



**STATE  
OF SMALL  
AND MEDIUM  
ENTERPRISES IN  
THE SLOVAK REPUBLIC**

**1999**



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The language of this text has not been corrected.

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## *In the way of introduction*

*Small and medium-size enterprises have become a bearing pillar of the whole economy also in Slovakia. So, SMEs made up 96.4% of all the business entities - legal entities in 1999; they had a share of almost 60% on employment; and their share on the generation of added value also approached 60%. Moreover, this category is being considered most flexible, most efficient, most progressive in developed economies and thus, in the context of what has been mentioned above, the most important component of the economy.*

*Consequently, EU Member States as well as other developed countries have been paying maximum attention to the state of SMEs and keep adopting measures aimed at their development. The statistics bear witness to the support to small and medium-size enterprises becoming an important component of the overall economic strategy in developed countries during the recent 20 - 25 years. Statistics from recent years provide evidence that small and medium-size enterprises represent 80 - 99% of business entities in EU countries, that they provide 45 - 75% of employment, and generate 40 - 60% of the gross domestic product.*

*Also evidencing the importance of this category is the fact that it became the subject of a separate chapter with respect to EU accession negotiations, and it was the previous attitude to the issues of SMEs in Slovakia that has been the reason for this chapter being presently perceived as problemless. However, seen through the eyes of the domestic business community we cannot claim straight forward that there are no problems in this respect. Neither can this be claimed in the light of the parameters of the development of small and medium-size enterprises from the viewpoint of their functions in the economy of a country, the most important of them presently being the employment-related function. Also, the report we are honored to present to you may help you to assess the degree to what a number of other functions are being fulfilled.*

*The Government of the Slovak Republic has appointed the National Agency for Development of Small and Medium Enterprises to monitor the development of SMEs. This task is far from being an easy one: small and medium-size enterprises keep developing rather quickly and are rather heterogeneous. The more beneficial are the information contained in this 1999 Status Report on small and medium-size enterprises. Namely, it documents the fact that*

*there is a sector of small and medium-size enterprises in the Slovak economy despite all the problems and hardships, that has made a significant contribution toward both the production of, and employment in the Slovak economy. The importance of this sector can realistically be expected to further grow, and to significantly participate in the changes of the structure of our economy, thus making a contribution toward a growth of the performance, flexibility and competitiveness of the economy.*

*This Report, being the seventh in a row, represents a document of importance that serves the government for their decision-making on any amendments to the legislation, and on regulatory measures concerning the business environment. All of the preceding reports have stated that administrative and financial burdens imposed on the entrepreneurs represent the greatest barrier to the development of small and medium-size enterprises. And this has also been one of the reasons prompting the Slovak Government to adopt marked changes in the system of taxes applicable as of 1 January, 2000, and to draft measures for the said fields for the period to come.*

*Let us hope that this Report will remain a stimulating source of inspiration for the activities of all those it has been intended for, i.e. officials within the control level, banking sector, associations of entrepreneurs as well as the very entrepreneurs themselves, to the benefit of the development of small and medium-size enterprises, and thus of the whole economy of Slovakia.*

A handwritten signature in black ink, appearing to read 'Eubomír Harach', written in a cursive style.

**Eubomír Harach**  
*Minister of Economy of the Slovak Republic*

# 1. Introduction

The development of small and medium-size enterprises has been defined as one of the priorities of the economic development of our country. During the present period characterized by high unemployment rates, small and medium-size enterprises represent one of the major options to deal with these problems. An important factor of the development of SMEs is the setting up of an appropriate business environment, and this requires to simplify the legislation and to make it more transparent, to reduce the administrative and tax burdens, to strengthen the supporting infrastructure, and to improve access to capital.

A substantial improvement of the business environment is necessary mainly because leaving the existing barriers within the business environment in place or their too slow elimination was negatively reflected in the GDP growth dynamics as early as in 1998. Although there was a slight growth in the numbers of small trade licensees in 1999, there was a drop in the numbers of freelancers, as well as of legal entities.

The Slovak Government decided that the state of, and support to small and medium-size enterprises be assessed and evaluated, and this is what this Report does for the preceding year. The Government's resolution in this respect was cancelled in 1999.

The present Report has the following structure:

- Chapter one provides a brief characterization of the Report.
- Chapter two points to the influence of the legislative and regulatory environment, financial as well as administrative burdens on the development of small and medium-size enterprises in the past year, these being the major dominants impacting on the development of SMEs.
- Chapter three characterizes the development and state of SMEs in 1999, including their dynamics, based on statistical data.
- Chapters four, five and six deal with the individual types of support to SMEs; Chapter four shows data concerning support from State Budget, Chapter five from PHARE Fund, and Chapter six from other foreign sources.
- Chapter seven presents measures suggested for the immediately following period; this Chapter also presents the orientation of the National Programme of the Adoption of the *Acquis Communautaire* with respect to SMEs.
- Chapter eight contains conclusions.
- Additional data, tables and diagrams are included in the Annex.

The numerical data shown in Chapter 3 have been taken from background documents of the Slovak Statistical Office and of the National Agency for Development of Small and Medium Enterprises (NARMSP).

In accordance with the methodology used in the EU, this Report does not deal with enterprises in primary agricultural production, forestry or fisheries.

The Report shall be published and also used as a database to provide information to European Union, OECD and UN EC institutions for the purposes of compiling comparative analyses and various studies.

## **2. Development of the environment for development of SMEs in 1999**

### **2.1 Legislative and regulatory measures**

Similarly as in the preceding years, the development of the legislative environment was branded by numerous changes also in 1999. Also in this year, the changes concerned almost all the material legal standards that directly or indirectly concern the development of SMEs. Nevertheless, changes in the legislative environment made in 1999 cannot be claimed to have made a more pronounced contribution toward an improvement of the development of enterprising, mainly because, in a majority of cases, they only dealt with partial problems, and suggestions of the business community and/or the respective institutions were frequently not accounted for during their drafting. Obviously, there was a lack of a systemic view of the dealing with the prevailing barriers to the development of business as pointed at in the analyses of various institutions dealing with these issues year after year. In the context of the importance and extent to what they impact on the business environment, the following legislative standards should be mentioned:

**Act of the National Council of the Slovak Republic (NR SR) No. 286/1992 Coll. on Taxes on Income, as amended from time to time** whose amendments brought some minute improvements mostly concerning foreign and larger business entities; however, justified requirements on the part of small and medium-size businesses concerning:

- reduced tax rates for legal entities,
- changes in tax brackets for natural persons,
- making natural persons equal with legal entities with respect to higher tax base,
- making self-employed persons equal with employees with respect to positions of some tax-related expenditures,
- distinguishing between tax payers - natural persons being employees and so-called self-employed persons thus differentiating the tax duties,
- a systemic change in determining the amounts of deductibles,
- a more realistic time period for depreciations, remained unaddressed.

**The above Act was replaced, in November 1999, by the NR SR Act No. 366/1999 Coll.II.** that already deals with some of the above requirements, the regulations however only referring to the period after 1999, and this Report only eval-

uates the period of 1999. Nevertheless, it should be mentioned that several regulations were perceived as additional barriers to the development of SMEs immediately after the adoption of the Act, or were not at all meeting their purpose of motivation factors, and thus the above legislative initiative will have to be re-drafted. The measures included e.g. so-called flat tax whose practical application would require substantial amendments again, to be able to fulfill its motivating purpose.

**NR SR Act No. 289/1995 on Value Added Tax, as amended from time to time**, witnessed no material positive changes last year; as before, entrepreneurs basically provide the state with credits due to their liability to pay VAT upon issuing invoices whereas, when claiming VAT returns, the deadline is 54 days at the best. Moreover, the lower limit of the tax rate was increased from 6% to 10% during the year, and this also increased the financial demands on doing business and, at the end of the day, made prices soar.

**Decree of the Slovak Ministry of Finance No. 118/1999 Coll.II. On Import Surcharge, as amended from time to time**, that also raised the financial burden on entrepreneurs in cases they are forced to use imported products and raw materials.

The above changes in the legislation only represent the most serious portion of the regulatory measures, i.e. those that have most frequently and repeatedly been considered the most serious barriers to the development of business both on the part of entrepreneurs and on that of institutions dealing with analyses of the said topics.

Although "only" 123 legal standards were adopted in 1999 (compared to 160 adopted in 1998) concerning small and medium-size enterprises, there are still numerous legal regulations with a negative impact on the development of business, and their amendments could materially help to improve the business environment. In addition to the above mentioned legislative standards, it will be necessary in the period to come to do something about the frequent comments on:

- **the NR SR Act No. 18/1996 Coll.II. On Prices,**
- **the NR SR Act No. 273/1994 Coll.II. On Health Insurance, on the Financing of Health Insurance, on the Establishment of the General Health Insurance Company, and on the Establishment of Sectoral, Branch, Works and Civil Health Insurance Companies,** as amended from time to time,
- **the NR SR Act No. 274/1994 Coll.II. On the Social Insurance Company,**
- **the NR SR Act No. 455/1991 Coll. On Small Trade Business,** as amended from time to time.

In general, the problematic law enforcement acts negatively on the development of business. In this respect, what has to be dealt with is equality of all entities within the entrepreneur - state authority relationship.:

- abolishing of the option to issue, by any entity, writ of execution without the decision of an independent body (court),
- providing for the state's liability for losses incurred due to the action, failing to act or incorrect decision by state authorities,
- abolishing of any privileges of certain business entities in all legal regulations (e.g., banking institutions have the right to file petition for the issuance of an order to pay without any restrictions with respect to the amount; notarial protocols represent writ of execution for the banking institutions only),
- speeding up of court decision-making, non-interference of central state administration authorities with the exercise of ownership rights.

The intricacy of the legislative environment is also projected into administrative barriers to the development of SMEs.

Also, as an example of the administrative approach to the support for enterprising has been the adoption of the **NR SR Act No. 231/1999 Coll.II. On State Assistance**. No doubt, the positive aspect of it was the respecting of the recommendation of the European Commission concerning the definition of SMEs. If it comes to the support itself however, it has brought in no extension and/or simplification, even to the contrary. The Act established State Assistance Office whose key activity is the surveillance upon the obedience with the provisions of law and approval of applications; this, on one hand will provide for a better transparency of the provision of state assistance, on the other one however it will make the entire process much longer. The structure of the law is relatively intricate and sometimes hardly intelligible, enabling a variety of interpretations. When compared to a similar law applicable in the Czech Republic, the excessive complexity of the Slovak piece of legislation becomes obvious. Six months of application of the Act have shown the need for its expedient amendment.

## **2.2 Financial burden imposed upon SMEs**

Financial burden to be borne by businesses is an issue that regularly and most frequently appears in analytical documents prepared by a variety of institutions, consistently suggesting that this is one of the major barriers to the development of SMEs, and that attempts to reduce it mostly fail resulting in frequently the opposite.

It is obvious from what has been shown in the preceding chapter that the prevailing majority of legislative barriers to the development of SMEs are reflected in a significant burden imposed upon the entrepreneurs. The reasons for this include the adoption of some regulatory measures without any more detailed analysis of their impacts on SMEs and/or their one-sided assessment, e.g. just from the viewpoint of their benefits to the State Budget. In this context, also the need of adopting such measures after having reviewed their interconnections should be stressed, since any legal standard may directly influence another one or even several other standards.

Even if the financial burden is improporionately large for all entrepreneurs, its impacts are most negative on SMEs and, within this category, on natural persons (small trade licensees, self-employed persons); the 1999 amendment to the Income Tax Act has brought no positive changes for small trade licensees.

In this connection, besides taxes it is contributions to funds that represent the most significant problem; this concerns both their absolute amounts and their dependence on the preceding year's tax base. In this way, the changing situation in the market and the associated proportionality of payments is not accounted for. Moreover, the legislation also shows some discriminatory approaches to the above mentioned category of SMEs, such as:

- inequality with respect to sickness benefits and benefits paid to entrepreneurs upon injuries as compared to those paid to employees,
- women entrepreneurs are not paid any benefits in motherhood,
- daily allowances paid for domestic business trips are not considered expenditures for the purpose of attaining, securing and maintaining of income,
- the possibility of generating social fund also to the benefit of entrepreneurs, etc.

A separate chapter raising the financial burden concerns investments that cannot be handled as deductibles from the taxable income base, not accounting for inflation and growth of prices with respect to categories of tangible and intangible assets, as well as depreciation policy that spreads depreciations over improporionately long periods of time which does not at all correspond to the need of a sophistication of investments and/or technologies. Also insufficient with respect to the issue of depreciations is the system of enhanced depreciations since it impacts on only the tax base reduction rather than on the overall length of the depreciation period.

Also, the state of SMEs is negatively influenced by the system of social and health security including employment policies: it imposes a large burden by con-

tributions and levies, and introduces a dysbalance into the rights of employees and employers as provided for by the Labor Code. The reform of the social and health security system should be oriented toward both the institutional aspect and the material aspect, and equality of all entities (individuals, employers, state) should be provided for.



## **3. SMEs: 1999 development and status quo**

The state of the business environment and the conditions for doing business, either economical, legislative or administrative, are markedly projected also into quantitative parameters of entities doing business. They can be used to judge upon the existing trends, and they also represent indicators of the need of changes to provide for the desired growth. Such analyses however are associated with the problem of the exactness of the available data due to recording procedures, discipline of the entrepreneurs with respect to reporting, as well as due to the competences of officials working for the corresponding authorities responsible for the records.

The NR SR Act No. 231/1999 Coll.II. On State Assistance defines small and medium-size enterprises in accordance with the methodology of the European Commission, and classifies enterprises by their size (small: 0 - 49 employees; medium-sized: 50 - 249 employees; large: 250+ employees). Additional criteria are used, including turnover and close of accounts balance. Statistical data have been available in this structure since 1996.

The present evaluation has been based on the processing of data from register and from data published by the Slovak Statistical Office. The register data have been updated according to the new methodology with respect to the activities of the enterprises. The analysis of exports organized by small and medium-size enterprises was processed based on FPZO (Foreign Trade Promotion Fund) data. Data concerning the numbers of Small Trade Licences issued and withdrawn were provided by the Slovak Ministry of Interior. In the present Report, enterprises were considered SMEs based on the sole criterion being the enterprise size.

The graphical data referred to in this chapter are shown in the Annex.

### **3.1 Natural persons**

Overall, there were 295,750 registered natural persons, including 266,903 small trade licensees, i.e. natural persons doing business pursuant to the Small Trade Act and registered with the Small Trade Register; 11,231 individuals doing

business as freelancers; and 17,615 individual farmers. Compared to 1998, there were 3,170 more small trade licensees (1.2%), whereas freelancers and individual farmers recorded reductions by 1,715 (13.2%) and 1,506 (7.9%), respectively. For the first time in history, there was a marked drop in the number of freelancers (Graphics 3.2), and there has been a continuing decrease in the numbers of individual farmers. This means that there were 295,750 earning natural persons by the end of 1999 who were doing business independently, representing 10.6% of the economically active (earning) population.

There were no marked changes in the sectoral structure of small trade licensees either (Graphics 3.3). Drops by 0.4 and 0.1 point were recorded in the building industry and the industrial production sectors, respectively, and an increase by 0.8 point in domestic trade. The most important sectors include domestic trade with 101,550 small trade licensees followed by industrial production (49,372) and building industry (36,488 small trade licensees)(Graphics 3.4).

Graphics 3.20 shows the structure of small trade licensees by regions. Most licensees do business in the districts Bratislava V (10,894), Žilina (9,697), Nitra (9,073), Bratislava II (8,884), and Bratislava IV (7,745). The smallest numbers of small trade licensees are in the districts Medzilaborce (390), Sobrance (492), Poltár (523), Krupina (544), and Turčianske Teplice (617).

## **3.2 Legal entities**

As of 31 December, 1999, there were 58,333 profit-oriented organizations - legal entities recorded with the Slovak Statistical Office register, being 3.3% less compared to the preceding year.

Limited liability companies had the biggest share of all the for-profit organisations (77.6%). Their number dropped 2.3% compared to the preceding year, to reach 45,177. Also, the number of state enterprises dropped by 34.9% (to reach 97), that of cooperatives decreased by 6% (to reach 1,802). Joint stock companies were the only form that increased in numbers (by 3.7% to reach 4,060). Of all the for-profit organisations, 97.9% were privately owned. Graphics 3.5 shows the development of the numbers of legal entities by their legal form.

Small enterprises made up a prevailing portion of the for-profit organizations (93.2%; thereof, micro-enterprises with 0 - 9 employees 77.2%). Medium-sized

and large enterprises made up 5.6% and 1.2%, respectively. There were 1,038; 49; and 99 small, medium-size and large enterprises less, respectively.

There were 54,349 small private enterprises with up to 49 employees. This figure included 2,938 small trade licensees recorded with commercial register. There were 3,294 medium-size private enterprises with 50 - 249 employees. The development of the numbers of small and medium-size enterprises is shown in Graphics 3.6. The changes in the individual size categories occurring within 1996-1999 are illustrated in Graphics 3.7. It shows a reduction of the numbers of micro-enterprises (0-9) by 4.3 points, an increase in the numbers of small enterprises (10-49) by 4.3 points, an 0.1 point increase in the share of medium-size enterprises, as well as an 0.1 point reduction in the share of large enterprises.

Graphics 3.8 illustrates the structure by sectors. Most small and medium-size enterprises were doing business in the sectors of trade (25,335), commercial services and finances (10,690), production of goods (8,469), and building industry (4,497). The structure by regions is shown in Graphics 3.20, showing a marked maximum in the Bratislava Region.

### **3.3 SMEs' contribution toward employment**

There were 2,132.1 thous. person in average working in Slovakia's economy in 1999. The employment decreased 3.0% compared to 1998, the drop being 2.7 percentage points larger than in 1998, and was mainly connected with reductions of job opportunities in agriculture (by 13.3%) and industry (by 4.8%). Sectors showing reducing employment in 1999 also included building industry (-7.2%), transport, warehousing, Posts and telecommunications (-2.2%), finances and insurance business (-1.3%), and public service. Graphics 3.9 shows employment by sectors.

There were 445 thous. people employed within the category of small trade licensees, and 284.8 thous. and 382.9 thous. individuals employed in small and medium-size enterprises, respectively. A break down by size categories of enterprises and developments during the recent three years is shown in Graphics 3.10.

A year-to year reduction of employment by 7.1% was noted for the category of small enterprises, with the overall employment in SMEs, including small trade licensees dropping 4.0%. An obvious reason for these reductions was

unwillingness on the part of mainly small enterprises to hire people because of employment-related administrative requirements and high costs. The role played by SMEs in employment is obvious from Graphics 3.11. In 1997, SMEs provided jobs to 59.4% of the population employed, dropping to 57.1% and 56% in 1998 and 1999, respectively. This is an alarming trend since it is SMEs that are expected to create new job opportunities.

