMEs based on monitoring the needs and persons concerned from SMEs and its co-ordination with the services offered by educational institutions.

### **III. Information**

1. Utilisation of the Business Information System established by the NADSME and network of RAICs/BICs to enable better information of SMEs.
2. Establishment of a metainformation system in the NADSME enabling a better orientation for SMEs in the framework of institution providing necessary specialised information.
3. Increase co-operation of NADSME and media to enable a better level of information of SMEs.
4. Utilisation of the Slovak Chamber of Commerce and the proposed Chamber of Craftsmen to provide SMEs with specialised information.
5. To look for possibilities of utilisation of information provided by the Slovak Office of Statistics and the tax data for monitoring of SMEs.
6. Utilisation of the municipal databases to feed the Business Information System.
7. Solving of the question of providing the entrepreneur associations and unions by information from the Craftsmen Registration Offices.

### **C. Finance Support Programmes**

#### **I. Approach to the financial sources**

One of the most important problems in SME financing is lack of long-term credit sources enabling soft loans necessary for the development of SMEs. As potential sources have been identified financial means in the Slovak Saving Bank, Slovak Insurance and in the Fund of National Property.

1. To analyse possibilities of utilisation of the above mentioned sources as potential sources of support financial programmes.
2. To specify financial support programmes for the craftsmen.
3. Through the pilot programme of the Micro Loan Scheme to verify its viability and to ask for the state participation.

The venture and seed capital have been identified as new elements supporting development of SMEs.

4. To analyse present legislative environment and to initiate legal adjustment of the activities of the Venture and Seed Capital Company.
5. To consider the possibility of increasing the seed capital fund hold by the Seed Capital Company by the appropriation from the state budget.
6. To organise a workshop on the problem of venture and seed capital.

The guarantees provided by the Slovak Guarantee Bank do not fully reflect the needs of entrepreneurs.

7. To consider the possibility of providing guarantees of the full amount of loans provided, respectively increasing of its present level.
8. Based on the present experience as well as the experience from other countries it is being proposed to establish a financial institution - a support bank.

## *II. Identification of further financial sources*

There have been identified another possible financial sources of support financial programmes created by contributions of the entrepreneurs.

1. The financial means allocated in the Fund of Employment to be partially used as a source of financial support programmes.
2. To consider the possibility of using the off-budget sources created by penalties and fine paid by entrepreneurs to develop SMEs.

## *III. Indirect financial support*

For the entrepreneurs is of high importance also the indirect support practised through bonuses, subsidies and tax relief.

1. To consider the possibility of tax relief provided to start-ups.
2. To utilise the state tax ingerency as an investment stimulator.



**ANNEX III**

**ACT OF THE NATIONAL COUNCIL OF THE SLOVAK  
REPUBLIC ON THE STATE SUPPORT OF SMALL AND  
MEDIUM ENTERPRISES**

**Act of the National Council of the Slovak Republic**  
**No. 100/1995 of the Digest of Laws**  
**from 3 May 1995 on the State Support of Small and Medium Enterprise**

The National Council of the Slovak Republic has passed this Act:

**Introductory Provision**  
**Article 1**

The purpose of this act is to allow state support of small and medium enterprise (hereinafter "support") which aims at the development and stabilisation of this entrepreneurship in the structure of the national economy.

**Article 2**

For purposes of this act it is understood:

- a) small entrepreneur is a real person who is in a business and has a permanent address in the territory of the Slovak Republic or a legal entity who is in business and has a place of business in the territory of the Slovak Republic, if they employ a maximum of 24 employees,
- b) medium entrepreneur is a real person who is in a business and has a permanent address in the territory of the Slovak Republic or a legal entity who is in business and has a place of business in the territory of the Slovak Republic, if they employ a maximum of 500 employees.

**Article 3**

- (1) The ministries and other state authorities (hereinafter "ministry") adopt measures to support small and medium enterprise, mainly to secure a provision of financial means from the state budget and to establish organisations to support this enterprise (hereinafter "organisation").
- (2) Financial means from the state budget are provided to small and medium entrepreneurs from financial means allocated for this purpose within the budget chapters of ministries on the basis of approved support programmes (article 4).

