



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

2004

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1. Introduction

Development of small and medium enterprises is among the priorities of the economic development of our country. The most important development factor is the establishment of a favourable business environment, requiring simplification of and a more transparent legislation, reduction of administrative and tax burden, reduction of contributions to funds, strengthening of the supporting infrastructure, as well as an easier access to capital.

On 1 May, 2004, the Slovak Republic became Member State of the European Union (EU). This marked the successful termination of the preparatory stage for Union membership and the commencement of a new stage during which Slovakia's business entities will be competing for their future with companies from EU Member States in the single market and under equal conditions. This is why the policy of support of small and medium enterprises was directed, also in 2004, towards further improvement of the business environment aiming at bringing it as close as possible to that of the EU and thus to prepare our small and medium enterprises as well as possible for entering this competitive environment. The share of the small and medium enterprises in Slovakia's economy is currently already comparable with those in the developed countries: small and medium enterprises make up 99% of all enterprises in Slovakia. As compared to the preceding years, there was a more pronounced growth in the numbers of small and medium-sized enterprises, both natural persons and legal entities, in the past year, with also their share on employment increasing markedly.

In spite of this positive trend, there are still some negative aspects prevailing in the development of the business environment. In particular, it is the significant burden presented by contributions to funds which is negatively perceived by business people, along with poor law enforcement, high administrative demands put on doing business, numerous superfluous standards in the environmental area, the level of regulated prices, intricate and frequently changing legislation, corruption, as well as the growth of the regulatory burden in connection with the approximation of Slovakia's legislation to the EU law.

The introductory chapters of the present Report provide a brief assessment of the regulatory environment, an analysis of the status and development of small and medium enterprises within the past year, and present some suggestions to speed up the development in the period to come. Further chapters focus on the assessment of the various instruments of support of small and medium enterprises by the different forms of funding sources.

The assessment of the status and development of small and medium enterprises and their support in the preceding year, as presented to the Slovak Government by the Ministry of Economy of the Slovak Republic as part of its 2004 Status Report on the Business Environment in the Slovak Republic is based on the Government Resolution No. 792 dated 17 July, 2002. The comprehensive document on the status of the development of small and medium enterprises and its support in the Slovak Republic in 2004 will be published and used as a source base for information to be provided to

European Union institutions, OECD, EC UN, as well as for the drawing up of comparative analyses and various studies. In accordance with the methodology used in the EU, the Report does not address business in agricultural primary production, forestry and fisheries.

2. Development of the business environment to the benefit of SME development in 2004

2.1 General assessment

Small and medium enterprises have a significant and irreplaceable role to play in all market economies. Their development is among the priorities of the Slovak Government which was paying attention to it, via Ministry of Economy of the Slovak Republic but also via other sectors, in also 2004. The development of the business environment to the benefit of SMEs in 2004 provided evidence for gradual improvement of legislation and administrative structures in the interest of the strengthening of the competitiveness of business entities, being a principal prerequisite for an improved performance of the economy of our country.

Seen from the aspect of changes impacting upon the business environment, the year 2004 was even more important than the preceding ones. Apart from a marked progress in structural reforms, the accession to the European Union on 1 May, 2004, represented a culmination of the integration process of several years. Although the adoption of changes in the legislative and regulatory frameworks associated with the enlargement was spread over several years, the significant amount of the new legislation to be enacted was the result of our EU accession.

The most significant factors in unencing the business environment of Slovakia in 2004 included the implementation of the new tax system, making administrative procedures required upon business start up more efficient, change in the previous system of social security to become the system of social insurance, making communication with tax offices more efficient, and adoption of legislation to make bankruptcy proceedings more exible.

The new Act of the National Council of the Slovak Republic (NR SR) No. 595/2003 Coll.LL. on income tax, effective as of 1 January 2004, introduced so-called at-rate tax, i.e. a single linear rate of 19% to apply to all types of income of both legal entities and natural persons, thus abolishing a wide scope of various exceptions and waivers. The Act abolished the previously applicable special tax rate on income subject to withholding tax. The Act abolished at-rate tax for small trade licensees, and introduced at deductibles at 25 % (or even 60% for specified handicrafts). There is no more tax on dividends.

Discrimination against entrepreneurs - self-employed small trade licensees came to an end on 1 November, 2004. **Pursuant to NR SR Act No. 539/2004 Coll.LL., which amends and supplements Act No. 595/2003 Coll.LL. on income tax, as amended from time to time**, adopted by NR SR in October, 2004, they may deduct certain expenses spent in connection with business trips from their tax base (pocket money, per diem). Another position is demonstrably spent travel expenses. Where an own motor car is used for the transportation, not part of the business assets, the small

trade licensees may now, similarly as other employees, deduct costs of fuels and replacement costs pursuant to the Act on travel compensations.

NR SR Act No. 255/2003, which amends and supplements NR SR Act No. 289/1995 Coll.LL. on value added tax, as amended from time to time, took effect on 1 August, 2003, with some of its provisions, such as the rate of 19%, which replaced the reduced 14% and the standard 20% rates, taking effect in January 2004.

The new Act on added value tax (NR SR Act No. 222/2004 Coll.LL.), effective as of 1 May, 2004, and replacing the previously applicable Act No. 289/1995 Coll.LL. on value added tax, as amended from time to time, was enacted based on the need to access the single internal market of the European Union. After 1 May, 2004, the application of VAT became extended to the whole territory of the Union, goods, persons and money enjoy now free movement between the countries. In specified cases, the function of the border customs offices between Union Member States was now assumed by tax payers. The most important modification of the Act has been the change of the turnover threshold for mandatory registration: it became reduced from Sk 750,000 per quarter to Sk 1.5m per year. Now, more persons than before are liable to pay the tax. Pursuant to the new act, also companies are liable to register in respect of the tax, although not as payers, if they acquire goods from other Member States of the Union as part of their business activities worth in excess of Sk 420,000 in a calendar year. In connection with the trading within the single market of the EC Member States, some determined tax payers have also to present summary quarterly reports.