### **3.4 SMEs' contribution toward production by some sectors**

The added value generated within the industrial sector increased 7.9% compared to 1998, to reach Sk 215.6bn. The industrial production index suggested that industrial production was 3.4% below its 1998 level. The development of industrial production was influenced by a reduction in the production of goods (-5.3%) and by an increase in the production of minerals (+6.4%) and in the generation and distribution of electricity, gas and water (+4.4%).

Graphics 3.13 shows the share of SMEs on the production by some sectors, with small trade licensees having generated revenues worth Sk 580bn; small, medium-size, and large enterprises generated revenues of Sk 580bn, 300bn, and 561bn respectively (at current prices).

Business entities doing business in construction industry sector generated added value worth Sk 31.3bn in 1999, being 30.4% smaller than that generated in 1998. As compared to 1998, construction production dropped 25.8% (to reach Sk 64bn). Of the construction sector's overall production, large, medium-size and small enterprises generated 22.4%; 23.4%; and 25.9%, and the share of small trade licensees was 28.3%. In none of the size categories of enterprises did the construction production reach the 1998 levels. The most pronounced reduction concerned large enterprises, and the smallest one concerned small trade licensees.

In the market services sector, the added value increased 11.9% to reach Sk 364.9bn. This increase was influenced by a growth in the Posts and telecommunications sector (+6.3%) and other services (+6.1%), as well as by reductions in the trade and transport sectors (-0.4% and -2%, respectively).

Wholesale revenues increased 4.6% as compared to the preceding year, to reach Sk 752.8bn. More than three quarters of the wholesale sector's revenues

were generated by small enterprises (45.9%) and small trade licensees (37%). Medium-size enterprises had a share of 13.5%, while that of the large enterprises was the smallest (3.6%). Revenues of large enterprises did not reach the 1998 level (a decrease by 41.9%). The revenues of all the other size categories grew faster than the average for the sector.

Retail sale revenues grew 5.4% as compared to 1998, to reach Sk 442.1bn. The growth rates were more moderate than in 1998 (by 2.8 points). A majority of the revenues were generated by small trade licensees and small enterprises (43.8% and 26.7%, respectively). Large and medium-size enterprises accounted for 13.6% and 15.9% of the overall volume of retail revenues, respectively.

As compared to 1998, revenues from transport of goods and persons increased 8.4% to reach Sk 38.5bn. More than half of the revenues were generated by small trade licensees (51.1%). Small, medium-size, and large enterprises contributed 21.2%; 24.2%; and 3.5%, respectively.

Revenues from sales of services of Posts and telecommunications reached Sk 34.4bn, the private sector generated 35.5% of the revenues.

Accommodation establishments generated revenues worth Sk 4.1bn.

Revenues from other market services grew 0.4% as compared to 1998, to reach Sk 117.8bn. The largest portion was generated by small enterprises (45.2%) and small trade licensees (30.1%). Medium-size and large enterprises contributed 14.5% and 10.2%, respectively. The volumes of revenues generated by small, medium-size and large enterprises did not reach the corresponding 1998 levels. For small trade licensees, there was a 9.4% increase as compared to the preceding year.

### **3.5 SMEs' contribution toward exports and imports**

During 1999, there was a prevailing marked excess of growth rates of exports over imports in foreign trade. With exports of goods growing 11.8% compared to 1998, imports only grew 1.6%. Compared to 1998, SMEs exported and imported 4.8 and 15.3 percentage points less. The negative balance of the foreign trade (Sk 45.7bn) was Sk 37.2bn less than for the preceding year.

Small and medium-size enterprises participated to a significant extent also in foreign trade. Graphics 3.14 shows the development of exports by the size categories of the enterprises. SMEs had an overall share of 30.5% on exports (Graphics 3.15). SMEs are also proportionately represented in exports to the most significant destinations (Graphics 3.16). There was a relative decrease of SMEs' shares on exports (by 14.8%; from 45.3% in 1998 to 30.5% in 1999). This was due to a dramatic expansion of exports by some large enterprises, such as VW Bratislava. The reduction of imports by SMEs is a positive phenomenon from the viewpoint of the national economy: the share dropped from 53.9% in 1998 to 43.7 in 1999. Graphics 3.17 illustrates the year-to-year development of imports, and Graphics 3.18 shows the shares on imports by size categories.

### **3.6 SMEs development dynamics**

A total of 38,619 new small trade licensees, and 9,583 small and medium-size enterprises were registered in 1999. The share of newly issued small trade licences on the overall numbers of small trade licensees was 14.5%, the corresponding figure for legal entities is 16.6%. However, there are some disproportions between the numbers of small trade licences issued and numbers of active legal entities registered with the statistical register of companies. In our opinion, this - to a significant extent - is due to the fact that a significant portion of applicants for small trade licence do not effectively start doing business at all or - if it comes to legal entities - they do not get registered with the courts. Graphics 3.19 showing the structure of SMEs - legal entities by the year of incorporation suggests that the long-term growth tendencies of 1998 turned to become reducing trends. In 1999, a total of 25,564 small trade licences were withdrawn.

### **3.7 Conditions for newly established companies - results of a sample survey**

We cooperated with the Slovak Statistical Office on a sample survey of a representative panel of 1,315 enterprises conducted in late 1999 for the purposes of a more detailed analysis of newly established companies. The analysis focused on active companies (both legal entities and natural persons) established in 1998. The most important findings were as follows (the year indicates the year the company was established).

There were 31,066 active new companies established in Slovakia in 1998 (42,811 registered, thereof 31,066 were active). This means a decrease by more than 20% as compared to the preceding year (38,941 active companies).

There was a change in the size of the business entities (natural persons): the average size in 1998 was 1.7 employee (being 2.1 in 1997 and 2.6 in 1996), thus there was a reduction for the second year in a row.

The share on the overall employment representing full-time employees keeps decreasing in the newly established companies since 1995: from the level of 74.9% in January 1995 to the level of as little as 55.9% in 1998.

Newly established companies with foreign capital stakes contributed 10.4% to the growth of the overall employment in 1998 (1997: 16.3%).

In monitoring the conditions for the development of small and medium-size enterprises, we investigated the problems of the newly established companies associated with market supply and/or demand. No problems with the realization of the production (sales of products or services) or with the development of production (development of business activities) were claimed by 40.2% of all the newly established enterprises in 1998 (34.1% legal entities and 41.7% natural persons).

Problems with the realization of the production or with the development of production, i.e. with either the supply of services and sales of products or inability to meet demand (problems with the development of business activities) were claimed by almost one quarter (23.6%) of all newly established enterprises in 1998 (21.9% legal entities and 24.1% natural persons), representing a reduction by 6% and 2.3% in both cases, respectively.

The survey results suggested that the worse hit group of newly established companies are those having problems with the realization of the production as well as with the development of production. There were 36.2% such enterprises in 1998 (44.0% and 34.2% legal entities and natural persons, respectively), being a growth of 4.0% for the whole group and a growth of as many as 8.7% compared to 1996.

A deeper analysis of the reasons for the problems with the development of production shows that 65% entrepreneurs complain of a lack of capital (a growth by 4.0% as compared to 1997).

Limited access to credits was claimed by 24% of all the 1998 respondents (a reduction by 9% as compared to 1997).

Complaints of inability to pay dropped by 4% in 1998 as compared to the preceding year, to reach 47%.

Shortage of qualified labor was claimed by only 7% of entrepreneurs. Lack of technologies represented a problem to 12% of the entrepreneurs in Slovakia.

Significant tax burden is a problem claimed by 70% - 80% of entrepreneurs in 1998 (1997: 60% - 70%), in particular by 80.7% legal entities and 69.2% natural persons (1997: 70.0% and 59.2%, respectively).

Intransparent legislative environment was claimed by almost half (48.1%) of entrepreneurs - legal entities (1997: 40.1%) and more than two thirds (34.8%) of natural persons (1997: 29.7%).

Of the legal entities, 42.9% perceived administrative barriers as restricting business (1997: 30.8%), the corresponding figure for natural persons being only 28.9% (1997: 25.8%).

Ethics of doing business (lack of reliability of the partner) as a phenomenon accompanying business activities, in particular claims of a lack of ethics, occurred frequently, claimed by more than half (52.3%) of the legal entities (1997: 44.9%) and more than one third (34.4%) of natural persons (1997: 34.4%).

### **3.8 The regional aspect**

Graphics 3.20 shows the percentages of small trade licensees, small and medium-size enterprises by regions. Important from the viewpoint of regional economic activities is the enterprise number-economically active population ratio. This comparison is illustrated in Graphics 3.21, with a marked ratio for mainly the region of Bratislava. This corresponds with the overall economical level of the regions expressed in terms of GDP generation, as illustrated by Graphics 3.22, and production by the individual sectors, as illustrated by Graphics 3.23.

## **3.9 SMEs' position within Slovakia's economy: Summary**

Small and medium-size enterprises' contribution to the gross production has grown, and that of large enterprises decreased (Graphics 3.24), SMEs having recorded an absolute growth.

A similar situation also concerns the generation of added value, with the contributions of small enterprises growing, and those of medium-size and large enterprises decreasing (Graphics 3.25).

When it comes to employment, it pronouncedly dropped for small enterprises (by as many as 7.1%); there also was a small decrease for medium-size enterprises, and an insignificant growth for small trade licensees and large enterprises (Graphics 3.26). The numbers of persons employed in newly established companies keep decreasing.

Earnings before tax showed a growth compared to the preceding year for all groups of enterprises (Graphics 3.27). Nevertheless, the development of investments in small and medium-size enterprises is beyond what it should be, while not reflecting the need for restructuring and transition to new technologies (Graphics 3.28).

A stagnation has become apparent during the recent period in the key economic parameters for small trade licensees, small and medium-size enterprises whereas conditions should be created for their growth from the viewpoint of the unavoidable restructuring of the economy and the dealing with the problem of unemployment. To a significant extent, this requires legislative amendments and administrative modifications that are very slow to adjust to the needs or ignore the needs at all. On the other hand, positive trends can be observed, in particular concerning qualitative parameters such as share on gross production, added value and/or growth of productivity.



## **4. State support to SMEs**

### **4.1 Ministry of Economy of the Slovak Republic**

In 1999, the Slovak Ministry of Economy was in charge and co-ordinated numerous activities concerning small and medium-size enterprises. Activities in this area followed the NR SR Act No. 100/1995 Coll.II. On State Support to SMEs. The purpose of this Act was to regulate state support to SMEs, the objective of which was development and stabilization of doing business within the structure of the national economy. The Act has laid down principles and conditions of the extension of support from state, as well as the purpose and the form of the support. In 1999, state support was flowing into several areas.

#### **a) Strategy and development of small and medium-size enterprises**

Activities developed by the Slovak Ministry of Economy in the field of SMEs support were following the Programme Declaration of the government that set forth the major objectives of the SMEs support through the year 2002. SMEs development was underpinned in last year also through state development programmes intended to support and develop SMEs.

#### **b) Co-operation with international institutions**

The Slovak Ministry of Economy acted as one of the guarantors in this area on behalf of the Slovak party. Besides activities concerning integration with European structures, the Ministry also takes care of the co-operation with international organisations in the SMEs area, above all with OECD, SEI, UNIDO and the EEC.

#### **c) Building of the institutional environment to support SMEs**

Being one of the founders the Slovak Ministry of Economy methodologically guides the activities of the National Agency for Development of Small and Medium Enterprises (NARMSP) as well as the development of the regional Advisory and Information Centres (RAIC) and Business and Innovation Centres (BIC) aimed at supporting managerial, marketing, financial and technical skills of individuals to be applied in the field of SMEs. To make activities in the SMEs area more efficient, the Slovak Ministry of Economy became in 1999 the major initiator and founder of the Government's Council for Small and Medium-size Enterprises. Besides others, it is the task of the Council to take care of an

improved coordination of legal and regulatory regulations at the government authorities level.

#### **d) Legislation and regulatory measures**

As already mentioned, the Slovak Ministry of Economy co-ordinates cooperation with state administration authorities and the corresponding institutions in Slovakia. It has been initiating and taking care of also co-operation with foreign institutions and counseling firms. An important step in the area of drafting of legislation and regulatory measures last year was the initiative to draft a law on industrial parks and zones whose adoption is mainly aimed at increasing the inflow of foreign investments, establishment of new innovatory firms, creation of new job opportunities, etc.

#### **e) Raising funds for SMEs**

One of the rather important activities of the Ministry of Economy is provision of funds for SMEs. The funds required by the sector of economy every year to support SMEs from State Budget are intended for the coverage of the financial needs of state support programmes of SMEs the sector is the launcher of. State support programmes launched in 1999 were approved by the Slovak Government in accordance with the applicable legislation in this field, and they were implemented by the National Agency for Development of Small and Medium Enterprises and by the Slovak Guarantee and Development Bank. The Ministry of Economy regularly submits to the Slovak Government Progress Reports on the Implementation of Financial Support Programmes for the respective half-year that assess the current state and the benefits of state support to this sector of economy.

#### **f) Support to, and development of SMEs at the regional level**

In 1999, support to SMEs projects at the regional level went along the lines of the Slovak Government's Resolution No. 285/1999.

The individual projects were approved by an intersectoral commission with also the participation of a representative of the Ministry of Economy. Funds were spent on projects supporting small and medium-size enterprises, on projects of the completion of infrastructure, tourism, environmental structures, as well as on the activities of district and regional development agencies.

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

NARSP has been co-ordinating activities focusing on the support to SMEs, and has been fulfilling the role of a general information centre for entrepreneurs at both the domestic and the international level, of the organizer of training and counselling programmes, and of the implementator of a wide variety of financial support programmes for SMEs. In taking care of its activities, the Agency has been closely co-operating with institutions oriented toward the support of SMEs in Slovakia.

Counselling and training are important components of the support system for small and medium-size enterprises in Slovakia. Consequently, the National Agency for Development of Small and Medium Enterprises implemented, in 1999, programmes oriented toward the provision of counselling services and organization of trainings and workshops for SMEs, aimed at raising their business-related and managerial skills. In 1999, NARMSP extended its range of SMEs support programmes by a new grant programme of quality management systems implementation, termed KVALITA (quality) financed under Slovakia's State Budget. The objective of the programme has been strengthening of the competitiveness of the SMEs sector through improved quality of products and services, and growth in the numbers of SMEs certified according to ISO 9000 standards.

Creation of conditions for Slovak small and medium-size enterprises penetrating new markets abroad and support to their export capabilities represent an important contribution to the entire national economy. In this context, an important role is played by EuroInfoCentre (EIC), a part of the European Commission information centres network. A significant success achieved last year was co-operation with RAIC Prešov on the preparation of a project of a new EIC. This project succeeded in the public tender opened by the European Commission, and the second EIC in Slovakia was established in Prešov.

Launching of financial support programmes for small and medium-size enterprises has traditionally become one of the most required activities of NARMSP. The National Agency is implementing financial support programmes for small and medium-size enterprises that enable them to acquire credits under more favorable, "soft" conditions, thus assisting small and medium-size enterprises to bridge the shortage of capital in the financial market.

NARMSP has been actively involved in also the preparation and implementation of the National Programme for the Implementation of the Acquis Communautaire (NPAA) that represents a series of measures that have to be realized during the pre-accession period. In addition to the above, also bilateral screening negotiations were organized with EU representatives last year. The chapter SMEs was preliminarily completed during negotiations with the EU in this May.

## **4.2.1 Counselling and training**

Counselling and training are important components of the system of support to small and medium-size enterprises in the Slovak Republic. In the view of this, the National Agency for Development of Small and Medium Enterprises implemented, also in 1999, programmes oriented toward the provision of counselling services and organisation of trainings and workshops for SMEs, aimed at raising their business-related and managerial skills. The support programmes were financed under Slovakia's State Budget.

At the regional level, the programmes were implemented through the institutional support network of 12 Regional Advisory and Information Centres (RAICs) and 4 Business and Innovation Centres (BICs).

RAICs/BICs provided parties interested in doing business and the existing small and medium-size enterprises with a comprehensive counselling and information service in areas associated with doing business.

### **a) Counselling and information services**

Funds for the implementation of the counselling programme financed under the State Budget were only released in December, 1999. RAICs/BICs were nevertheless continuously providing counselling services to newly established and existing SMEs throughout the second half-year.

In the framework of the support programme financed under the State Budget, the RAIC and BIC network provided 1,587 informative and 2,755 expert consultations in 1999 to starting businesses, parties interested in doing business from among the unemployed, and to existing businesses. Of the total number of 10,824 informative and expert consultations provided in 1999, 42% were subsidized from the state support programme. Receiving support from State Budget, the centres drafted 132 (28%) and reviewed 173 (45%) business plans.

## **b) Training and education**

During the last year, the centres organized 6 training courses that were fully or partly financed under State Budget in the framework of training and workshops support programmes for SMEs, new businesses and parties interested in doing business. The content of the trainings and workshops was focusing on support to the development of SMEs, drafting of business plans and preparation for doing business for a variety of social groups (the unemployed, young people, women). Overall, the training courses were attended by 126 interested individuals.

## **c) Support to the implementation of quality management systems**

In 1999, NARMSP extended its range of support programmes for SMEs by a new grant programme of the implementation of quality management systems, termed KVALITA (quality) financed under Slovakia's State Budget. The objective of the programme has been to strengthen the competitiveness of the SMEs sector through improving the quality of products and services, and growth in the numbers of SMEs certified according to ISO 9000 standards.

Of the total number of 14 applications filed by the enterprises, the Grant Commission awarded 4 grants on counselling and training, and 5 grants on the certification process to 7 enterprises. There were 9 enterprises applying for grants in total. By the end of 1999, 3 grants on counselling and training and 2 grants on certification process for 3 enterprises were realized.

## **4.2.2 CEPAC Slovakia**

The association CEPAC Slovakia is Centre for Patronage and Long-Term Care for Starting Businesses. Its legal status is non-for-profit association. The founding members include the National Labor Office, NARMSP and CEPAC Soissons (France) - a non-for-profit association oriented toward training of the unemployed.

The objective of the association CEPAC Slovakia is to make a contribution toward the development of small and medium-size enterprises in Slovakia through Comprehensive Training and Counseling Programme, mainly intended for the unemployed.

Within the Comprehensive Training and Counselling Programme, RAICs and BICs, working together with the association CEPAC Slovakia prepared in 1999

a total of 37 courses for the unemployed interested in, and possessing skills to start an own business. The programme was attended by 530 unemployed individuals. During the same period of time, participants completing the programme established 206 new business.

The Programme was attended by a total of 2,089 unemployed persons in 147 courses organized within 1995-1999. A total of 961 new businesses were established, with 326 additional job opportunities created; 385 participants having completed the Programme found new jobs.

The Programme was financed from sources of the founding members, with the funds contributed by the National Labor Office making up 87.8% (Graphics 4.1, 4.2, 4.3).