**Programmes and Principles of the Support**  
**Article 4**

- (1) The Government of the Slovak Republic (hereinafter "government") approves support programmes for small and medium enterprise (hereinafter "support programme") and assigns principles and terms of providing support.

- l) providing advisory services for small and medium entrepreneurs,
- m) obtaining, processing and intermediating of information to meet the needs of small and medium entrepreneurs.

#### **Article 7**

The primary forms of support are:

- a) providing loans,
- b) loan guarantees,
- c) reimbursement of interests or of a part of interests,
- d) contributions according to the specific regulations,
- e) refundable financial assistance,
- f) subsidy.

#### **Common and closing provisions**

##### **Article 8**

- (1) Supervising the use of support is, in accordance with the approved support programme and the concluded agreement (article 5 paragraph 3), carried out by the respective ministry. Supervision according to the specific regulations is not affected by this Act.
- (2) The person provided with the support according to this Act is obliged to provide the supervisory body with necessary information and data.

##### **Article 9**

- (1) The Ministry of Economy of the Slovak Republic co-ordinates and regulates the programmes of development of small and medium enterprise in harmony with the state policy of support of small and medium enterprise.
- (2) The Ministry of Economy of the Slovak Republic submits the "Report on the State and Development of Small and Medium Enterprise" including an evaluation of the effectiveness of the support measures and efficiency of state budget funds utilisation according to this Act to the government annually.
- (3) The government submits the "Report on the State and Development of Small and Medium Enterprise" to the National Council of the Slovak Republic annually.

##### **Article 10**

This Act enters into force on 1st June 1995.

**The President of the Slovak Republic**  
**The Chairman of the National Council of the Slovak Republic**  
**The Prime Minister of the Government of the Slovak Republic**

## **ANNEX IV**

### **ROLE OF RAICs AND BICs IN REGIONAL DEVELOPMENT WITHIN THE SLOVAK REPUBLIC**

## **Summary:**

<b>1. Establishment of the RAICs and BICs and their position in the regions</b>	<b>3</b>
<b>2. Activities of RAICs and BICs in support of SMEs in 1994</b>	<b>5</b>
<b>3. Development Strategy of RAICs and BICs to the year 2000</b>	<b>10</b>
<b>3.1 SME Support</b>	<b>10</b>
<b>3.1.1 Services for Entrepreneurs and Projects</b>	<b>10</b>
<b>3.1.2 Funding</b>	<b>12</b>
<b>3.2 RAICs and BICs - the Basic Element of Regional Development Agencies</b>	<b>16</b>
<b>3.2.1 The Mission of the Regional Development Agencies (RDA)</b>	<b>16</b>
<b>3.2.2 Role of the RAIC and BIC network in the establishment of the RDA</b>	<b>17</b>

## 1. Establishment of the RAICs and BICs and their position in the regions

The establishment of the **Regional Advisory and Information Centres (RAIC)** was initiated by the Government of CSFR, SR, and the European Union within the framework of the Small and Medium Enterprises Programme for CSFR signed in October, 1991. According to the financial memorandum the RAICs represent the local advisory entrepreneurial agencies which objective is to offer a complete package of support services to new and established small and medium enterprises. The centre originated on the basis of a partnership between public and private sectors in selected areas which followed these criteria:

- Priority Region which is a region in which an industrial restructuring is going on and therefore a lot of jobs are lost, etc.
- in large centres offering a potential for development of modern innovative enterprises

In September 1992, after selection of target regions, by the Ministry of Labour, Social Affairs and Family and Commission of Government of SR for Strategic Development, three pilot RAICs in Poprad, Nitra, and Martin were established with PHARE support. The centres were established as non-profit organisations - associations of legal entities which represent the public and private sectors. In 1993 six more centres were established in Trebišov, Prešov, Zvolen, Považská Bystrica, Trenčín, and Lučenec. The selection of the regions was made by the Ministry of Economy after consultation with the Ministry of Labour, Social Affairs and Family of SR and Centre for Strategic Studies. At the end of 1994 and beginning of 1995 three new RAICs were established in Košice, Dunajská Streda, and Komárno. Thus was established a complete network of 12 RAICs.