### 4.3 Ministry of Finance of the Slovak Republic

In accordance with the competencies laid down by Act No. 347/1900 Coll., as amended from time to time, the Slovak Ministry of Finance is the drafter and - through its tax offices - also the enforcer of tax regulations. Within this competence, its support function with respect to the development of SMEs is rather important. This is mainly reflected in the authorization to grant some tax concessions and/or exemptions, including mainly:

- concessions and exemptions from income tax, pursuant to Act No. 286/1992 Coll., as amended from time to time,
- exemption from income tax, pursuant to Slovak Government's Ordinance No. 192/1998 Coll.II.

According to information received from the Slovak Central Tax Directorate as well as the Slovak Ministry of Finance, data on such concessions for 1999 were not comprehensively processed at the time this Report was being compiled.

Based on information received from the Central Tax Directorate, the following tax concessions were granted in 1998:

*Numbers and amounts of income tax concessions granted to natural persons and legal entities pursuant to Act No. 286/1992 Coll., as amended from time to time*

	<i>Natural persons</i>		<i>Legal entities</i>	
	<i>No.</i>	<i>Amount, in Sk m</i>	<i>No.</i>	<i>Amount, in Sk m</i>
Pursuant to Section 35	917	9.7	1,612	1,134.6
Pursuant to Section 41(16)	16,251	168.05	-	-

In 1998, there also was an option to apply exemption from income tax of legal entities, pursuant to Slovak Government's Ordinance No. 192/1998 Coll.II.; there was no tax payer applying for exemption under the said Ordinance.

Data for 1999 will be available after the date of this Report, and will be included in the 2000 Report on the state of the Development of SMEs.

## 4.4 Ministry of Labor, Welfare and Family of the Slovak Republic

The labor market policy that the Ministry of Labor, Welfare and Family is responsible for through executive bodies of the National Labor Office, being district and regional labor offices, has been using several tools of economic and social policy. The source of the financing of these tools has been the budget of the National Labor Office whose funds have been used for the purposes of the active and passive labor market policies. It should be noted that these tools are not such that would directly support small and medium-size enterprises; rather, they represent general tools of support for employment. Neither records concerning the use of the funds in this area allow specification of the amounts of funds spent on the creation of jobs within the SMEs sector. The most important from the viewpoint of the support to small and medium-size enterprises are active labor market tools that have been witnessing a pronouncedly decreasing trend in recent years. Their development since 1995 (being still funds intended for active employment policy) is documented by the following figures on the proportions of labor market policy and/or employment policy-related funds:

<i>Parameter</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
Expenditures on active labor market policy, in Sk m	3,939	4,290	3,099	2,289	474
thereof: expenditures on labor market policy implemented through labor offices, %	65.8	58.3	43.7	29.4	6.1

The decreasing trend in the development of the proportions shown is documented by the absolute amounts spent on passive and active labor market policy during the recent two years:

Sk m

<i>Year</i>	<i>Passive policy</i>	<i>Active policy</i>	<i>Expenditures, total</i>
1997	3,989	3,099	7,088
1998	5,485	2,289	7,774
1999	7,292	474	7,766

This was mainly due to an absolute growth in the numbers of the unemployed as well as an absolute increase in the amount of the support paid in unemployment.

Also marked in 1999 was the development (decrease) of the volume of funds spent on agreed jobs as compared to expenditures on socially purposeful jobs pursuant to the legislation applicable in the preceding period:

*Coverage of costs of socially purposeful jobs (SPJ) and/or agreed jobs*

<i>SPJ/agreed jobs</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
No of jobs	46,866	25,685	18,775	22,793	3,693
Amount of grants (Sk thous.)	2,698,649	2,256,913	1,297,182	926,979	133,069

It is obvious from the above that expenditures on agreed jobs made up the most significant portion of the active labor market policy funds, being 28.1% of the total volume of expenditures on active labor market policy in 1999.

When it comes to the volume of funds spent, grants paid toward agreed jobs of public interest ranked second, with 22.2% of the overall volume of active labor market policy expenditures used for this purpose in 1999. The development of this parameter has been as follows:

*Coverage of costs on agreed jobs of public interest (JPI)*

<i>JPI</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
No of jobs	44,342	35,856	29,305	34,214	8,630
Amount of grants (Sk thous.)	788,993	1,332,013	1,028,399	674,309	105,332

Active labor market policy also uses other tools that make a contribution, direct or indirect, toward supporting and/or developing SMEs. Above all, these include expenditures on retraining, expenditures on maintaining jobs, expenditures on employment of individuals with handicaps, expenditures on development of projects of revitalizing employment, and expenditures on business projects of employment.

## **4.5 Ministry of Transport, Posts and Telecommunications of the Slovak Republic (MDPT SR)**

In working together with the Slovak Guarantee and Development Bank, State financial institution (SZRB, š.p.ú.), MDPT SR has been implementing the Combined Transport Development Support Programme; within it, guarantees can be granted to businesses for credits and/or grants to cover a portion of interest on loans. A total of Sk 3.5m were granted in 1999 to two business entities in the form of a financial grant. No guarantees were provided since there was no business entity interested in this form of support.

## **4.6 Ministry of Agriculture of the Slovak Republic**

Working together with SZRB, š.p.ú., the Ministry has been implementing two specialized guarantee programmes for entities doing business in agriculture, and was running the state sectoral support programme of SMEs in agriculture. Under these programmes, 45 guarantees were granted in 1999 amounting to Sk 96.5m and 4 grants were awarded amounting to Sk 1.2m.

## **4.7 Banking institutions and funds**

### **4.7.1 Slovak Guarantee and Development Bank, State financial institution**

#### **a) Guarantee programmes and grant programmes**

Grant programmes to support small and medium-size enterprises and guarantee programmes are being implemented through the Slovak Guarantee and Development Bank, State financial institution (SZRB), including the guarantee programme NARMSP financed under the PHARE Programme.

## b) Guarantee programmes

SZRB has been providing support to business entities within 13 guarantee programmes. Guarantees may be granted under some of the guarantee programmes to cover up to 85% of the loan principal or a maximum amount of Sk 100m. Overall, 53 applications for a total amount of guarantees granted of Sk 92,743 thous. were accepted in 1999 in the framework of the guarantee programmes for small and medium-size enterprises.

<i>Programme</i>	<i>Cumulative of 31 Dec. 1998</i>	<i>1999</i>	<i>Cumulative as of 31 Dec. 1999</i>
<b>SMEs support programme</b>			
- Nos of applications accepted	436	2	439
- amount of guarantees granted, in Sk thous.	3,056,272	-56,153	3,00,119
<b>PHARE Programme</b>			
- Nos of applications accepted	47	3	50
- amount of guarantees granted, in Sk thous.	137,828	19,300	157,128
<b>Guarantees for certain regions-based SMEs support programmes</b>			
- Nos of applications accepted	16	2	18
- amount of guarantees granted, in Sk thous.	62,154	15,000	77,154
<b>Guarantees for domestic financial leasing-based SMEs support programme</b>			
- Nos of applications accepted	9	0	9
- amount of guarantees granted, in Sk thous.	50,650	0	50,650
<b>Health care services development support programme</b>			
- Nos of applications accepted	2	0	2
- amount of guarantees granted, in Sk thous.	3,210	0	3,210
<b>Guarantees for operating credits-based business support programme</b>			
- Nos of applications accepted	13	4	17
- amount of guarantees granted, in Sk thous.	36,233	22,800	59,033
<b>Support programme to secure seasonal agricultural works</b>			
- Nos of applications accepted	1,499	42	1,541
- amount of guarantees granted, in Sk thous.	2,860,278	96,544	2,956,822
<b>Guarantees-based support programme for the development of craftsmanship oriented toward services to the population</b>			
- Nos of applications accepted	8	1	9
- amount of guarantees granted, in Sk thous.	11,313	1,600	12,913

<i>Programme</i>	<i>Cumulative of 31 Dec. 1998</i>	<i>1999</i>	<i>Cumulative as of 31 Dec. 1999</i>
<b>Guarantees-based environmental protection support programme</b>			
- Nos of applications accepted	2	0	2
- amount of guarantees granted, in Sk thous.	53,250	0	53,250
<b>Guarantees and grants-based support programme for the innovation of production</b>			
- Nos of applications accepted	1	0	1
- amount of guarantees granted, in Sk thous.	2,550	0	2,550
<b>SMEs, total</b>			
- Nos of applications accepted	11	2,186	2,197
- amount of guarantees granted, in Sk thous.	67,113	6,512,631	6,579,744
<b>Counter-guarantees for foreign credits-based business support programme</b>			
- Nos of applications accepted	2	0	0
- amount of guarantees granted, in Sk thous.	50,468	-468	50,000
<b>Combined transport development in Slovakia support programme</b>			
- Nos of applications accepted	2	0	2
- amount of guarantees granted, in Sk thous.	48,570	0	48,570
<b>Guarantee programmes, total</b>			
- Nos of applications accepted	2,152	53	2,205
- amount of guarantees granted, in Sk thous.	6,620,296	92,743	6,713,039

## b) Grant programmes

These programmes use financial grants in the framework of government-launched development programmes, thus helping to reduce the interest-related burden upon businesses in areas that are considered most significant with respect to the stability of the economy. Grants are awarded by SZRB under 9 grant programmes. A total of 45 grants amounting to Sk 64,970 thous. in total were awarded in 1999.

<i>Programme</i>	<i>Cumulative as of 31 Dec. 1998</i>	<i>1999</i>	<i>Cumulative as of 31 Dec. 1999</i>
<b>Tourism in Slovakia support programme IV</b>			
- Nos of fin.grants paid	334	34	368
- amount of fin.grants paid, in Sk thous.	258,129	29,230	287,359
<b>Support programme for economic activities leading to energies and raw materials savings</b>			
- Nos of fin.grants paid	61	0	61
- amount of fin.grants paid, in Sk thous.	151,867	0	151,867

<i>Programme</i>	<i>Cumulative as of 31 Dec. 1998</i>	<i>1999</i>	<i>Cumulative as of 31 Dec. 1999</i>
<b>Programme of reduction of energy consumption in apartment houses and apartments</b>			
- Nos of fin.grants paid	34	0	34
- amount of fin.grants paid, in Sk thous.	19,538	4,034	23,572
<b>Combined transport development in Slovakia support programme</b>			
- Nos of fin.grants paid	3	0	3
- amount of fin.grants paid, in Sk thous.	23,166	5,618	28,784
<b>Slovak Bus Transport vehicle fleet renewal programme</b>			
- Nos of fin.grants paid	33	0	33
- amount of fin.grants paid in Sk thous.	5,185	15,510	20,695
<b>Support programme for utilization of results of science and technologies by SMEs - PATENT</b>			
- Nos of fin.grants paid	0	1	1
- amount of fin.grants paid, in Sk thous.	0	1,084	1,048
<b>Programme REGION</b>			
- Nos of fin.grants paid	0	4	4
- amount of fin.grants paid, in Sk thous.	0	4,762	4,762
<b>Support programme for small starting businesses - START</b>			
- Nos of fin.grants paid	1	1	2
- amount of fin.grants paid, in Sk thous.	1,651	2,722	4,373
<b>Support programme aimed at gradual elimination of ozone layer damaging substances - OZON</b>			
- Nos of grants applications received	0	2	2
- Nos of fin.grants promised	0	0	0
<b>Grant programmes, total</b>			
- Nos of fin.grants paid	530	45	575
- amount of fin.grants paid, in Sk thous.	564,576	64,970	629,546

#### **d) Loans-based programme "Podpora" (support)**

Aimed at supporting small and medium-size businesses, SZRB launched the loans-based support programme "Podpora" effective 1 June, 1997. Any small or medium-size enterprise (natural persons or legal entities) may apply for a loan. Eligible applicants meeting the programme criteria may receive loans amounting to up to Sk 7m with a maturity of up to 7 years, at a fixed interest rate of 10.5% and the option of a one year resipiro with respect to the principal after the

first draw-down. The loans extended may be used for capital investment or operating investment purposes. The loans-based programme Podpora is being implemented in co-operation with Istrobanka, a.s. and Poštová banka, a.s.

### e) Loans-based programme "Rozvoj" (development)

This programme is financed from the credit line of Kreditanstalt für Wiederaufbau. The new credit product was introduced to the bank market effective 1 September, 1998. It allows businesses to acquire operating-investment loans amounting to up to DEM 3 m (in Slovak currency equivalent). Currently, the interest rate for this type of loans is 13.5% p.a. The loan may be used to finance up to 75% of projected costs. The maximum tenure of the loans is 10 years, with the option of one-year respiro with respect to the principal.

<i>Programme</i>	<i>Cumulative as of 31 Dec. 1998</i>	<i>1999</i>	<i>Cumulative as of 31 Dec. 1999</i>
<b>Programme PODPORA</b>			
- Nos of applications for loans received	182	52	234
- amount of loans applied for, in Sk thous.	940,800	249,936	1,190,736
- Nos of loans approved	134	25	159
- amount of loans approved, total (LBP+SZRB), in Sk thous.	677,793	121,626	799,419
<b>Programme ROZVOJ</b>			
- Nos of applications for loans received	41	45	86
- amount of loans applied for, in Sk thous.	556,175	679,441	1,235,616
- Nos of loans approved	21	37	58
- amount of loans approved, total (LBP+SZRB), in Sk thous.	214,825	416,716	631,541
<b>Loans-based programmes, total</b>			
- Nos of applications for loans received	223	97	320
- amount of loans applied for, in Sk thous.	1,496,975	929,377	2,426,352
- Nos of loans approved	155	62	217
- amount of loans approved, total (LBP+SZRB), in Sk thous.	892,618	538,342	1,430,960

### f) Loans-based programme "Ekológia" (ecology)

The loans-based programme "Ekológia" to support SMEs is financed from the credit line of Kreditanstalt für Wiederaufbau. The facility was introduced to the market as of 1 September 1999. The loans may be used to finance up to 75% of the projected costs. The maximum amount of the loans is Sk 58m, at an interest rate of 13.5% p.a. The loans have to be paid off by 31 December, 2007.

## **4.7.2 Foreign Trade Promotion Fund**

The Foreign Trade Promotion Fund (FPZO) was established by NR SR Act No. 379/1996 Coll.II. as a non-state special-purpose fund. Based on comments and practical experience, it was amended by NR SR Act No. 162/1998 Coll.II., thus providing a legislative frame for an improved functionality of the Fund oriented toward the development of foreign trade relationships, in particular in the field of exports and, above all, to the benefit of small and medium-size enterprises which, at the end of the day also the whole Slovakia's economy is expected to benefit from. The Fund associates funds of the business sector with a contribution from State Budget to promote foreign trade based on the solidarity principle.

The funds may mainly be used for the following purposes:

- grants helping to cover the participation in foreign fairs and exhibitions,
- coverage of expenditures on advertising abroad,
- financial support for trade missions and delegations of the various unions and associations,
- financing of analyses and studies on world and regional markets,
- coverage of costs of domestic exporters associated with the certification of goods to be exported.

In 1999, the Fund granted a total of Sk 513.2m to businesses for the above purposes, thereof 78% to the category of small and medium-size enterprises.

## 5. Support under the PHARE Programme

### 5.1 NARMSP as PHARE Programme Managing Unit

Co-operation of the National Agency for Development of Small and Medium Enterprises with the European Community PHARE Programme, the former being the PMU of the latter, continued also in 1999. The cooperation focused on the creation of favorable conditions for the granting of support for small and medium-size businesses in the form of financial support programmes, training support, counselling, provision of information, and other forms of support. The total volume of support under the PHARE Programme in 1999 amounted to EUR 4,614 thous. (Sk 195,901 thous. as of 31 December, 1999). A total of EUR 27,077 thous. (Sk 1,149,635 thous.) have been used through five financial memorandums for the purposes shown in the Slovak Republic since the start of the Programme.

*Utilisation of PHARE funds in 1999 (as of 31 Dec., 1999)*

A. Policy and development of small and medium-size enterprises	EUR	77 thous.
B. Training, counselling and information technologies	EUR	453 thous.
C. National Agency for Development of SMEs	EUR	106 thous.
D. Financial support programmes	EUR	3,978 thous.
<b>TOTAL</b>	<b>EUR</b>	<b>4,614 thous.</b>

### 5.2 Utilization of PHARE Programme funds to support SMEs

#### 5.2.1 Counselling and training for SMEs

NARMSP was taking care of the provision of small and medium-size enterprises with information, counselling and training services, including the financing of regional projects under the PHARE Programme as well. Funds under the 1997 Financial Memorandum were mainly drawn during the 1st half-year of 1999.

### **a) Counselling and information services provided by RAICs/BICs**

A substantial portion of the contracts on counselling and information services under the PHARE Programme were performed during the first half-year of 1999. Preference was given with respect to contracts to counselling services and training of SMEs, as well as to the monitoring of the impacts of the Loans-based Support Programme.

RAICs/BICs were providing starting and existing businesses with a comprehensive advisory activity in areas connected with doing business. Overall, 6,482 consultations were organized under the PHARE Programme in 1999, thereof 3,881 expert and 2,601 informative. RAICs/BICs drafted 336 and reviewed 211 business plans. By their activities, the centres made a contribution toward the creation of 782 jobs and toward the establishment of 178 new businesses. PHARE funds contributed EUR 164,692.50 toward the implementation of counselling services, fully covering the costs of 58% of the expert consultations provided in 1999 (Graphics 5.2, 5.3, 5.4).

Besides the above mentioned activities, the business and innovation centres (BICs) provided special care (premises and advisory services) to 35 firms of mostly innovative nature.

BIC Košice, BIC Prievidza, BIC Spišská Nová Ves, BIC Banská Bystrica were providing firms with services within the incubator care framework. The services mainly focused on the field of counselling, selection of firms, long-term care and provision of premises under advantageous conditions within the incubator framework. Innovative firms were mainly oriented toward the manufacturing of furniture, metal processing, construction of steel vessels, developing of software, manufacturing of cut glass, thermal pumps, stonemasonry production, manufacturing of chemicals, footwear, toys, textile production, advertising, manufacturing of school supplies, etc.

### **b) Training and education**

In the field of training and education, RAICs/BICs organized 115 training sessions attended by 1,947 entrepreneurs and their employees. Also, training oriented toward raising professional knowledge of RAICs/BICs advisers and the NARMSP management were organized. Overall, EUR 14,400 were spent under the PHARE Programme on training and educational activities in 1999 (Graphics 5.1).

RAIC Považská Bystrica organized a training for new staff in the framework of the NARMSP, RAICs and BICs network: "Counseling for SMEs, Marketing and Development of Business Plans". The training was financed from 1999 PHARE funds.

"Human Resources Development" was the title of a workshop organized in Bratislava and intended for RAICs/BICs directors and NARMSP managers, focusing on the acquisition of knowledge on the basic aspects of the development and management of human resources from the aspect of the system of their development. The workshop was organized by the training institution RHINOCEROS in collaboration with NARMSP.

Working together with the Center of Cleaner Production at the Slovak Technical University, NARMSP organized one workshop for small and medium-size enterprises interested in the implementation of environmental systems of management (ISO 14 001) and for advisors of RAICs/BICs. The objective of the workshop was to make the participants familiar with the implementation of environmental management methods in small and medium-size enterprises' activities, and to provide them with information on the current environmental legislation and the ISO 14 001 standard.

NARMPS collaborated with the educational institution GRADIENT 5 in organizing an ABC workshop (Activity-Based Costing II) for the conditions of Slovakia's practical life, presenting experience and case studies intended for RAICs/BICs advisers. The participants had the opportunity to learn about practical experiences with the utilization of the most progressive method of cost management.

### **c) Regional projects**

The centres were collaborating during 1999 with local authorities, institutions and foreign partners on the development of regional projects.

Support for regional projects was oriented toward improvement of services provided to SMEs, improvement of information on support programmes, and toward tourism development. Of the overall amount of EUR 27,000 allocated, EUR 17,500 were spent by the end of 1999, since projects also go on in 2000.

Aimed at improving counselling and training services provided to SMEs, a SMEs needs analysis project started as a pilot project in the Region Banská

Bystrica. The analysis was produced by RAIC Zvolen under financial assistance from PHARE and from other donors.

During the second half-year of 1999, BIC Banská Bystrica completed the project "Focus on the Customer - Improvement of the Quality of Services Provided Through the Introduction of the Quality Management System According to ISO 9002 Standards". The Centre introduced an efficient system of quality management, and was awarded a certificate by a renowned certifying company.

BIC Spišská Nová Ves started works on the project "Improved Information in the Field of Tourism in the Zips-Gemer Region". The objective of the project is to support the development of tourism also through improving the information of potential visitors of the region through publishing a Guide of the Gothic Route in three languages.

Working together with BIC Banská Bystrica, RAIC Prešov, and RAIC Nitra, NARMSP organized 3 workshops intended for the representatives of state administration, local self-governments, and representatives of business organizations and associations. The objective of these events was to inform the participants about the support programmes for SMEs as well as about the activities of RAICs/BICs existing within the individual regions. Also part of the workshops were press conferences for national and regional mass media.

## **5.2.2 Professional and technical support for special-interest and professional organizations of SMEs**

NARMSP has been actively collaborating with institutions that associate entrepreneurs and/or small trade licensees. As an expression of this collaboration in the field of professional and technical support for special-interest and professional organizations of SMEs, NARMSP was running in 1999 several projects under the support of the PHARE programme that were intended to assist associations of entrepreneurs in mainly setting up of their infrastructure and technical equipment. During the preceding year, a total of EUR 27,600 were spent on such projects implemented by the following organizations:

- Guild of Information Technologies, Accounting and Management,
- Club of Roma entrepreneurs,
- Slovak Union of Small Trade Licensees,
- Guild of Toy Manufacturers

The objective of this collaboration was to profile out activities of the individual institutions, to improve the promotion of their activities, as well as to train and educate the members, to support establishment of international contacts, as well as to develop strategies of defense of the interest of the membership base.

### **5.2.3 Spin-off Programme**

The spin-off method focuses on splitting off small and medium-size enterprises from big state and privatized, mostly industrial enterprises. By getting spun-off, these centres become independent legal entities, and thus have the opportunity to do business also outside of direct commercial collaboration with the mother company.

Also in 1999, there was strong interest in the Spin-off Programme. A total of 23 carriers of projects participated in the Programme, and implementation of the spin-off method made 15 small and medium-size enterprises establish themselves by splitting off of their mother companies.

Every project carrier attended 2 professional workshops led by NARMSP. The first workshop provided project carriers with information about the basic responsibilities with respect to the business environment, the second workshop focused on the evaluation of business plans developed by the corresponding RAICs/BICs.

By using the spin-off method, 596 jobs could be maintained in the newly established business entities.

### **5.2.4 Loans-based support programme**

Loans from the Loans-based Support Programme (LBSP) amounting to a max. of Sk 5m have been intended for small and medium-size enterprises doing business in the field of manufacturing, crafts, services or in the field of active tourism. The interest rate is 11.3% (2.5% over the discount rate of the National Bank of Slovakia). A total of 847 loans amounting to Sk 2.715bn in total have been extended since the launching of the programme in 1994, thereof 192 loans amounting to Sk 693m in 1999. As of 31 December, 1999, Sk 1.8bn have been invested into the programme, the overall amount of the loan portfolio, including revolving funds, has reached Sk 2.715bn. The number of jobs newly created or

maintained within the SMEs sector during the implementation of the LBS Programme represents 25,203.

As of 31 December, 1999, a total of 2,020 loans have been paid off. Graphics 5.4 provides information on what business sectors the loans have flown into.

<b>LOANS-BASED SUPPORT PROGRAMME</b>	<b>Poľno-banka, a.s.</b>	<b>Slovenská sporiteľňa, a.s.</b>	<b>Istrobanka, a.s.</b>	<b>Tarta banka, a.s.</b>	<b>Eudová banka, a.s.</b>	<b>Total</b>
Nos of loans	282	332	81	117	35	847
Amount of loans, total (in Sk m)	949.16	906.738	286.263	469.62	103.94	2,715.72
Average amount of loans (in Sk m)	3.37	2.73	3.54	4.01	2.97	3.21

Overview of loans extended in 1999 under the LBS Programme, by districts

<b>District-region</b>	<b>Nos of loans extended as of 31 Dec., 1999</b>	<b>Amount of loans extended (in Sk) as of 31 Dec., 1999</b>	<b>Nos of loans extended in 1999</b>	<b>Amount of loans extended (Sk) in 1999</b>
<b>Region Banská Bystrica</b>	<b>121</b>	<b>385,051,000</b>	<b>22</b>	<b>83,420,000</b>
Banská Bystrica	25	97,140,000	5	24,000,000
Banská Štiavnica	3	4,700,000	0	0
Brezno	4	5,820,000	0	0
Detva	6	22,693,000	1	1,200,000
Krupina	3	3,800,000	0	0
Lučenec	34	114,931,000	8	29,540,000
Poltár	0	0	0	0
Revúca	4	13,800,000	1	1,500,000
Rimavská Sobota	6	10,000,000	0	0
Veľký Krtíš	1	5,000,000	0	0
Zvolen	29	95,767,000	7	27,180,000
Žarnovica	0	0	0	0
Žiar nad Hronom	6	11,400,000	0	0
<b>Region Bratislava</b>	<b>118</b>	<b>425,097,690</b>	<b>25</b>	<b>83,580,000</b>
Bratislava I-V	90	327,047,690	15	52,430,000
Malacky	8	30,600,000	3	12,500,000
Pezinok	15	51,150,000	5	12,150,000
Senec	5	16,300,000	2	6,500,000
<b>Region Košice</b>	<b>111</b>	<b>306,983,310</b>	<b>23</b>	<b>76,735,000</b>
Košice I-IV, outskirts	44	145,050,000	10	30,905,000
Gelnica	1	1,500,000	0	0
Michalovce	4	16,600,000	2	6,600,000
Rožňava	18	37,203,310	3	10,800,000
Sobrance	1	4,000,000	0	0
Spišská Nová Ves	33	87,650,000	6	25,000,000
Trebišov	10	14,980,000	2	3,430,000

<i>District-region</i>	<i>Nos of loans extended as of 31 Dec., 1999</i>	<i>Amount of loans extended (in Sk) as of 31 Dec., 1999</i>	<i>Nos of loans extended in 1999</i>	<i>Amount of loans extended (Sk) in 1999</i>
<b>Region Nitra</b>	<b>112</b>	<b>368,336,000</b>	<b>25</b>	<b>82,547,000</b>
Nitra	35	117,770,000	11	36,050,000
Komárno	15	37,707,000	2	2,707,000
Levice	19	79,409,000	4	19,840,000
Nové Zámky	22	66,400,000	2	9,500,000
Šaľa	4	15,500,000	1	5,000,000
Topoľčany	16	46,550,000	4	4,450,000
Zlaté Moravce	1	5,000,000	1	5,000,000
<b>Region Trenčín</b>	<b>95</b>	<b>318,656,863</b>	<b>26</b>	<b>94,747,527</b>
Trenčín	24	73,980,000	8	25,840,000
Bánovce nad Bebravou	2	10,000,000	2	10,000,000
Ilava	2	8,900,000	0	0
Myjava	6	14,700,000	2	4,700,000
Nové Mesto nad Váhom	5	16,638,336	1	5,000,000
Partizánske	3	10,900,000	1	900,000
Považská Bystrica	12	38,000,000	1	5,000,000
Prievidza	38	136,538,527	10	38,307,527
Púchov	3	9,000,000	1	5,000,000
<b>Region Trnava</b>	<b>64</b>	<b>213,114,000</b>	<b>16</b>	<b>53,000,000</b>
Trnava	21	65,460,000	5	13,800,000
Dunajská Streda	23	89,159,000	6	22,700,000
Galanta	7	22,000,000	0	0
Hlohovec	1	240,000,000	0	0
Piešťany	4	10,595,000	0	0
Senica	8	23,500,000	5	16,500,000
Skalica	0	0	0	0
<b>Region Žilina</b>	<b>122</b>	<b>349,107,611</b>	<b>21</b>	<b>84,000,000</b>
Žilina	32	86,364,000	5	20,000,000
Bytča	2	3,300,000	1	1,800,000
Čadca	5	7,620,000	0	0
Dolný Kubín	10	25,550,000	1	5,000,000
Kysucké Nové Mesto	4	10,500,000	0	0
Liptovský Mikuláš	18	59,631,000	5	25,000,000
Martin	41	127,911,970	8	29,600,000
Námestovo	2	6,500,000	0	18,000,000
Ružomberok	5	12,530,641	1	2,600,000
Turčianske Teplice	1	5,000,000	0	0
Tvrdošín	2	4,200,000	0	0
<b>Total:</b>	<b>847</b>	<b>2,715,722,474</b>	<b>192</b>	<b>693,470,527</b>

*For graphical illustration of the numbers of loans extended by districts, see Graphics 5.7*

## 5.2.5 Small Loans Scheme

NARMSP has been implementing the Small Loans Scheme since 1993 as a pilot project, with an overall volume of ECU 1m. This loans-based programme provided assistance to small businesses employing a maximum of 25 people through loans in the form of so-called "soft credits". The programme was implemented through the Slovak Savings Bank, JSC (Slovenská sporiteľňa, a.s.). Loans were extended to small enterprises up to an amount of Sk 800,000 each, with the other conditions and criteria being essentially the same as those for the Loans-based Support Programme.

The first loans were extended in April, 1994, and the entire volume of funds was exhausted by August, 1994, with a total of 59 loans extended. Since then, new loans are being extended from repayments of the principal and from interest paid. One hundred and nine loans of the total number of 134 loans extended by 31 December, 1999, have been paid off.

Owing to the termination of the agreement made with the co-operating bank, a transformation of this pilot programme is being prepared. The following Table illustrates the orientation of the business activities supported under the Small Loans Scheme.

*Loans extended under the Small Loans Scheme*

<b>SMALL LOANS SCHEME</b>	<b><i>Cumulative as of 30 June, 1999</i></b>	<b><i>2<sup>nd</sup> half-year</i></b>	<b><i>Cumulative as of 21 Dec., 1999</i></b>
Applications approved	134	0	0
Volume of loans paid, in Sk	72,396,376	0	72,396,376

## 5.2.6 Micro-loans Scheme

The programme has been intended for small enterprises employing up to 10 persons. The main objective of the programme has been to deal with the problem of the access of small enterprises in regions to loans up to Sk 500,000; the smallest amount of the loan is Sk 50,000, with a maturity of up to three years, at 11.3% interest rate (2.5% over the discount rate of the National Bank of Slovakia) for capital investment projects; an interest rate of 17.6% (twice the NBS discount rate) is charged for projects involving purchase of goods of commercial nature.

A total of 170 parties interested in micro-loans applied with all the centers in 1999, 84 loans were awarded amounting to Sk 29,259,710 in total. Since the launching of the programme, 156 loans amounting to Sk 43,711,990 have been extended.

## 5.2.7 Seed Capital Company

The main characteristic of the Seed Capital Company programme has been investing into the equity of small and medium-size enterprises. Investments can be made up to a maximum amount of Sk 5m. The objective of the programme is to enable the establishment and development of small and medium-size enterprises, and to develop the activities of existing enterprises. Preference is given to projects from the field of industrial production, production services, and active tourism.

A total of 6 applications presented by Slovak enterprises were approved in 1999, with a total requirement of Sk 19.5m.

Since the launching of the programme, the Investment Board of the Company has reviewed 31 investment suggestions, 23 investments into 15 companies have been made, at an overall volume of Sk 60.24m.

The Company received 36 business plans and applications for financial investments during 1999. Within 1995-1999, there were 303 plans and applications for financial investments received in total. Thereof,

	<i>1999</i>	<i>1995-1999</i>
turned down for not meeting investment criteria	19	204
projects under review as of 31 Dec., 1999	8	8
turned down because of incompleteness	2	60
Investment Board-approved investments	7	24
projects conditionally approved	0	6
projects not approved by Investment Board	0	1
<b>Total</b>	<b>36</b>	<b>303</b>
approved projects not implemented subsequently	1	4

*Structure of applications received, by sectors*

<i>Sector</i>	<i>Number</i>	
	<i>1999</i>	<i>1995-1999</i>
Chemical industry	-	17
Machine engineering	7	42
Food processing	5	40

<i>Sector</i>	<i>Number</i>	
	<i>1999</i>	<i>1995-1999</i>
Woodworking	3	24
Tourism	3	36
Production services	9	45
Trade	-	15
Textile production	2	10
Electrical engineering	-	5
Production of consumer goods	2	39
Agriculture	-	5
Repairs	-	3
Transport	-	2
Electricity generation	-	4
Shipbuilding	-	1
Building industry	2	6
Glass industry	2	7
Goldsmithery	1	2
<b>TOTAL</b>	<b>36</b>	<b>303</b>

Numbers of applications and amounts of funds requested, by regions and districts

<i>Regions and districts</i>	<i>Nos of applications, 1999</i>	<i>Funds requested, 1999</i>	<i>Nos of applications, 1995-1999</i>	<i>Funds requested, 1995-1999</i>
<b>Region Bratislava</b>	<b>3</b>	<b>24,000,000</b>	<b>49</b>	<b>260,940,000</b>
Bratislava	3	24,000,000	45	244,430,000
Pezinok	-	-	2	6,510,000
Senec	-	-	2	10,000,000
<b>Region Trnava</b>	<b>9</b>	<b>70,500,000</b>	<b>31</b>	<b>159,669,000</b>
Trnava	-	-	10	34,600
Dunajská Streda	2	8,000,000	4	15,700,000
Galanta	3	34,500,000	7	57,824,000
Hlohovec	1	2,000,000	2	4,945,000
Piešťany	-	-	2	12,000,000
Skalica	1	16,000,000	4	24,600,000
Senica	2	10,000,000	2	10,000,000
<b>Region Trenčín</b>	<b>1</b>	<b>5,850,000</b>	<b>29</b>	<b>320,160,000</b>
Trenčín	-	-	5	205,700,000
Bánovce nad Bebravou	-	-	1	5,000,000
Ilava	-	-	2	16,300,000
Nové Mesto nad Váhom	-	-	2	6,000,000
Partizánske	-	-	3	11,000,000
Považská Bystrica	-	-	4	20,000,000
Prievidza	1	5,850,000	10	51,050,000
Púchov	-	-	2	5,110,000

<i>Regions and districts</i>	<i>Nos of applications, 1999</i>	<i>Funds requested, 1999</i>	<i>Nos of applications, 1995-1999</i>	<i>Funds requested, 1995-1999</i>
<b>Region Nitra</b>	<b>2</b>	<b>8,600,000</b>	<b>36</b>	<b>347,950,000</b>
Nitra	-	-	15	182,300,000
Komárno	1	5,000,000	7	58,500,000
Levice	-	-	4	43,950,000
Nové Zámky	-	-	5	46,600,000
Topoľčany	1	3,600,000	4	12,400,000
Zlaté Moravce	-	-	1	4,200,000
<b>Region Žilina</b>	<b>10</b>	<b>64,750,000</b>	<b>31</b>	<b>198,991,000</b>
Žilina	3	11,000,000	11	45,391,000
Čadca	2	16,400,000	6	31,450,000
Liptovský Mikuláš	2	7,500,000	6	27,800,000
Martin	1	2,500,000	3	7,000,000
Námestovo	1	13,000,000	2	18,000,000
Ružomberok	-	-	1	5,000,000
Tvrdošín	-	-	1	50,000,000
Turčianske Teplice	1	14,350,000	1	14,350,000
<b>Region Banská Bystrica</b>	<b>3</b>	<b>13,000,000</b>	<b>44</b>	<b>335,517,000</b>
Banská Bystrica	1	5,000,000	8	46,800,000
Banská Štiavnica	-	-	2	6,500,000
Brezno	-	-	4	76,000,000
Detva	-	-	1	1,800,000
Krupina	-	-	2	25,900,000
Lučenec	-	-	4	72,930,000
Revúca	-	-	1	5,000,000
Rimavská Sobota	-	-	4	15,205,000
Veľký Krtíš	1	5,000,000	4	12,700,000
Zvolen	-	-	7	48,000,000
Žarnovica	-	-	3	13,341,000
Žiar nad Hronom	1	3,000,000	4	11,341,000
<b>Region Prešov</b>	<b>5</b>	<b>58,493,000</b>	<b>41</b>	<b>501,153,000</b>
Prešov	-	-	9	191,500,000
Bardejov	2	45,482,000	5	77,482,000
Humenné	2	8,611,000	8	53,261,000
Medzilaborce	-	-	1	3,500,000
Poprad	-	-	8	144,700,000
Snina	-	-	5	13,310,000
Vranov nad Topľou	-	-	4	13,000,000
Stropkov	1	4,400,000	1	4,400,000
<b>Region Košice</b>	<b>3</b>	<b>11,770,000</b>	<b>42</b>	<b>232,324,600</b>
Košice	2	11,600,000	18	72,968,600
Gelnica	-	-	1	10,000,000

<i>Regions and districts</i>	<i>Nos of applications, 1999</i>	<i>Funds requested, 1999</i>	<i>Nos of applications, 1995-1999</i>	<i>Funds requested, 1995-1999</i>
Michalovce	-	-	5	20,900,000
Rožňava	1	170,000	3	11,670,000
Trebišov	-	-	5	45,100,000
Spišská Nová Ves	-	-	9	71,686,000
<b>Total</b>	<b>36</b>	<b>256,963,000</b>	<b>303</b>	<b>2,356,704,600</b>

## 5.2.8 Subcontracting Exchange of Slovakia

Subcontracting Exchange of Slovakia (SBS) provides foreign companies - based on their co-operation requests - with exact information and services at an elevated level, in particular with respect to the seeking for, and identifying of appropriate partners for manufacturing and commercial co-operation. During 1999, SBS dealt with 172 requirements from abroad, whereof about 30% were of informative nature. During 1999, 37 firms from abroad paid visits to Slovak businesses.