The main task of RAICs is to provide all existing and potential small and medium entrepreneurs in the region with advisory, consulting and information services.

**Business Innovation Centres (BIC)** are also directly supported by the PHARE programme. BICs have an important role in the SME support system and focus on innovations in all fields of firm development. BICs provide these innovative firms with

special long-term care (2 - 3 years). In addition to the advisory services, the BICs mission is to provide beginning firms with an "incubator environment". Thus BICs help lower the start-up costs for a firm. BICs mediate contacts between Slovak firms and firms within the EBN - European Business and Innovation centre Network. BIC Bratislava is a full member of the EBN.

At present the BIC network consist of pilot BIC in Bratislava and its three satellites in Prievidza, Spišská Nová Ves, and Košice.

During the years 1993 and 1994 RAICs and BICs gained an importance in the regions for their work in the area of SME support. Regional bodies and authorities, such as the Council for Regional Development, local administration, regional associations of entrepreneurs, utilise centres to implement specific SME support projects and thus contribute to regional development.

## 2. Activities of RAICs and BICs in support of SMEs in 1994

Regional advisory and information centres and Business innovation centres make up a network supported by the National Agency for Development Small and Medium Enterprises.

RAICs and BICs provide a broad range of high-quality consultation services to entrepreneurs interested in the start-up and growth of small and medium enterprises. In 1994 the RAICs and BICs expanded both the actual number of services provided as well as effecting improvements in the quality of services provided to their clients. Some services increased by over 100% and yet others by more than 200%. This is due to an increased awareness of the centres within the Regions and consequently more clients using the services. A summary of the results of these RAICs and BICs activities for 1994, are presented in table No.1.

“First Line Consultancy” is very important for beginning entrepreneurs. Within the scope of “First Line Consultancy” RAICs and BICs provide information about business possibilities in Region, primarily legal, financial, tax, accounting and other entrepreneurial information.

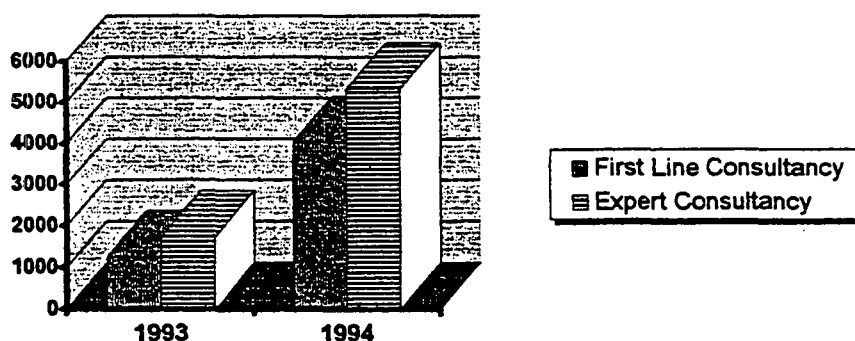


Fig.1. Provided "First Line Consultancy" and "Expert Consultancy"

The most important step in starting a business is the development of the Business Plan. The Business Plan states the probability of success for the business and return on the investments, time and capacities. The “Expert consultancy” provided by the RAICs and BICs focuses on leading of the entrepreneurs, step by step, through the process of writing their Business Plans. The RAICs and BICs also help to write Business Plans and evaluate Business Plans already prepared by the entrepreneurs.