Also, with the assistance from a German partner, a joint exhibition stand at the HANNOVER MESSE '99 held in April, could be organized with 3 Slovak entities (MOLDAVSKÉ STROJ., ELEKTROKARBON TOPOĽČANY and CHEMES HUMENNÉ). In September, working together with a French partner, SBS organized a visit of French companies and prepared bilateral meetings with Slovak SMEs. The already third Slovak Automobile Subcontractor Conference SASE '99 was staged in October, under the participation of directors of purchase departments of foreign car makers Volvo, Scania, Fiat, Magneti Marelli, Plastic Omnium, Helvoet, and Rauffos. Together with five SMEs, SBS participated in the international subcontractor fair MIDEST '99 organized in Paris in December. A total of EUR 25,450 were spent from PHARE funds, and Sk 1,500,000 on the implementation of SBS activities in 1999.

### **The main goals of the Subcontracting Exchange of Slovakia:**

- to answer requests for co-operation received and to enable foreign companies to find appropriate partners for industrial co-operation with Slovak companies,
- participation of SBS staff as well as of directly Slovak firms in international fairs, specialized events, and presentation of SBS' activities and the various services offered to foreign main contractors, regular participation in the world's biggest international subcontractor fairs: Hannover-Messe, Germany and Midest, Paris, France,

- organization of international cooperation exchanges, contractor meetings and visits of foreign firms based on previous identification of appropriate Slovak co-operation partners, support for the development of the automotive industry through regular organization of Slovak Automobile Subcontractor Exchange - SASE with international participation. Purchasers from the biggest European car making companies participated in SASE, thus enabling Slovak participants to present their production potential,
- close contacts and stimulating bilateral collaboration with French companies and business organisations have prompted the development of relationships with businesses from francophone countries and the establishment of the Francophone Trade Centre (FSO). In the framework of its activities, FSO has been organizing regular club meetings for member firms to develop mutual collaboration.

Requirements regarding industrial co-operation, mostly in the form of technical documentation, were continuously worked out by the SBS staff. Slovak companies were invited to present more than 132 proposals and technical information (and/or replies to co-operation requests). A total of 85 Slovak entities identified by the SBS staff have been involved in this process.

Another rather important component of SBS' activities have been visits by foreign firms. The visits were organized based on prior identification of appropriate Slovak cooperation partners. The objective of such visits was to enable potential foreign partners, based on their requirements, to learn about the specific conditions prevailing in Slovak companies and to meet with the staff responsible for future co-operation.

## **5.2.9 EuroInfoCentre**

Activities of the EuroInfoCentre (EIC) concern provision of information to small and medium-size enterprises, taking care of the activities of systems mediating collaboration between domestic and foreign business entities, organization and support of the participation of Slovak companies in professional events both at home and abroad, and monitoring of the business environment. With respect to the provision of services and counselling to businesses, the strongest interest concerns services in the field of seeking for co-operation partners, participation in business exchanges (Europartnership, Enterprise), and up-to-date information on events focusing on assistance to businesses.

As a result of the enlargement of the European Union, the originally Corresponding EuroInfoCentre was transformed in mid-1999 into a full-fledged

member of the EuroInfoCentre network, and a new EuroInfoCentre at the Regional Counselling and Information Centre Prešov was added to the network.

EIC continued the mechanism of seeking for co-operation partners (BRE system). On the average, more than 300 offers for commercial or other form of co-operation are monitored monthly, selecting offers of interest, translating and publishing them in periodicals or on the NARMSP's web site. Some offers are distributed to specific interested parties. Proposals from 32 Slovak companies have been sent to the central database of the system.

Activities of the EuroInfoCentre as well as of the set up Internet Information Workplace were resumed after having been moved to new premises. The workplace serves to speed up and to expand the accessibility of commercial and co-operation-related information to small and medium-size enterprises that so far lack technical means for Internet-mediated communication. Training and IIP are available.

To enhance the competitiveness of small and medium-size enterprises in the domestic and international markets, an information system was set up for technology transfer including selected enterprises and institutions with a marked share of development and utilization of progressive innovative technologies. Moreover, it also contains offers of new technologies and demand for technologies that may supplement more comprehensive technological systems. From the viewpoint of collaboration with other countries, the system contains a database of projects of the development of new technologies in the European Union and a database of EU legislative standards related to the transfer of technologies. The information system is being distributed on CD-ROMs.

NARMSP uses funds of the PHARE Programme to also support the participation of Slovak businesses in specialized business meetings abroad (Europartenariate and Interprise). For the first time in history, also PHARE Partenariate for half of the candidate countries for EU accession was organized last year (the other candidate countries attended their PHARE-Partenariate in Brandenburg). EP Austria '99 was attended by 28 Slovak companies as guests, and 20 companies could play the role of the host in their own stands at the PHARE-Partenariate Austria '99. Nine Slovak companies attended the above mentioned event Europartenariate Brandenburg '99 during the second half-year.

NARMSP prepared and financially supported the participation of 6 Slovak companies from among SMEs at the Interprise Euro-Care-Tech '99 in Vienna with the focus on medical instrumentation and laboratory equipment.

Financial assistance for the participation in domestic exhibitions ELMAT, OZAMO, GASMAT 99 in Košice, and in the exhibitions VERCAJCH - tools, WOODTECH, KORÓZIA '99 in Trenčín was awarded to a total of 32 businesses.

## 5.2.10 Evaluation of the efficiency of the NARMSP support programmes

Evaluation of the efficiency of the counselling and training programmes via the RAICs/BICs network

**During their existence, the centers went through two stages of financing:**

I. *At the institutional stage* (1993-1994):, i.e. in the framework of a contract also including the financial plan for the corresponding period of time, centres had their cost invoices reimbursed in accordance with the PHARE rules.

II. *At the activity stage* (since 1995) - the centers have been financed for counselling services and trainings provided to businesses or to parties interested in doing business. The contract makes them liable to cooperate on the implementation of NARMSP activities (Seed Capital Company, Spin-off Programme, Subcontractor Exchange, EuroInfoCentre, Loans-based Support Programme, bilateral cooperation).

*Results of RAICs/BICs activities for 1993-1999*

Nos of centre clients registered with MIS	13,284
Nos of informative consultations	27,426
Nos of expert consultations	33,202
Nos of business plans drafted and reviewed	8,703
Nos of trainings/workshops	853
Nos. of training/workshop attendees	13,482
Nos of newly established firms	2,838
Nos of jobs created / maintained	21,515

*Evaluation of BICs activities in the field of support for innovative firms*

Nos of innovative businesses raised, 1993-1999	47
Nos. of incubator companies as of 31 Dec.,1999	35
Nos of employees of incubator companies	354

## Evaluation of the Spin-off Programme efficiency

Being implemented since 1995 in Slovakia, the Spin-off Programme has gone through 6 stages, its 7th stage being under way currently. The whole Programme has been financed under the PHARE Programme, all expenditures including wages connected with the Programme being covered from the Programme budget.

*Results of the individual Programme stages*

<i>Stage</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
<i>Dates</i>	<i>III/95- V/95</i>	<i>X/97- II/98</i>	<i>XII/97- IV/98</i>	<i>VI/98- XI/98</i>	<i>IV/99- VI/99</i>	<i>V/99- X/99</i>	<i>IV 2000</i>
Funds made available (in EUR)	12,000	9,000	10,000	12,000	8,000	15,000	
Companies	8	5	1	5	1	3	6
Projects	12	9	10	12	8	15	6
Spun-off	11	6	10	8	8	5	
Employees	143	618	1,043	189	280	513	

## Evaluation of the Loans-based Support Programme efficiency

Since the launching of the Programme in 1994 until 31 December, 1999, a total of 847 loans amounting to Sk 2,715bn have been granted, thereof 192 loans in a total amount of Sk 693m in 1999. Overall, Sk 1.8bn have been contributed to the Programme as of 31 December, 1999. The total amount of the loans portfolio of Sk 2.715bn suggests a high success rate of the Programme and an excellently functioning revolving of the resources.

The numbers of jobs newly created and/or maintained during the running of the LBSP represent 25,203 job opportunities in the small and medium-size enterprises sector.

Of the above numbers, 7,360 new jobs were created and 17,843 were maintained.

*Shares of the participating banks on the loans extended*

<i>LOANS-BASED SUPPORT PROGRAMME</i>	<i>Poľno- banka, a.s.</i>	<i>Slovenská sporiteľňa, a.s.</i>	<i>Istrobanka, a.s.</i>	<i>Tarta banka, a.s.</i>	<i>Eudová banka, a.s.</i>	<i>Total</i>
Nos of loans	282	332	81	117	35	847
Amount of loans, total (in Sk m)	949.16	906.738	286.263	469.62	103.94	2,715.72
Average amount of loans (in Sk m)	3.37	2.73	3.54	4.01	2.97	3.21

## Evaluation of the Micro-loans Programme efficiency

The main objective of the Micro-loans Programme has been to deal with the problem of the access of small businesses in regions to loans up to Sk 500,000. The National Agency started implementing the Programme in 1997 through three Regional Counselling and Information Centres in Považská Bystrica, Zvolen, and Prešov. Resources were provided by the European Union under the PHARE Programme.

Since the interest in micro-loans on the part of the businesses exceeded the amount of the resources available, and because of the positive assessment by a foreign expert of the utilization of micro-loans, EU decided to continue to grant such loans in four additional centres, thus expanding the granting of micro-loans to a total of seven centres, covering the entire territory of the Slovak Republic.

During 1997, being the first year of the implementation of this financial scheme, all resources allocated to the fund were drawn down. New loans granted during the 2nd half-year of 1998 already used funds recovered, suggesting the viability of the programme. There are no delays whatsoever with respect to the repayment of the micro-loans.

For the whole period of its implementation, the Micro-loans Programme has met with an extraordinarily positive reply on the part of the businesses since it represents the only financial source available to small businesses requiring small loans.

The following Table provides an overview of the numbers of micro-loans granted during the existence of the programme, of their amounts and of the numbers of job opportunities created:

<i>Center</i>	<i>Number of loans, total</i>	<i>Amount of loans total, in Sk</i>	<i>Numbers of job opportunities created</i>
RAIC Komárno	11	4,890,000	50
RAIC Trebišov	11	4,408,000	40
BIC Spišská Nová Ves	9	3,050,000	26
Seed Capital Company	9	4,450,000	66
RAIC Považská Bystrica	28	8,050,280	64
RAIC Prešov	32	8,205,000	79
RAIC Zvolen	56	10,658,710	140
<b>Total</b>	<b>156</b>	<b>43,711,990</b>	<b>465</b>

## Evaluation of the Seed Capital Company efficiency

A total of six projects were approved during 1999, at a total amount of Sk 19.5m. The other activities of the fund focused on the monitoring of 15 companies included in the Company portfolio.

As of 31 December, 1999, a total of 31 investment suggestions were reviewed, whereof 24 were approved, 6 were approved conditionally, and 1 was turned down. Actually, 23 investments into 15 companies were implemented. A total amount of Sk 60.24m were invested into companies included in the SCC, Ltd. portfolio, thereof Sk 23.03m having been contributed as loans into the equity. With respect to 3 investments approved by the Investment Board, projects have not been fully or partially implemented so far, they have been promised a total of Sk 21.12m.

The following overview lists the companies that received support from the Seed Capital Company, Ltd. by 31 December, 1999, the amounts of the funds granted, activities of the individual companies, investment stage, numbers of maintained and newly created job opportunities.

<i>Nos of firms</i>	<i>Funds made available by 31 Dec., 1999</i>	<i>Type of investment</i>	<i>Nos of jobs maintained</i>	<i>Nos of jobs created</i>
15	60,240,000	early stage, seed, start-up, development	229	146

### Seed Capital Company, Ltd,

- caused turnover of companies included in the portfolio to increase to reach 132%,
- made generation of profits by firms to increase to reach 195%,
- made financial health of the firms, payment discipline, and the meeting of financial liabilities vis-a-vis the state and other partners to improve,
- made the share of exports on the turnover of the firms to increase to reach 151%,
- made the financing of the firms by commercial banks to improve; every 1 Sk invested by SCC enabled SCC portfolio enterprises to raise Sk 2.42 in the form of newly granted loans from commercial banks,
- helped to maintain 229 existing jobs and to create 146 new job opportunities (thereof 106 permanent, and 41 seasonal).

## Evaluation of the Subcontractor Programme efficiency

Through the Subcontractor Programme, regular presentations of small and medium-size enterprises from Slovakia in subcontractor fairs Midest, France, and Hannover-Messe, Germany are organized, oriented toward the development of collaboration between Slovakia's small and medium-size enterprises and companies from European Union Member States.

Based on services provided by SBS staff to foreign companies, the following forms of collaboration could be developed:

- France Ligne, France: the construction of a small plant for the production of women's lingerie at Partizánske, offering jobs to 60 employees from Slovakia.

### The following projects are under preparation:

- **Plastic Omnium, France:** interest in establishing a joint venture with a majority stake, with the Slovak firm INALFA Vráble,
- **FIB, the Netherlands:** interested in production cooperation and the establishing of a joint venture with the Slovak company TLAKON Žilina,
- **PEMSTAR, the Netherlands:** interested in establishing a joint venture with Služba v.i.d Nitra (a production co-operative of handicapped persons),
- **SCHUITMAKER, the Netherlands:** collaboration with Slovak companies VSŽ Košice - foundry (cast products), Wusam Zvolen (front transmissions), and TOPOS Továrniky (hydraulic cylinders).

*Draw-down of PHARE and State Budget funds for subcontracting, by years*

<i>Year</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>Total</i>
PHARE (in EUR)	19,898	35,109	35,220	44,473	10,492	25,450	170,942
State Budget (in Sk thous.)					2,282	1,500	3,782

## Evaluation of the Europartenariate Programme efficiency

Information concerning the evaluation of the EUROPARTENARIATE Programme have been collected in accordance with the European Commission's methodology. Because of its complexity, the previous methodology of surveying only supplied data presented in the Table below.

However, NARMSP has been contemplating ways to also collect data on contracts made also showing time frames after the first contact between partners.

<i>Year and venue</i>	<i>Nos of Slovak SMEs participating</i>	<i>Nos of meetings with foreign enterprises</i>	<i>Nos of meetings with host enterprises</i>
1992 Italy	3		
1993 France	14		
1993 Scotland	20	128	95
1994 Poland	35	101	378
1994 Spain	20	99	144
1995 Germany	18	84	191
1995 Portugal	10	70	102
1996 Sweden	11	49	169
1996 Italy	21	167	181
1997 Greece	8	99	46
1997 France	15	141	87
1998 Netherlands	11	69	123
1998 Spain	12	57	122
1999 Austria	48	260	356
1999 Germany	9	14	82
<b>Total</b>	<b>255</b>	<b>1,338</b>	<b>2,076</b>

### Evaluation of Interprise Programme efficiency

The National Agency for Development of Small and Medium Enterprises - EuroInfoCentrum SK-672 Bratislava was involved, as the co-organizer (as the main organizer in 1997 and 2000) in six events of the INTERPRISE type. The following Table shows statistical evaluation of the individual events from the aspect of the participation of Slovak SMEs:

<i>Year and INTERPRISE event</i>	<i>Nos of participating countries</i>	<i>Nos of firms, total</i>	<i>Nos of Slovak firms</i>	<i>Nos of meetings of Slovak firms with other firms</i>
1996 COOPME-Interprise	11	88	14	122
1997 WOODDESIGN	9	148	10	78
1997 Slovak Prise Interlignum	8	140	52	423
1998 ECO-BUSINESS	14	204	8	63
1999 EURO CARE TECH	12	95	6	54
2000 Interprise Gastra-Alimenta	7	155	63	507
<b>Total</b>	<b>61</b>	<b>830</b>	<b>153</b>	<b>1,247</b>

## 5.2.11 Evaluation of the efficiency of the SZRB, S.f.i. support programmes

The Slovak Guarantee and Development Bank received funds from State Budget amounting to Sk 341.3m in 1999. The funds allocated were distributed as follows:

<b>Guarantee funds</b>	<b>Sk 250,000 thous.</b>
<b>Grant funds</b>	<b>Sk 51,300 thous.</b> , thereof Sk 50,000 thous. for grants under the Tourism Development in Slovakia Programme - Ministry of Economy Sk 1,300 thous. for grants under the REGION Programme
<b>Loan funds</b>	<b>Sk 40,000 thous.</b>

Using these resources, SZRB took care of the implementation of 13 guarantee-based and 9 grant-based programmes in co-operation with the Slovak Ministries of Economy, Agriculture, Transport, Posts and Telecommunications, and Environment; and of 2 guarantee-based programmes.

In agreement with the business conditions, guarantees were granted up to 85% of the loan principal, or even up to 90% for some programmes. The maximum amount of the loan is Sk 100m. This form of guarantee could be granted under one of the following programmes:

### Guaratee programmes

1. Support for SMEs (small and medium-size enterprises) programme
2. PHARE Programme
3. Guarantees for domestic financial leasing-based SMEs support programme
4. Guarantees for selected regions-based SMEs support programme
5. Guarantee-based support programme for seasonal agricultural works
6. Guarantees and grants-based support programme for small and medium-size agricultural entities
7. Guarantees for operating loans-based business support programme
8. Guarantees-based health services development support programme
9. Guarantees-based environmental protection support programme
10. Guarantees and grants-based production innovations support programme
11. Guarantees and grants-based craftsmanship development support programme
12. Counter-guarantees for foreign loans-based business support programme
13. Combined transport in Slovakia support programme

*Guarantees granted in 1999 and since the launching of the programmes*

<b>Parameter</b>		<b>Total</b>
1.	Numbers of applications for guarantees received	year 78
		cumulative 3,089
2.	Numbers of guarantees granted	year 53
		cumulative 2,205
3.	Amount of guarantees granted, in Sk thous.	year 140,168
		cumulative 6,713,040
4.	Amount of guarantee-supported loans, in Sk thous.	year 189,975
		cumulative 10,076,214
5.	Average amount of guarantees granted per project, in Sk thous.	year 1,750
		cumulative 3,044
6.	Numbers of newly created jobs with respect to guarantees granted	year 352
		cumulative 19,384

*Structure of guarantee cases in 1999, by sector*

<b>Seq.No.</b>	<b>Sector of business</b>	<b>%</b>
1.	Agriculture	71
2.	Production of food and beverages	9
3.	Tourism	7
4.	Production of leather and leather treatment	6
5.	Wholesales	2
6.	Textile industry	2
7.	Sales of fuels and lubricants	2
8.	Furniture manufacturing	1
	<b>Total</b>	<b>100</b>

*Loans supported, by purpose (according to the amount of the loan)*

<b>Purpose of loan</b>	<b>1999 %</b>	<b>1991-1999 %</b>
Investments	69	75
Operating	15	23
Combined	16	2
Total	100	100

## **Grant programmes**

SZRB was providing grants under the government-launched development programmes, thus helping with the reduction of indebtedness of businesses in areas that are considered most significant for the stability of the economy.

Grants were provided by SZRB under the following grant programmes:

1. Tourism development in Slovakia programme IV
2. Support programme for economic activities leading to energy and imported raw materials savings
3. Energy consumption reduction programme for apartment houses and apartments
4. Combined transport in Slovakia development programme
5. Slovak Bus Transport vehicle fleet renewal programme
6. Support programme for utilization of the results of science and technology by SMEs -PATENT
7. Programme REGION
8. Support programme for small and starting businesses - START
9. Support programme for gradual elimination of substances damaging the ozone layer - OZONE

*Grants awarded in 1999 and since the launching of the programmes*

Parameter		Total	
1.	Numbers of applications for grants received	year	71
		cumulative	928
2.	Numbers of grants promised	year	45
		cumulative	617
3.	Amount of grants promised, in Sk thous.	year	31,149
		cumulative	705,471
4.	Amount of grants paid, in Sk thous.	year	64,907
		cumulative	629,547
5.	Amount of loans supported by grants promised, in Sk thous.	year	309,221
		cumulative	5,702,393
6.	Average amount of grants per project promised, in Sk thous.	year	742
		cumulative	1,143
7.	Numbers of jobs created in connection with grants promised	year	284
		cumulative	5,083

*Structure of grants in 1999, by sectors*

<b>Seq.No.</b>	<b>Sector of business</b>	<b>%</b>
1.	Manufacturing	23
2.	Trade	1
3.	Tourism	58
4.	Agriculture	1
5.	Transport	2
6.	Other	15
	<b>Total</b>	<b>100</b>

*Effects of the tourism support programme*

<b>Seq.No.</b>	<b>Parameter</b>	<b>1999</b>	<b>Total</b>
1.	Numbers of new beds	291	6,126
2.	Numbers of new places at tables	1,177	24,342
3.	Numbers of new job opportunities	258	3,988

**Loans-based programmes**

The loans-based programme PODPORA (support) launched by SZRB in 1997 as a new product, effective 1 June, 1997, enables businesses to acquire loans up to Sk 7m with a maximum maturity of 7 years and at a fixed interest rate of 10.5% that remains constant throughout the tenure of the loan; there is an option of a one year respiro with respect to the principal repayment since the first draw-down. Loans are granted in a subsidiary manner under the loans-based programme, in cooperation with the cooperating banks.

The loans-based programme ROZVOJ (development) aimed at supporting small and medium-size enterprises, financed under the credit line provided by Kreditanstalt für Wiederaufbau, was born out of the cooperation and assistance of the foreign bank. The new loan product was introduced to the bank market effective 1 September, 1998. It allows businesses to acquire operating investment loans. The maximum amount of the loan is Sk 58m. For the time being, the interest rate on this type of loan is 13.5% p.a.. The loan may be used to finance up to 75% of projected costs. Loans under this programme may be combined with other sources of financing. The maximum maturity of the loan is 10 years, with a one year respiro option with respect to the repayment of the principal.

The loans-based programme EKOLÓGIA (ecology) to support small and medium-size enterprises. The programme is being financed from the credit line provided by Kreditanstalt für Wiederaufbau. The loan product was introduced to the bank market as of 1 September, 1999. The loan may be used to finance up to 75% of projected costs. The maximum amount of the loan is Sk 58m, at an interest rate of 13.5% p.a., it has to be paid off by 31 December, 2007.

*Loans granted within 1997-1999*

<b>Parameter</b>		<b>Podporat 1999</b>	<b>Rozvoj 1999</b>	<b>Total</b>	
1.	Numbers of applications for loans received	year	52	45	07
		cumulative	234	86	320
2.	Numbers of loans accepted by SZRB	year	25	37	62
		cumulative	159	58	217

<i>Parameter</i>			<i>Podporat 1999</i>	<i>Rozvoj 1999</i>	<i>Total</i>
3.	Amount of total loans accepted (SZRB + LBSP), in Sk thous.	year	121,627	416,716	538,343
		cumulative	799,420	631,541	1,430,960
4.	Amount of loans accepted by SZRB, in Sk thous.	year	81,085	416,715	497,800
		cumulative	532,947	631,540	1,164,487
5.	Average amount of loans for accepted loans, total (SZRB+LBSP), in Sk thous.	year	4,865	11,263	8,683
		cumulative	5,028	10,889	6,594
6.	Numbers of newly created jobs with respect to total accepted loans (SZRB+LBSP)	year	147	250	397
		cumulative	1,427	610	2,037

Structure of loans granted within 1997-1999, by sectors and amounts of loans extended

<i>Seq.No.</i>	<i>Sector of business</i>	<i>%</i>
1.	Manufacturing	50
2.	Trade	23
3.	Services	
4.	Tourism	
5.	Other	12
	Total	100

Loans accepted, by lender banks:

in Sk m

<i>LBSP</i>	<i>1999</i>		<i>Cumulative</i>	
	<i>Nos.</i>	<i>Amount of loans in total (SZRB+LBSP)</i>	<i>Nos.</i>	<i>Amount of loans in total (SZRB+LBSP)</i>
Poľnobanka	3	85	4	93
Priemyselna banka	5	41	30	229
Istrobanka	9	119	86	508
Poštova banka	45	293	97	601
<b>Total</b>	<b>62</b>	<b>538</b>	<b>217</b>	<b>1,431</b>



### 5.3 Allocation and drawdown of resources by the individual types of support: An overview

in Sk m

<i>Programme</i>	<i>Resources</i>	<i>Drawdown 99</i>	<i>Outstanding 99</i>	<i>Note</i>
<b>NARMSP</b>				
1. Support for SMEs policy - institutional support (PHARE)	4,052	2,340	1,712	Drawdown of the resources planned over 3 years
2. Counselling services and in- formation provision (PHARE)	23,933	16,412	7,521	as above
3. Financial support schemes (State Budget+PHARE)	46,800	286,980	181,020	Drawdown continues in 2000
4. State support programmes through VPS	28,700	7,119	21,581	Funds released as late as towards the end of the year - drawdown continues in 2000
SMEs VR SR-National Labor Office*	7,936,818	474,032	7,462,786	7,292,270 for passive policy and 170,516 reserve for January
Ministry of Transport, Posts and Telecommunications thereof:	135,000			Resources deposited with SZRB that uses them
grants	50,000	3,500	46,500	
guarantees	85,000	-	85,000	
Foreign Trade Promotion Fund	401,000	219,000	182,000	The outstanding amount drawn down in 2000 depending on the duration of projects
SZRB				Also, other sources were used for grant and guarantee- based programmes
- guarantee programmes	250,000	140,168	109,832	
- grant programmes	51,300	62,907	x	
- loan programmes	40,000	538,343	x	

\*these sources concern the general labor market policy rather than support for SMEs only

In the framework of its programmes, NARMSP administers PHARE and State Budget funds. With respect to PHARE funds, they are intended to be drawn down within three years, and also the system of their release has been adjusted accordingly. It should be mentioned with respect to State Budget funds that they only were released late in 1999 (December) and thus could not be drawn down by the end of the year.

**Ministry of Labor, Welfare and Family:** in this case there is a discrepancy between the resources and the needs with respect to payments of support in unemployment and other payments under the passive labor market policy. Substantially less funds were available for the purposes of the active policy.

**Ministry of Transport, Posts and Telecommunication** has been implementing the combined transport programme - failure to draw down funds has been due to the lack of good quality projects.

**Foreign Trade Promotion Fund** has been financing also long-term activities of businesses, and the drawdown of a portion of the funds has therefore been postponed to the year 2000.

## **6. Support from other sources**

### **6.1 Co-operation with France**

The implementation of the Training Programme for French Speaking Managers started in 1999. The objective of this programme has been professionalization of Slovak francophone managers of SMEs, supplementation of the know-how in the area of marketing and management, and establishment of co-operation with French enterprises.

Co-operating parties of the programme include NARMSP and GRETA Laon-Hirson-Chauny whose mission is professional training of adults.

The programme has 3 stages:

1. Corresponding course of professional French
2. Workshops with French lecturers (in the premises of NARMSP in Bratislava)
3. Study stay in France

The lecturers are professionals with extensive experience with lecturing directly in companies, they are thoroughly familiar with the reality of this environment. The topics covered mainly concerned financial analyses and financial management, European economy, marketing, organization and control of production, quality, personnel management and organization systems.

The study stay in France lasted 8 weeks in 1999, the participants spent the first two weeks attending presentations of regional institutions (Conseil régional, Mairie de Laon, Agence régionale pour l'exportation, Chambre régionale de commerce et d'industrie) and listening to presentations of experts on the premises of GRETA; the remaining 6 weeks, were spent visiting one or several French companies. The workshops were organized during August and September, and the stays were organized during October and December.

The programme was financed by the French government and was attended by 10 Slovak managers in 1999. All the participants highly appreciated the experience acquired and are about to further develop the contacts established.

## **6.2 Co-operation with Germany**

The 2-year stage of the project "Strengthening of the Counselling Offer for SMEs in Slovakia" started being implemented as a part of the TRANSFORM programme. The project has been financed by the government of the FRG via KfW Frankfurt am Main. The contract-based partnership was concluded on 9 February, 1999, and counselling was started in co-operation with the Chamber of Craftspeople in Trier.

Additional two centres (RAIC Nitra and BIC Banská Bystrica) became involved in the existing network of cooperating centres (RAICs Poprad and Považská Bystrica, BIC Spišská Nová Ves).

In 1999, being the first year of this 2-year stage, 35 SMEs were acquired to the project, 13 counselling contracts were signed, 4 counsellings were organized and 1 co-operation was established with a German speaking firm.

Two workshops were organized: the first one concerned familiarization of internal and external advisers with the most recent changes in ISO 9000. The second workshop for SMEs and regional centres concerned exports. Both workshops were staged in Považská Bystrica.

Compared to the first project stage, a higher degree of institutional knowledge of the project could be achieved among the professional public.

## **6.3 Foreign credit lines**

The development of small and medium-size enterprises in Slovakia has been supported by the National Bank of Slovakia since its establishment in 1993, through special foreign credit lines. NBS signed, within 1993-1997 two agreements with the European Investment Bank (Apex Global Loan and Apex Global Loan II) and three agreements with the EXIM Bank of Japan (Two Step-Loan, Two-Step Loan II, and Two-Step Loan III). Funds from these loans have been intended for support for private business in Slovakia. Projects are being financed by selected commercial banks based on brokerage agreements made with the NBS.

The **European Investment Bank** signed a contract on Apex Global Loan with the National Bank of Slovakia on 17 February, 1993, amounting to ECU

28m. The loan was intended for the financing of small and medium projects ranging between ECU 40 thous. and 20m, the loans being granted to cover up to 50% of the investment expenditures. The source of financing of the remaining 50% investment expenditures on projects should come from investor's own resources and/or from loans from other financial institutions. The loans are denominated in ECU, and may be drawn down in any currency requested by the debtor, with the currency exposure being borne by the debtor. EIB and NBS signed, on 18 July, 1995, another loan agreement on Apex Global Loan II, amounting to ECU 50m. VÚB, Tatra banka, Creditanstalt, Istrobanka, and Ľudová banka were gradually approved by the European Investment Bank as the lending banks. Moreover, the National Bank of Slovakia approved the option of drawing down funds from the AGL II credit line also in Slovak currency, thus speeding up the loan realization process.

AGL II line continued to be drawn down in Slovak currency in 1999. The Table below shows an overview of the drawing down of this loan during 1999 and cumulatively since the beginning.

*AGL II credit line from EIB - drawdown in Slovak currency*

	<i>Nos of approved financed projects at NBS</i>		<i>Volume of funds released from NBS, in Sk</i>	
	<i>1999</i>	<i>Cumulative as of 31 Dec., 1999</i>	<i>1999</i>	<i>Cumulative as of 31 Dec., 1999</i>
VÚB, a.s.	4	6	31,500,000	42,000,000
TATRA BANKA, a.s.	1	6	44,000,000	389,000,000
ISTROBANKA, a.s.	3	5	426,877,000	462,228,361
ĽUDOVA BANKA, a.s.	0	0	0	0
CREDITANSTALT, a.s.	3	4	185,700,000	234,450,000
<b>TOTAL</b>	<b>11</b>	<b>21</b>	<b>688,077,000</b>	<b>1,131,678,361</b>

As of 31 December, 1999, there were 5 projects financed from the EIB AGL credit line, in a total volume of Sk 0.90bn, and 27 projects (in a total amount of Sk 1.235bn) from AGL II; 21 projects were financed in Slovak currency, the remaining in foreign currencies.

On 12 September, 1997, the Export-Import Bank of Japan signed with the National Bank of Slovakia Two-Step Loan III Agreement in a total volume of 20 bn Yen. The loan is intended to support the development of small and medium-size private enterprises and joint ventures. For the purposes of this loan, small enterprise has been defined as an enterprise with 1 to 150 employees, and medium-size enterprise as one with 151-600 employees. The funds can be employed to finance new projects or to expand existing projects, including mod-

ernization, rehabilitation, renewal, optimization, restructuring, and any type of investment to improve productivity or efficiency of an existing project. Retail sales, wholesales and associated services, and leasing cannot be financed under this loan. The proceeds of the loan may be used to finance up to 70% of total project costs. The amount covered under this loan with respect to individual projects must not exceed the equivalent of 750 million Yen in Slovak currency (about Sk 200m).

In 1999, 4 projects in a total volume of Sk 0.028bn were financed from the TSL I line revolving, and 13 projects from the TSL II line revolving (amounting to Sk 0.110bn). Funds from TSL III line were used to finance 7 projects in an amount of Sk 0.065bn, and 24 projects were financed from revolving funds, amounting to Sk 0.287bn.

	<i>Nos of projects approved - financed at NBS</i>		<i>Volume of funds released from NBS, in Sk</i>	
	<i>1999</i>	<i>Cumulative as of 31 Dec., 1999</i>	<i>1999</i>	<i>Cumulative as of 31 Dec., 1999</i>
VÚB, a.s.	0	204	0	2,152,324,966
POENOBANKA, a.s.	1	69	5,000,000	974,421,446
TATRA BANKA, a.s.	0	15	0	921,000,000
PRIEMYSELNÁ BANKA, a.s.	1	14	10,000,000	323,167,184
ISTROBANKA, a.s.	5	28	49,673,916	1,053,881,764
POŠTOVÁ BANKA, a.s.	0	6	0	74,800,000
<b>TOTAL</b>	<b>7</b>	<b>336</b>	<b>64,673,916</b>	<b>5,449,595,360</b>

## **7. Development of SMEs in 2001: Suggested measures**

SMEs make significant contributions toward gross production, added value, employment as well as exports and imports within Slovakia's national economy. The dynamics of changes in the various economic parameters of SMEs however sensitively respond to any influences of the environment that is being determined by legislation, administrative procedures and the state of the financial system. The impacts of the macro-economic dysbalance have evidently shown in the reduction of employment in 1999 as well as in the stagnating share of SMEs on added value and other economic parameters.

To strengthen the dynamics of the development of SMEs, we recommend to continue the taking of systemic measures for a purposeful improvement of the business environment. These measures should include the dealing with the following issues:

### **a) Legislative and administrative barriers**

Based on what has been stated above in Section 2, measures have expediently to be taken in the field of legislation that will help to eliminate the major legislative and administrative barriers to the development of small and medium-size enterprises.

With respect to income taxes, the tax-related burden imposed on businesses should be reduced, thus helping to resolve the following problems:

1. Elimination of limiting positions newly introduced into the new Act, to be recognized as deductibles (such as limits to expenditures on fuels, limits to depreciations of tangible and intangible assets acquired from subsidies, etc.).
2. Allowing to recognize a portion (e.g. 30% of the total price) of investments as deductibles.
3. Making self-employed individuals equal with employees with respect to some tax deductible items.
4. Implementation of a systemic change with respect to the determination of the amounts of tax deductibles.
5. To consider the purposefulness of dividing tax payers - natural persons into employees and self-employed individuals.

The following should be dealt with with respect to the contributions to funds pursuant to the NR SR Act Nos. 273/1994 Coll.II and 274/1994 Coll.II.:

1. Inequality concerning sickness benefits and benefits paid with respect to injuries to entrepreneurs compared to employees.
2. The option to generate social fund also by entrepreneurs.
3. Systemic review of the amounts of contributions to funds for entrepreneurs.
4. Contributions to funds should only flow into a single collection point (center), thus substantially reducing the administration-related demands put on SMEs.

## **b) Access to capital**

One of the principal preconditions for the establishment and development of small and medium-size enterprises is access to capital under more advantageous conditions than currently offered by commercial banks. A system of incentives for banks should be sought to make them orientate their loan policies toward SMEs.

Another alternative is to take measures in tax-related issues so as to enable businesses to keep more funds for investments and development.

## **c) Training, education and counselling for SMEs**

The current institutional support network for SMEs comprises (with the exception of Bratislava) 12 RAICs and 4 BICs. Even if the centres provide information and counselling services to several districts within their area, the distance between the seat of the centre and the respective district represents a barrier to the acquisition of detailed information and good quality counselling services, in particular if it comes to interested persons from among the unemployed. A project of expansion of counselling institutions for the East-Slovakia region was suggested under the PHARE 2000 programme. However, the situation has to be dealt with concerning regions that are not falling under the priority region NUTS II.

During the preceding period, provision of information on a range of support programmes for SMEs was free of charge up to 0.5 hour. The adoption of NR SR Act No. 231/1999 Coll.II. On State Assistance has made this practice unacceptable any more. Entrepreneurs either have to pay for this service or the counselling institutions have to provide the service free of charge, at their own account, and this further worsens their uneasy financial situation.

Compared to the neighboring transition countries, the incubator form of support has not yet been satisfactorily developed in Slovakia, in particular when it comes to enterprises during the start-up stage of their development. There are but few incubator centres (3), and their work under unsuitable conditions.

There are no technological incubators at all. The situation is partly covered by projects under PHARE 1999 and suggested projects for PHARE 2000. What is important however is to secure support for, and co-financing of such projects also from Slovakia's national funds.

Stress has to be laid on the evaluation of the impacts and efficiency of the implementation of the support programmes, in particular of those that represent direct financial support for businesses (loans-based support programme, micro-loans, grant programmes). It is therefore crucial to take care of their monitoring within the regions through the RAICs/BICs network.

The concept of the further development of the RAICs/BICs network and its expansion is under development, including a system of financing of support counselling services for SMEs.

#### **d) Analyses and prognoses**

The adoption of more efficient measures to improve the business environment should be based on detailed knowledge. Such knowledge is not yet available. Support measures have to be oriented toward specific areas and groups of enterprises where their effect can be expected to be the greatest. Such information may only be acquired through systemic monitoring of the activities of SMEs as usual in EU Member States. That is why a project of the SMEs Monitoring Centre has been proposed to fulfill this role and to provide background data for competent decision-making in this area.