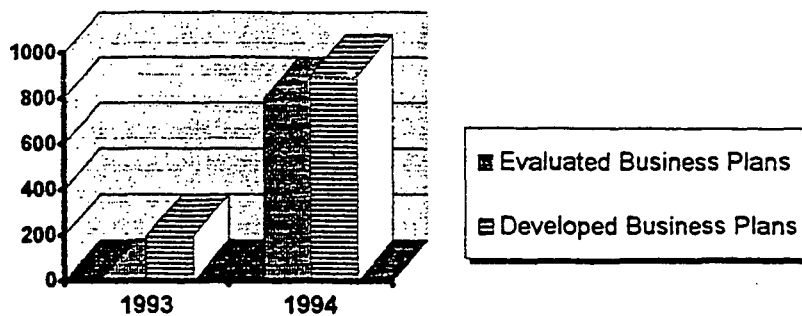


Fig.2. Business Plans developed and evaluated

An important condition for business plan implementation is the **accessibility of financial resources** from internal and external sources. RAICs and BICs assistance entrepreneurs to apply for general commercial loans. Very important for the SME are the Financial Credit Schemes developed by the NADSME, in which RAICs and BICs have an important role. Employees of the RAICs and BICs assure the entrepreneur has viable Plan. They judge viability by evaluating and making recommendations on the Business Plan and assuring all conditions and criteria of the specific Financial Credit Scheme are met.

The RAICs and BICs thus assure both efficient utilisation of the Financial Credit Scheme and that the Business will be viable when considering the specific economic needs and capabilities of each specific Region within Slovakia. Business Plans in 1994 focused primarily on the textile and clothing industry, greengrocery, wood industry, tourism, printing industry, metal-industry, energy, utility glass making and replacement, stone cutting, building, services and trade.

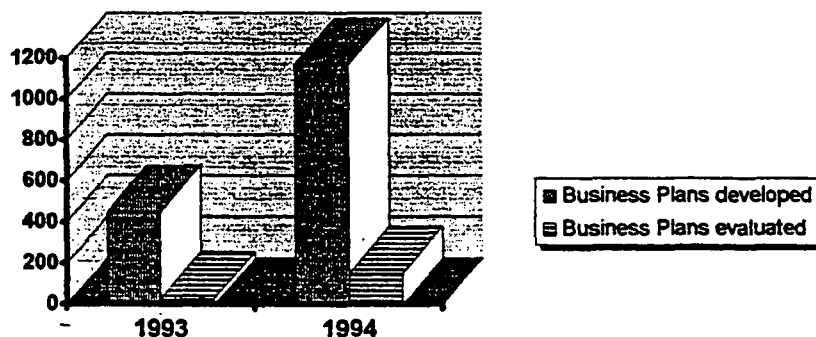


Fig.3. Business Plans developed and evaluated for the Credit Schemes of the NADSME

Another important component of RAIC and BIC activity is the development of **trainings for entrepreneurs**. To meet the needs of entrepreneurs in the Region the RAICs

and BICs provide training on the developing of Business Plans and other areas of concern and need to entrepreneurs, such as legislative, tax, accounting and others.

Special courses were organised for the unemployed under the title "Establishing of small companies to become self-employed" in RAIC Považská Bystrica and RAIC Trenčín as a particular project in co-operation with the French organisation C.E.P.A.C. Soissons.

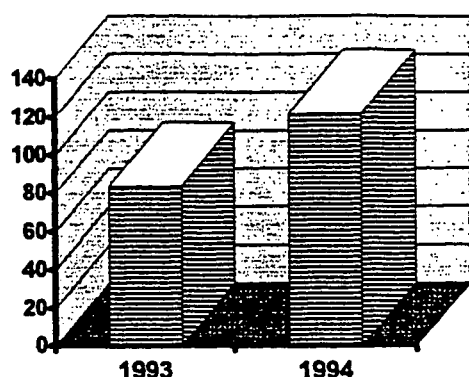


Fig.4. Number of trainings for entrepreneurs

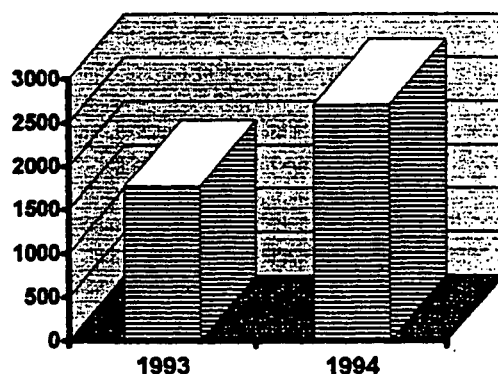


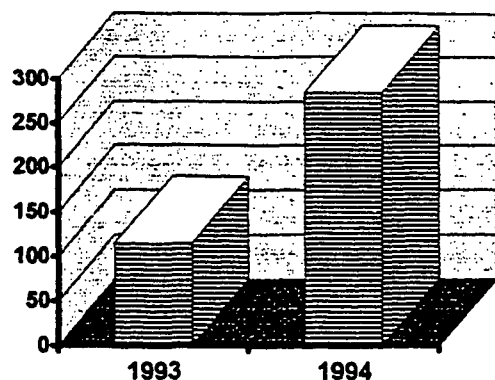
Fig.5. Number of participants in trainings

In addition to the activities listed above, the RAICs and BICs also performed individual activities arising from the specific requirements of their respective Regions. The results of this activity are:

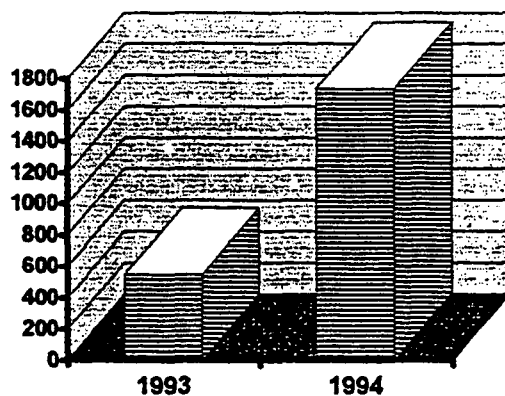
1. the activization of local entrepreneurial potential
2. the creation of new enterprises
3. creation of jobs
4. the support of existing enterprises to meet their business goals.

Of all the newly established companies in 1994, there were 33 innovative enterprises in the fields of wood industry, exploitation of genetics in animal production,

ecology, engineering, geology, flexible manufacturing systems, electrotechnical engineering, networking and data communication, and geographical information systems. Jobs created with the assistance of RAICs and BICs were top quality, and met the specific market needs of the Regions. Therefore the probability of these jobs lasting into the future is very high.



**Fig.6. New enterprises established with support of RAICs and BICs**



**Fig.7. Number of jobs created**

In addition to informational and consulting services for entrepreneurs, developing Business Plans and trainings, the centres were involved in regional development by taking part in projects that promoted business opportunities concerning SME.

There were the following projects in 1994:

- Potentials of Development of Small and Medium-sized Enterprises in Region of Poprad
- Potential for business start-ups in Martin region
- Feasibility study by RAIC Nitra on the potential for job creation in Tourism in the Nitra Region

Activities of RAICs and BICs  
January - December 1994

Activities	RAIC, BIC	Po prad	Mar tin	Ni tra	Zvo len	Luče nec	Pov. Bystri ca	Pre šov	Tren čin	Tre bišov	BIC Bratisla va	BIC Prievi dza	BIC Koši ce	BIC Sp. Nová Ves	Total 1994
Consul- tation	general	292	299	278	90	192	297	250	349	185	605	1582	579	323	5321
	special	530	351	346	292	177	429	159	599	230	296	210	243	177	4039
Business Plans	developed	91	34	51	22	21	120	52	128	45	175	79	54	29	901
	evaluated	79	36	91	31	35	41	46	51	25	118	63	148	34	798
Training	training of enterpren. number of participants	17	8	7	3	0	13	6	32	11	5	9	3	8	122
New Established Enterprises		596	284	167	87	0	206	161	384	331	85	251	54	103	2709
	innovative (only for BIC)	26	77	39	8	5	23	10	31	6	26	18	11	5	285
New Jobs Created		242	386	248	20	89	149	97	110	88	82	130	73	24	1738
NADSME financial schemes	developed & evaluated business plans	110	50	106	38	50	65	82	93	43	296	75	110	52	1170
	loans provided	20	15	19	7	8	21	14	25	2	7	6	6	6	156