Because of problems associated with the acquisition of statistical data on SMEs a method has to be found to unify and standardize the records of the databases of all institutions involved that deal with statistical data on small and medium-size enterprises; the best way might be the establishment of a single information system of the Slovak Republic.

#### **e) Support programmes**

The implementation of the following support programmes is expected to continue in 2001:

1. Fourth multiannual programme KEÚ for SMEs
2. Transfer of technologies
3. Implementation of quality management systems
4. Counselling services for SMEs
5. Subcontracting
6. Seed Capital Company
7. Micro-loans scheme
8. Centre for business research
9. Support for SMEs through a network of incubators and implementation of the Research-based Spin-off Method
10. Support of SMEs' penetration of new markets
11. Information centre for entrepreneurs
12. Training and education for SMEs

Also, the successful SMEs support programmes implemented by SZRB and/or other sectors and institutions are expected to be continued.

#### **f) Regional development**

The principal task of regional development from the viewpoint of regional policy is the growth of the economic potential of the regions (growth of economic performance and efficiency of the utilisation of disposable resources under conditions of sustainable development), and its utilization, raising its competitiveness and the standard of life of its population, thus making a contribution toward social and economic development of the country. Besides moderating inter-regional economic and social differences, support for regional development also makes a contribution toward the creation of conditions for a more intense utilization of the own growth factors and of comparative advantages of the supported regions to the benefit of a recovery of the dynamics of their social and economic development.

The Slovak Ministry of Construction and Regional Development suggested to establish, as of 1 January, 2001, the National Agency for Regional Development. The principal mission of the Agency shall be strengthening of the partnership of all stakeholders to provide for sustainable economic, social, and cultural development of Slovakia's regions in a healthy environment. In exercising its powers and fulfilling its duties and functions, the Agency shall collaborate with governmental organizations and NGOs in Slovakia.

## **7.1 Orientation of the National Programme for the Implementation of the Acquis Communautaire in the field of SMEs**

Since its arisal, small and medium-size enterprises have witnessed an overall positive development; in spite of the positive development however, there are some facts that could cause serious problems to our SMEs upon Slovakia's joining the EU. Their elimination was the starting point of the setting forth of the objectives of the National Programme for the Implementation of the Acquis Communautaire (hereinafter NPAA). Based on the outcome of the screening negotiations and comments on the part of the EU, the Programme was reassessed to make it more efficient. The principal priorities at the basis of it have remained the pillar for this area. Specifically, the following priorities were concerned:

- strengthening of the position of SMEs and stimulation of their growth,
- raising the competitiveness of SMEs,
- expedient internationalization and penetration of new markets.

The above priorities are of medium-term nature, and are being incorporated into specific state programmes within the annual Reports on the Development of SMEs.

### **A. Strengthening of the position of SMEs and stimulation of their growth**

- **State programme 1: Loans-based Support Programme** - the volume of funds expected to be available for 2000 is Sk 600m (200m from State Budget, 200m from PHARE, 200m from commercial banks).
- **State programme 2: Micro-loans Scheme** - the volume of funds expected to be available for 2000 is Sk 39m (30m from PHARE, 9m from State Budget).
- **State programme 3: Counselling Services for SMEs** - the volume of funds expected to be available for 2000 is Sk 14m (9m from PHARE, 5m from State Budget).

The above state programmes are expected to be continued also within 2001-2002.

### **B. Raising the competitiveness of SMEs**

- **State programme 4: Technologies Transfer Programme, Stages 2 and 3** - the volume of funds expected to be available from State Budget in 2000 is Sk 5m.

- **State programme 5: Quality Management System Implementation Programme** - the volume of funds expected to be available from State Budget in 2000 is Sk 5m.
- **Seed Capital Company, Ltd.** - the volume of funds expected to be available from PHARE funds in 2000 is Sk 42m.

Also, the state programmes are expected to be continued within 2001-2002.

### **C. Expedient internationalization and penetration of new markets**

- Subcontracting Exchange of Slovakia (SBS) - provides information and services at an elevated level, in particular with respect to the seeking for, and identifying appropriate partners for production and commercial co-operation.
- TIPS (Technological and Trade Promotion System) - under it, an international information network is being set up in the fields of trade, manufacturing, technologies and investments.
- National Web Page on SMEs ([www.nadsme.sk](http://www.nadsme.sk))(1998) - currently replaced by the NARMSP page enables parties interested in doing business to acquire extensive information on support provided to SMEs in Slovakia.

Being the national centre for co-ordination of all types of support provided to SMEs, for monitoring of the business environment and development of SMEs, the National Agency needs a reliable information database to be able to present suggestions for improvements of the business environment, development of prognoses and evaluation of measures taken, for the government, as well as to be able to supply relevant data about SMEs to international institutions (EU, OECD, UNIDO, etc.). Consequently, NARMSP submitted to the Slovak Ministry of Economy a proposal for the setting up of the SMEs Environment Survey Centre that shall supply to the National Agency for Development of Small and Medium Enterprises relevant data on SMEs in Slovakia.

### **Financial needs**

The financing of support for SMEs fully falls under the overall context of state budgetary expenditures. Sufficient volumes of resources for this area remain the prevailing problem.

Requirements for financial provision of priorities under development and for the establishment of the Environment Survey Centre are being precised every year, and submitted to the government and the parliament. The State Budget allocated Sk 225m for state programmes to be implemented in 2000.

In specifying sources from the PHARE Programme for 2000 - 2002, allocations were based on disposable resources of the amounts remaining under COP97 and COP99 (SMEs), and under COP 2000 with respect to the approval of the "SMEs Environment Survey Centre" project.

<i>State support programmes</i>	<i>Financial needs, in Sk m</i>					
	<i>2000</i>		<i>2001</i>		<i>2002</i>	
	<i>State Budget</i>	<i>PHARE</i>	<i>State Budget</i>	<i>PHARE</i>	<i>State Budget</i>	<i>PHARE</i>
Loans-based Support Programme	200	200	*	*	*	*
Micro-loans Scheme	9	30	30	26	30	20
Counselling services	5	9	8	9	8	9
Technologies Transfer Programme	5	-	10	-	10	-
Quality Management System Implementation Programme	5	-	5	-	5	-
Seed Capital - risk capital	-	42	40	-	40	-
Funds for institutional provision						
SMEs Environment Survey Centre	-	12.6**	8.4**	25.2**	4.2**	12.6**

\* owing to the capital accumulated, this programme shall be run from revolving funds within 2001- 2002

\*\* data are only applicable if the establishment of the Centre is included in COP 2000



## **8. Conclusion**

This Status Report on small and medium-size enterprises provides a comprehensive picture of their development, forms of their support and on the development of the business environment in 1999, including existing problems and suggestions for their resolution.

Support for small and medium-size enterprises represents an activity that enables businesses to overcome initial periods at start-up or development stages, and the funds spent find reflexion in numbers of business entities and their shares on GDP and employment. Resources for the implementation of this support during the last year were mainly provided from PHARE Fund and from State Budget. State support was mainly implemented through state authorities that were participating, in a variety of forms, in the support for SMEs. State developmental programmes to support SMEs as well as guarantees-based programmes were implemented through SZRB, š.f.ú.

Since 1998, support for small and medium-size enterprises has been focusing on priorities included in the National Programme for the Implementation of the Acquis Communautaire rather than on individual measures. The implementation of these priorities will enable this sector to minimize problems upon Slovakia's joining the EU. They concern strengthening of the position of SMEs and stimulation of their growth, raising their competitiveness, speeding up of internationalization and penetration of new markets. These priorities were translated into individual state programmes, funds for their implementation from State Budget were only released on 23 and/or 26 December, 1999 however, due to which the Ministry of Economy had to request the Ministry of Finance to be allowed to extend the period for the drawdown of these funds as the planned support programmes could not have been implemented in the same year any more.

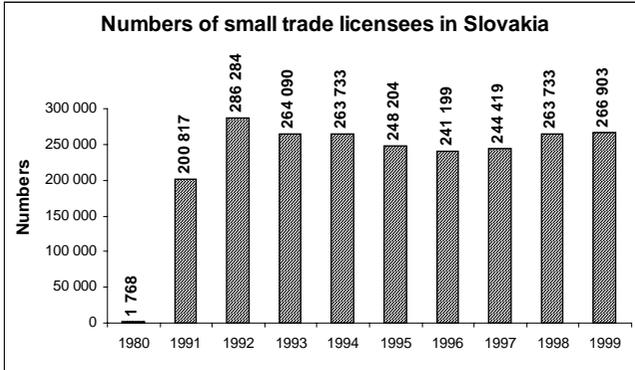
It should be mentioned with respect to the evaluation of the development of SMEs in 1999 that, in spite of a certain reduction in the numbers of SMEs - legal entities, their contribution toward the gross production increased, both in absolute and relative terms, as compared to big enterprises, suggesting a qualitative growth of this sector as well as a growing productivity of labor. The decrease in the numbers of SMEs - legal entities manifested itself in an overall reduction of employment in this sector. Besides, the reduction of employment has been due to the unwillingness of mainly small enterprises to hire people. The reason may be sought in the administrative demands and high costs associated with hiring new employees.

Adoption of the NR SR Act No. 231/1999 Coll.II. On State Support, introduced a change in the size structure of SMEs still in 1999. The biggest difference concerns the category of medium-size enterprises that is now being characterized by a maximum number of employees of 249 rather than 500.

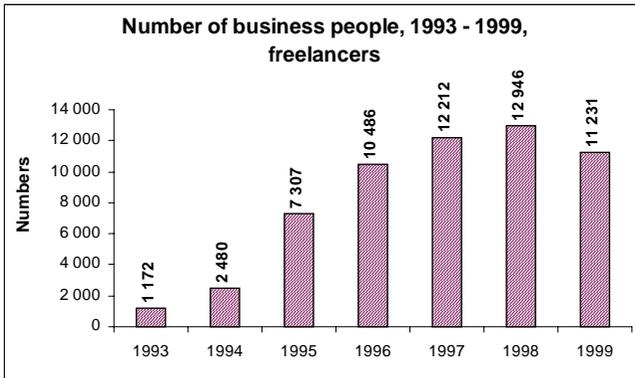
Even if there have been gradual amendments to the principal legal standards, there still remain some problems unresolved, in particular in the area of legislation, that prevent a more intensive development of business. The present Report therefore includes, in its Chapter 7, a complex of suggestions for the improvement of the business environment whose implementation would make a contribution toward an enhanced dynamics of the development of SMEs in Slovakia