### **3. Development Strategy of RAICs and BICs to the year 2000**

#### **3.1 SME Support**

##### **3.1.1 Services for Entrepreneurs and Projects**

The phase of RAIC and BIC building up was finished in 1994 and the potential for complete services provided to entrepreneurs was created in each region within Slovakia. This unique network of RAICs (Regional Advisory and Information Centres) and BICs (Business Innovation Centres), providing a system of information and advisory services, is connected with the European structures. The goal of RAIC and BIC network is to contribute to the economic development of the Slovak regions and facilitate competitiveness of products within the free movement of goods and services in united Europe.

The strategic aim in the area of services is to achieve as high quality of advisory and counselling services as is usual in entrepreneurial agencies in Western Europe. Thus enabling so that once the Slovak Republic is formally associated with the European Union, RAICs and BICs will be linked into the EU's SME support programmes.

The BICs short-term goal is to become full EBN members during the years 1995 - 1996. This can be achieved by fulfilment of certain conditions, the most important among them is the effective operation of business incubators. In the future we expect that services for entrepreneurs will bring about increasing revenues for entrepreneurs. Therefore there will be a possibility to increase the fees for services while keep their advantages. The centres will continue activities such as consultancy in business and financial plans writing, funding business plans, and tax, legal and accounting advisory services. There is also a goal to broaden these basic services and provide clients with advanced advisory assistance to encourage business growth and development (organisational development strategy, growth and organisational structures of a firm, human resources development, payroll system as a tool for firm development, price policy, venture funding, TQM, etc.).

To provide entrepreneurs with a complete package of services there is a goal to create micro credit schemes on a regional level. These schemes will be managed

directly by RAICs and BICs. The NADSME, as the institution which co-ordinates the international and national support and funding of SMEs, has a decisive role in achieving these goals.

**The RAIC and BIC network will be responsible for implementation of the national programmes and projects organised by NADSME, as follows:**

- support loan programmes and financial guarantee schemes
- seed capital and risk investments
- SME information services (EICC, Subcontracting Exchange of Slovakia, European information networks, participation on exhibitions and fairs)
- bilateral programmes of co-operation with Germany, Netherlands, Austria, USA, Japan, etc.
- "Spin-off" project,
- etc.

**The continual training of RAIC and BIC staff is necessary to secure and develop all the activities outlined above.**

RAICs and BICs are also responsible for solving, co-ordination and/or implementation of SME support projects to meet the specific needs of the respective regions (sectoral support of entrepreneurs, business incubators, etc.).

One of the most effective centre activity is **training and seminars for potential entrepreneurs interested in starting a business as well as for existing entrepreneurs**. These trainings are up-to-date and developed to meet current regional needs. A special project will be developed for unemployed, who are interested in business opportunities. This programme will be accomplished in co-operation with the French company C.E.P.A.C. Soissons and the EU Programme "Partnership in Institutional Building".

As of 1995 RAICs and BICs are building up their satellites and/or supporting local initiatives as a part of a special project. The aim of this particular project is to cover the whole territory of Slovakia with a comprehensive system of services for SMEs. The contract concluded between a Business Advisory Centre (these centres are at present linked with the District Offices of general state administration) and the closest RAIC/BIC, enables a utilisation expanding current capacities within the

Business Advisory Centres. Because of the good reputation of RAIC/BIC and their position in the regions they will be **instrumental in the synergetic implementation of the following PHARE projects and programmes :**

support of export, technology transfer, creating favourable conditions for foreign investment, cross border co-operation, regional development, etc.

### **3..1.2 Funding**

During 1994 a new system of RAIC and BIC funding was developed and piloted. **Under this new system funding will be made towards services provided by the centres.** This system enables the centres to continue provide specific services free of charge or for a partial fee.

The aim is to achieve a financial autonomy, as PHARE funds are slowly reduced. This can be achieved by increasing income from local resources, state resources, clients' fees and by linking with the European Union programmes. We consider a diversification of funds as very important component of autonomy. We expect funding to develop as follows:

#### **a) PHARE - funding towards services provided to entrepreneurs**

PHARE funding for services provided to entrepreneurs will be decreasing. As PHARE activities in the Slovak Republic conclude, this income will be zero. It is necessary to manage this decrease in funding through a step by step process to avoid a sharp drop of income, that could bring about a resulting sharp rise of fees for services.

#### **b) PHARE - project funding**

We expect increased funding from PHARE for "project" activities in the Slovak Republic in co-operation with the Delegation Office of the European Union. Development of specific projects will be in accordance with the goals of the EU and PHARE programme. The RAICs and BICs will benefit from these special "project" funds. The projects are expected to broaden the range and quality of



services to SMEs and to bring existing SME know-how to areas newly covered by centres' satellites and/or co-operating local initiatives.

c) State Budget

Funding from the State Budget is expected to increase at rate that by the year 2000 it will account for approximately 35 - 40% of RAIC and BIC income. The State Budget should provide funding for free of charge services and partially paid services. To meet this goal, the presentation of RAIC and BIC work results must be increased and more effective. It is important to utilise state funds so the centres will achieve the concrete results. These results must be marketed in a "success story", so that funding from the State Budget increases continuously between now and the year 2000..

d) Local resources

Local financial resources for RAIC and BIC funding should be increasing as well. The presentation of results on a local level is very important as well as the everyday dialogue between the centres and municipalities, so the RAICs and BICs will become an important part of regional policy.

e) Clients

We expect increasing income from client fees. It is necessary to improve the quality and professional level of services as well as the range of services, so in spite of the higher price they will be advantageous for clients. The quality of services must be at the same level as services provided by similar advisory agencies in the EU member countries. This quality of services must be guaranteed for clients through a uniform set of standards. Therefore it is important to continue the training of RAIC and BIC staff.

f) European Union

Institutions like RAICs and BICs have an important role in developed European countries. We expect that the RAICs and BICs will continue in their activities after the Slovak republic establishes an association with the European Union. Therefore the centres will obtain an opportunity to take part in SME support programmes of the European Union, that will then be accessible to Slovakia.

Following charter (Charter 1) shows the development of RAICs and BICs funding in the future.

Expected utilisation of PHARE funding and opportunities at present to secure financial resources while RAIC and BIC function is maintained.

Activity	Result	Target Group	Financial Benefit
Institutional Funding	Increased quality of services Success stories	Clients Public Authorities	Increased income from clients Income from public resources
Project funding	Broader range of services Know-how allocation	Clients Top Authorities of Slovakia	Clients fees Increasing state share of funding
Training	Increased quality services	Clients	Clients fees
Co-operation with EU	To obtain know-how	EU Programmes	Participation in SME support programmes of the EU

Survey of needed funds for activities of RAICs, BICs, their satellites and co-operating  
local initiatives in the area of SME support from PHARE funds in 1996-2000  
(000 ECU's)

<u>Activity/Year</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
RAIC (13 centres)						
services	390	325	260	195	130	1300
projects <sup>1</sup>	750	690	590	490	300	2820
BIC (4 centres)						
services	120	100	80	60	40	400
projects <sup>2</sup>	390	410	400	380	350	1930
RAIC/BIC staff training						
Entrepreneur training	450	450	450	400	300	2050
Enterprise workspace	1500	2000	1000			4500
Regional micro credit schemes 500000 ECU per centre	2000	2000	2000	2000	2000	10000
<b>Total</b>	<b>5600</b>	<b>5975</b>	<b>4780</b>	<b>3525</b>	<b>3120</b>	<b>23000</b>

<sup>1</sup> RAIC satellites, TQM, concrete regional projects, CEPAC

<sup>2</sup> selection of innovative companies, technology transfer, job creation for technical university graduates, new BICs, concrete regional projects, CEPAC

## **3.2 RAICs and BICs - the Basic Element of Regional Development Agencies**

### **3.2.1 The Mission of the Regional Development Agencies (RDA)**

The RDA networks support regional economic development in all member countries of the European Union, and during the last years they have also been established in the Eastern and central Europe countries.