# **Annex**

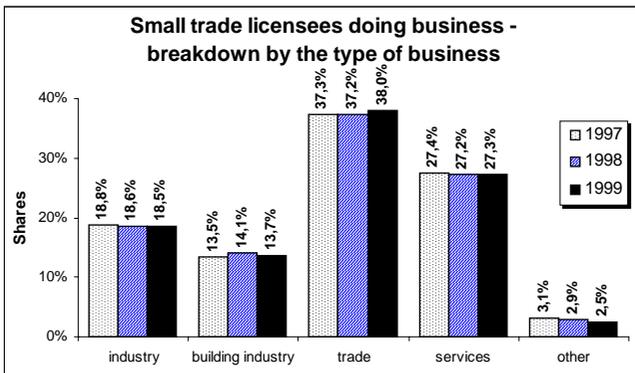




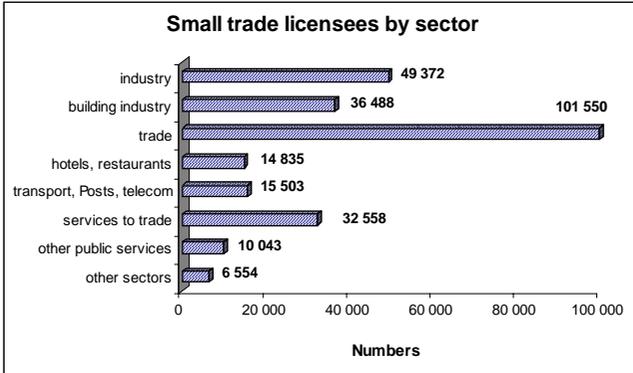
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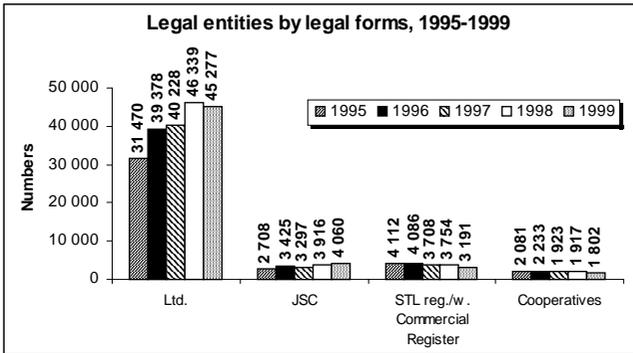
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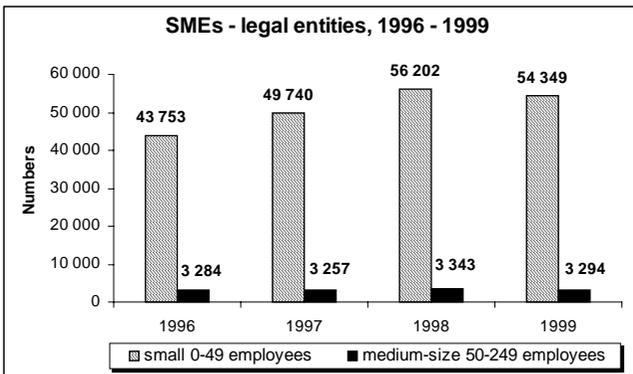
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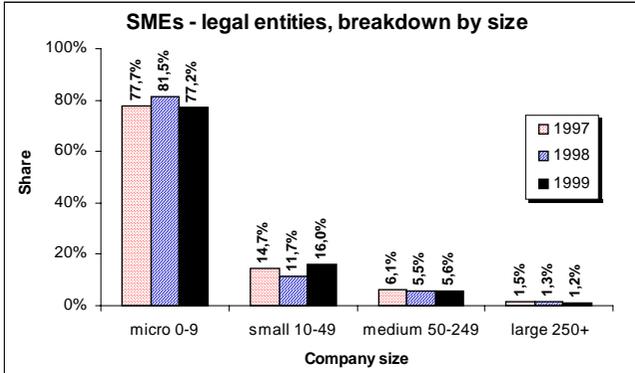
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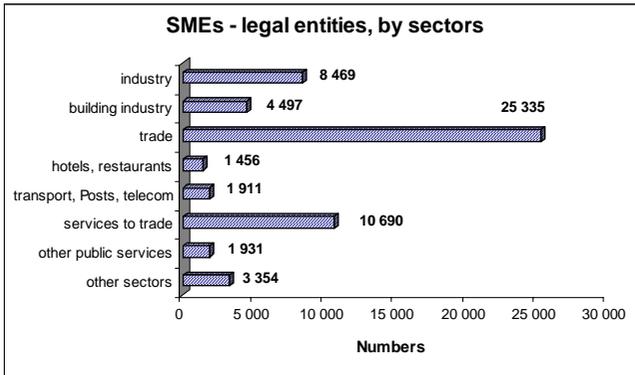
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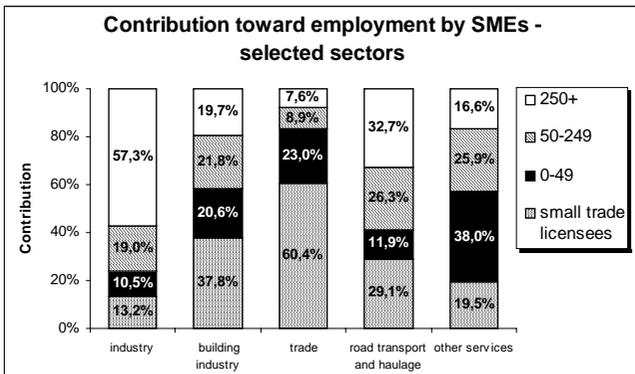
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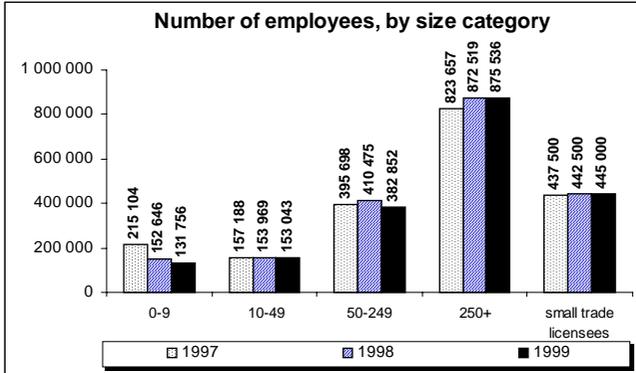
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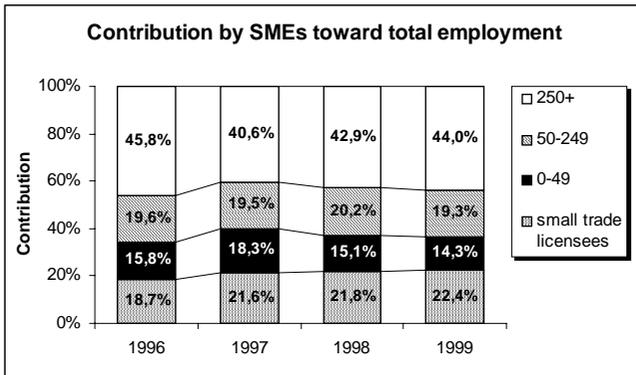
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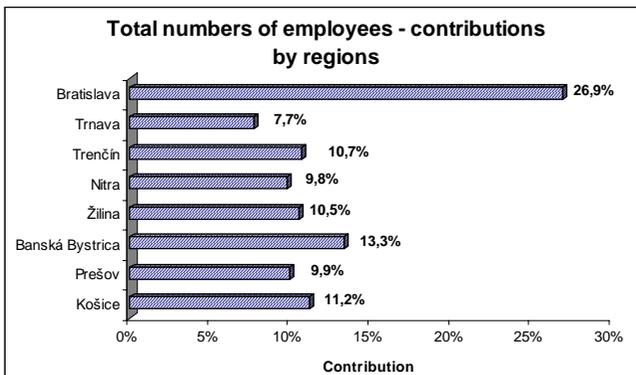
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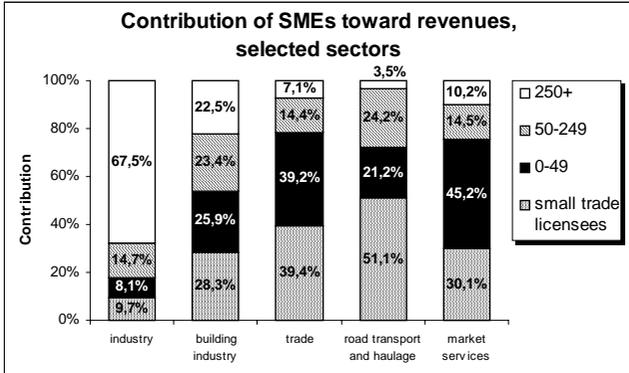
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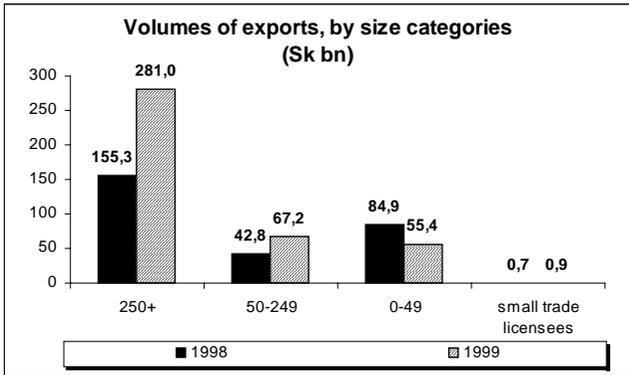
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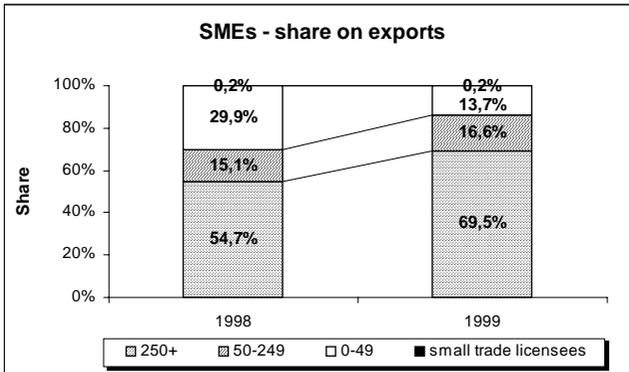
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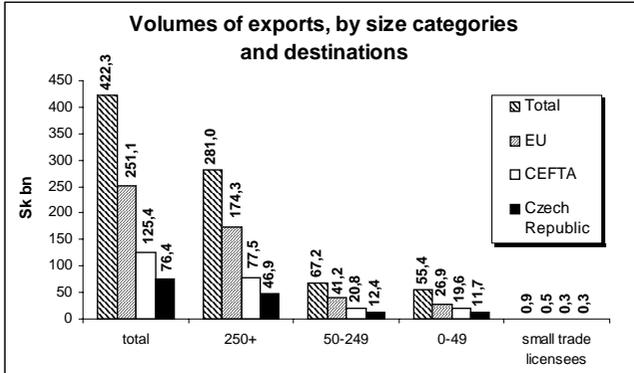
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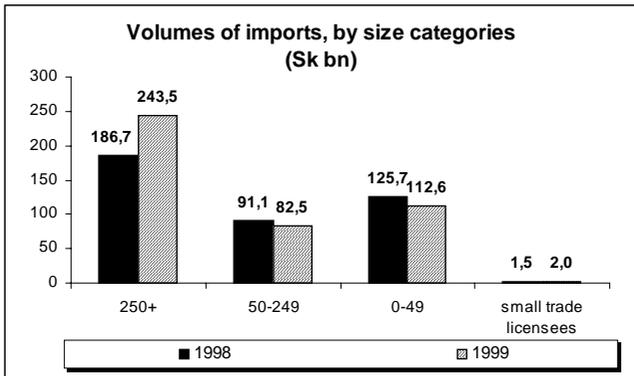
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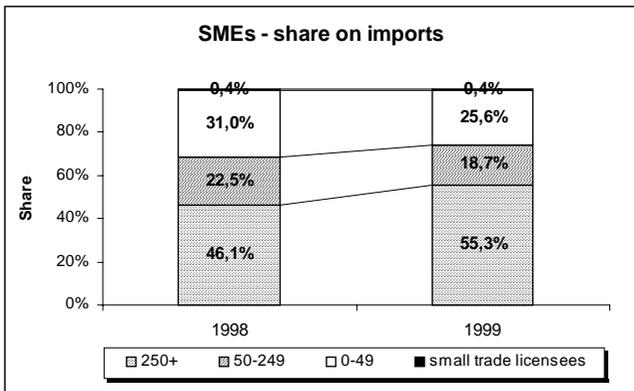
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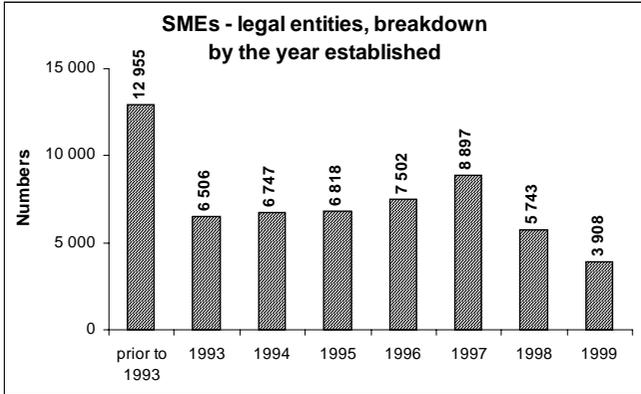
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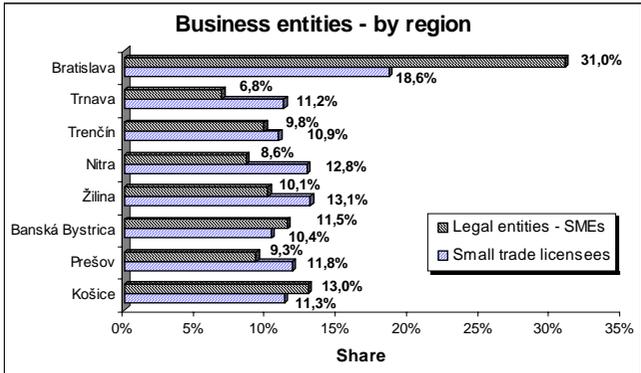
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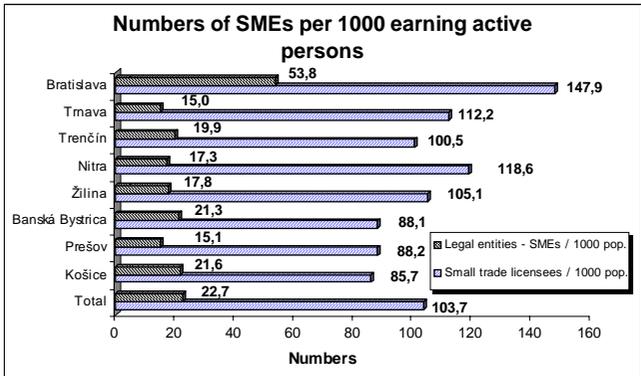
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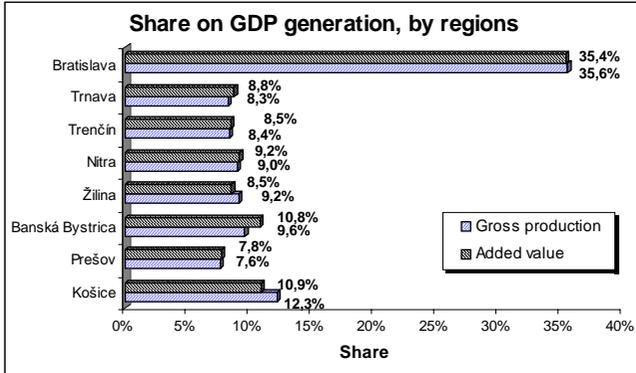
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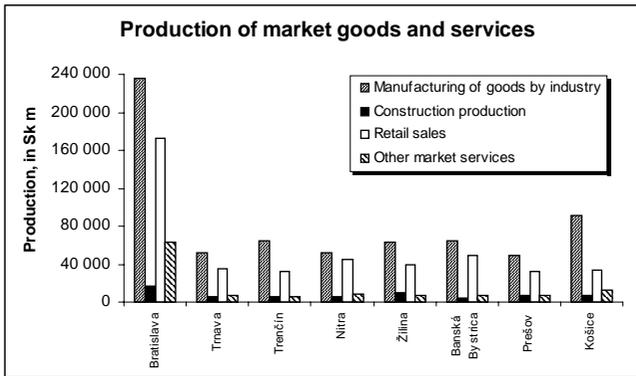
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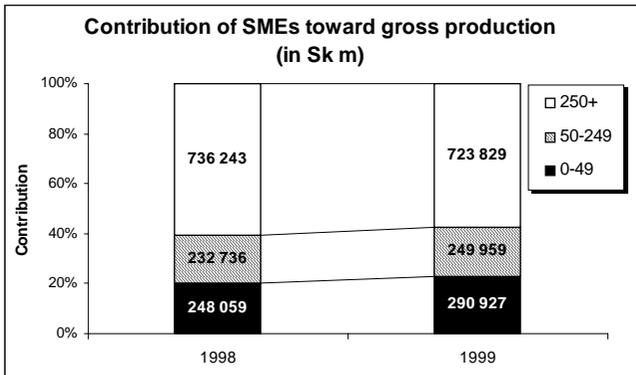
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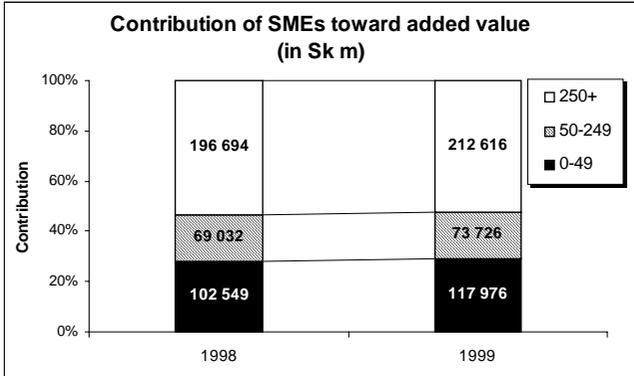
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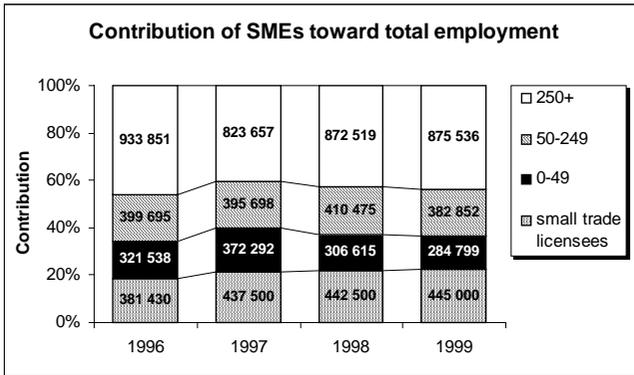
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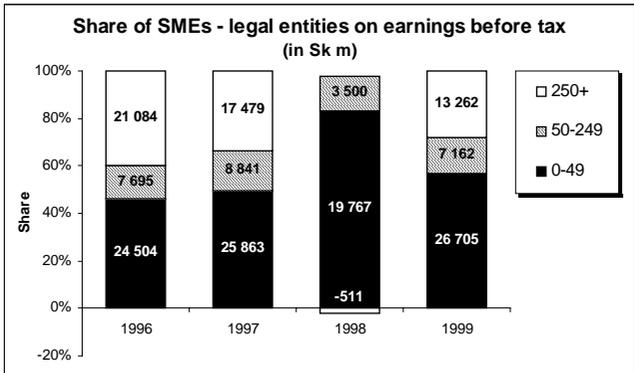
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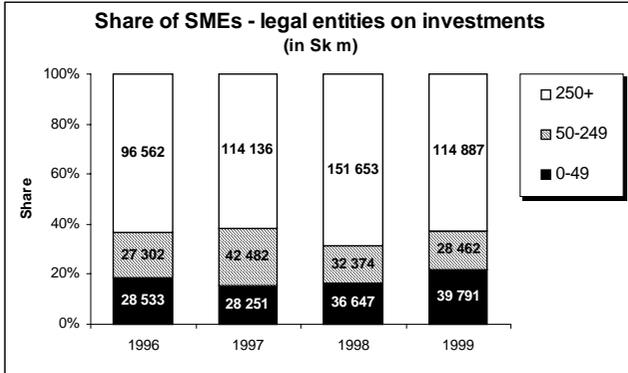
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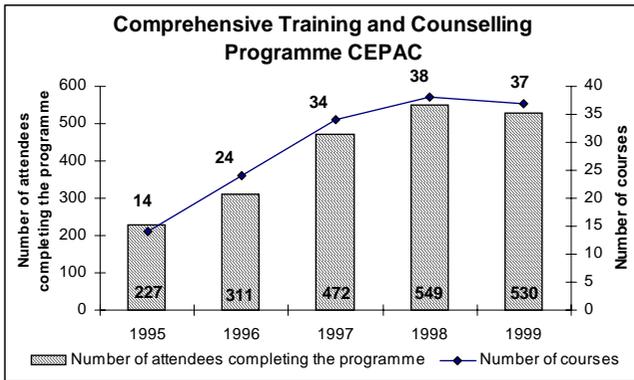
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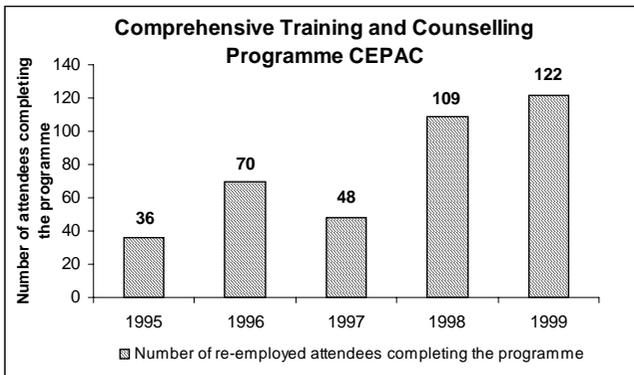
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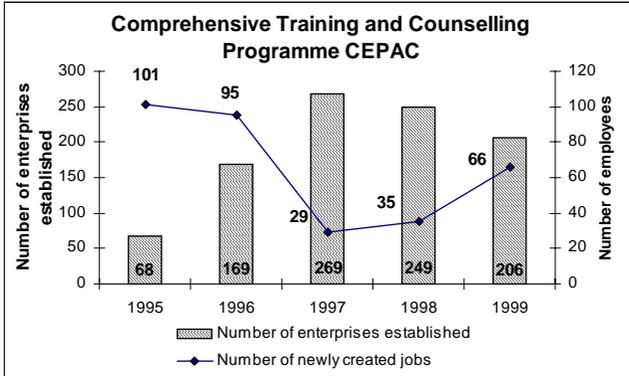
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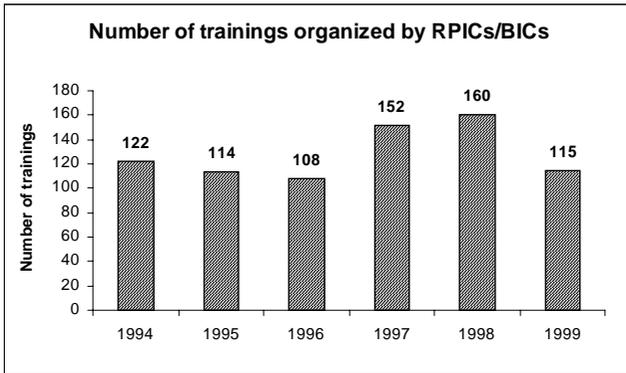
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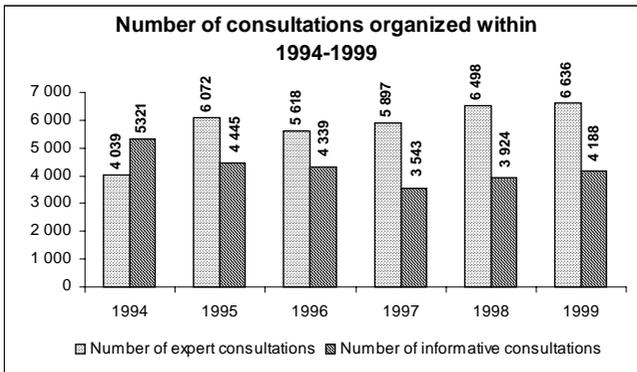
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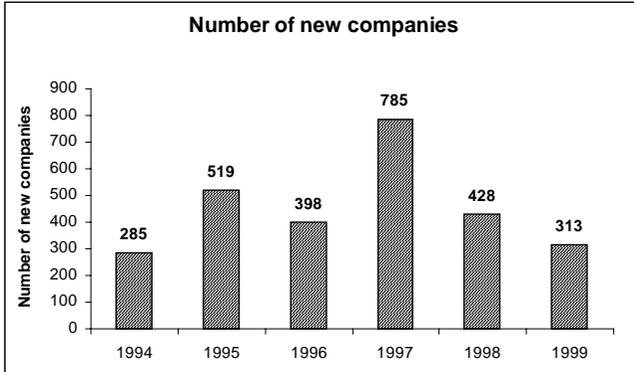
**Graphics 4.3**



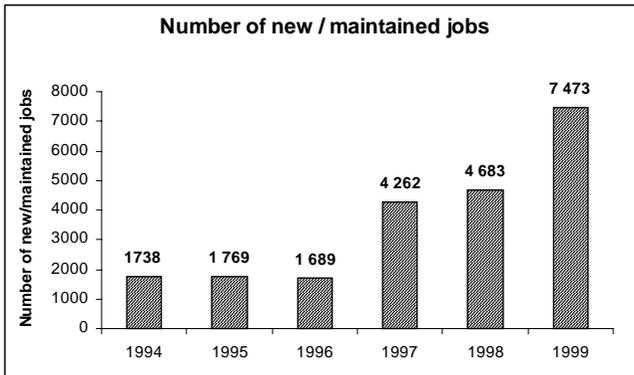
**Graphics 5.1**



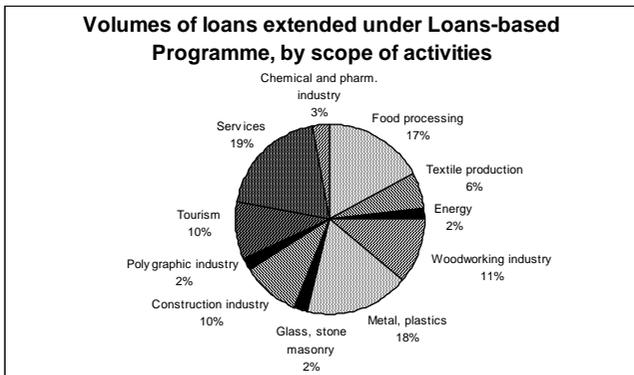
**Graphics 5.2**



**Graphics 5.3**

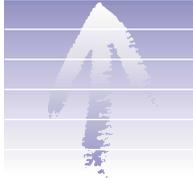


**Graphics 5.4**



**Graphics 5.5**





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