The European Association of Regional Development Agencies - EURADA defines the Regional Development Agency as "...any functioning institution the mission of which is to develop activities in collective and/or public interest in a particular territory. Therefore the RDA has to be connected with local and/or regional authorities, concerning their managing, funding and task defining. In addition, the territory which RDA works in, must be of significant size. It is understood this territory is smaller than the territory of establishing country."

RDA main activities are as follows:

- counselling and assistance for entrepreneurs
- counselling and assistance for start-up businesses
- development of various studies concerning economic sectors
- maintenance of databases on regional entrepreneurs
- maintenance of databases defining premises and land available for business and entrepreneurship development
- databases on assistance programmes for entrepreneurs and enterprises
- organisation of entrepreneurs participation in fairs and exhibitions
- restructuring of companies

Other activities of RDA:

- support of export-oriented companies
- advisory services concerning tax-exemptions
- partial payment of rent for entrepreneurs, on a needed basis
- purchase of premises suitable for entrepreneurship
- running of subcontract exchanges
- establishment and management of technology parks and centres
- environment preservation

provision of loans and guarantees

The above listed activities show that the work of RDAs focuses on stimulating the economic development in the region both by creating job opportunities (internal potential) and/or by improving the regional advantages for foreign investors (external potential).

From a legal point of view, the RDAs are public institutions which are established by "bottom up" approach. The private sector as well as the public sector (regional and local public administration, entrepreneurs, banks, etc.) are represented in these agencies.

### **3.2.2 Role of the RAIC and BIC network in the establishment of the RDA**

At present RAICs and BICs as business centres support SMEs and thus considerably contribute to regional development. Therefore these business centres have the potential to expand their work and perform additional activities which are included in the RDAs mission. A brief summary of the RAICs' and BICs' activities is given below:

- established by the "bottom up" approach as public institutions in which regional administrative bodies are represented. Thus centres secure partnership between the public and private sectors in a respective region
- supported by the EU PHARE Programme through the National Agency for Development of Small and Medium Enterprises (NADSME) and as such they are able to receive funding from other programmes and/or funds
- the centres' work focuses on SME support and solving the problem of unemployment is one of the main criteria for their work
- centres' staff consist of skill workers who are trained in all mentioned areas by foreign experts and they are experienced in communication with international institutions
- centres are very well equipped and have the best quality technical and office equipment

- centres have built databases in their respective regions that are regularly updated

The RAICs and BICs can act as a Regional Development Agencies, as long as their activities are replenished with an autonomous plan. This plan shall facilitate a co-ordination of multi-sectoral activities with a special stress, in addition to the SME support, on the development of an infrastructure and human resources. An example of this solution has been developed in the Region of "Horná Nitra". The "Council for Development of the Region of Horná Nitra" decided not to establish a new RDA institution but implement, into the already successfully developing BIC Prievidza, the element of multi-sectoral co-ordination. This way BIC Prievidza was able immediately to work on Programme tasks and project co-ordination according to the Council's resolution. The BIC hired two employees experienced in regional development strategy to facilitate this work.

The advantages of broadening the RAIC and BIC activities to include general co-ordination of regional development, results in a synergy of matching fund utilisation. This means that financial resources from different sources can be attracted and used for implementation of concrete development projects in the respective regions. The matching funds could be as follows:

- on international level - PHARE (Human Resources Development Fund, Labour Market Restructuring Programme, support of regional development, etc.)
- bilateral co-operation funds on a regional level
- state funds (state budget, financial credit programmes)
- local funds (regional investment fund, micro-credit scheme)

Increased income will not mean a profit, but broadening of a range and quality of services(according to statute)