NR SR Act No. 350/2004 Coll.LL. which amends and supplements Act No. 455/1991 Coll. on small trade business (Small Trade Act), as amended from time to time, and on amendments and additions to some laws, which took effect on 1 July, 2004, provided for the period of registration for value added tax of 7 days after the receipt of the application for registration for tax purposes. This act also shortened the period within which Small Trade Authorities have to make the registration of free and bound activities from 15 to 7 days.

NR SR Act No. 347/2004 Coll.LL., which amends and supplements Act No. 455/1991 Coll. on small trade business (Small Trade Act), as amended from time to time, and on amendments and additions to some laws, which took effect on 1 July, 2004, regulates the mutual recognition of qualifications of citizens of European Union Member States. The key change of the amended Small Trade Act has been the option of requesting, after July 2004, Regional Offices to issue documents on the nature and duration of practical experience acquired in Slovakia required to prove qualification in European Union Member States. Small trade licensees from Slovakia not meeting the qualification criteria may provide evidence for their meeting in an alternative way (provided for in the Directive) or may request that the Member State in question compare the knowledge and skills required for small trade business to be taken up and pursued. In principle, no Member State may refuse the exercise of small trade business to persons who meet the qualification criteria in another Member State without first comparing the applicant's knowledge and skills with the requirements

put on the nationals of that state. Also, the amendment simplified the recognition of qualifications of European small trade licensees in Slovakia. They will have now to provide evidence for also financial reliability using documents issued by banks in their home country, as well as whether they have obtained insurance to cover risks associated with their exercise of the small trade activities concerned.

The new NR SR Act No. 554/2003 Coll.LL. on tax on property assignment and transfer and on amendment and addition to Act No. 36/1967 Coll. on experts and interpreters, as amended by Act No. 238/2000 Coll.LL., which repealed Act No. 318/1992 Coll. on tax on heritage, tax on donations and tax on property assignment and transfer, as amended from time to time, took effect on 1 January, 2004. Under this Act, the sliding and progressive tax rate was replaced by a new 3% fixed rate applicable to both natural persons and legal entities. The tax on property assignment and transfer has become abolished altogether since January 2005.

Additional extensive amendments to tax legislation were prepared during 2004. **NR SR Act No. 582/2004 Coll.LL. on local taxes and local fees on municipal wastes and small construction wastes** took effect on 1 January, 2005. The local fees were abolished since January 2005, except for the fees on municipal wastes, or were transformed into local taxes, eight in number. In this way, there are less positions but it has been left upon local self-governments whether or not, at the end of the day, the overall tax burden upon businesses increases. Towns and villages are now free to determine their taxes, as they are not restricted by the state setting forth the upper limit. This also concerns all the three components of the property tax (land, buildings, apartments). On the other hand however, Part One of the Act which regulates property tax, reduced the administrative burden upon businesses in that no tax returns on property will have to be presented every year; rather, tax returns will only have to be presented after material changes have occurred in regard to facts which are key for the determination of this tax.

NR SR Act No. 609/2003 Coll.LL., which amends and supplements Act of the Slovak National Council (SNR) No. 511/1992 Coll.LL. on administration of taxes and charges and on changes in the system of territorial fiscal authorities, as amended from time to time, and which amends and supplements some laws, effective as of 1 January, 2004 made the administration and collection of all taxes stricter. Apart from a single system of sanctions and direct liability of tax office staff, the amendment introduced the obligation of tax offices to publish, at request, data on tax delinquents and introduced the option of netting of tax receivables against receivables from state budgetary organisations.

NR SR Act No. 679/2004 Coll.LL., which amends and supplements SNR Act No. 511/1992 Coll.LL. on administration of taxes and charges and on changes in the system of territorial fiscal authorities, as amended from time to time, and on amendments and additions to some laws, allows tax payers to present tax returns via the Internet (after January, 2005), even without any verified electronic signature. For this purpose, the payer has to register on the Tax Directorate site, go with the

registration number assigned to the tax office of jurisdiction according to the payer's residence, and to make an agreement with the office. Subsequently, there is no need to present documents delivered in this way in also paper form. Also, the possibility was opened for the Tax and Customs Directorate to publish lists of persons registered as VAT and excise tax payers. This will enable entrepreneurs to check on the Internet the registration of their business partners, without any lengthy administrative procedure. The amendment simplified the paying of the taxes by the payer as well as the procedure of the tax administrator, set forth the procedure and the conditions under which the tax office or the customs office may assign a tax receivable of a tax delinquent against whom bankruptcy proceedings were opened to a third party, and made the procedure of netting of tax receivables against receivables from state budgetary organisations more unambiguous and complete.

NR SR Act No. 461/2003 Coll.LL. on social insurance, which took effect on 1 January, 2004, changed the previous system of social security into the system of social insurance, and also changed the calculation base of the levies. The standard has also introduced changes in health insurance and unemployment insurance. The minimum calculation base was raised for self-employed persons, and the new obligation of paying insurance premium to Reserve Fund was introduced. The principal changes from the viewpoint of business included the amendment in respect of the payments of sickness benefits by the Social Insurance Company starting as late as on day 11 sickness leave. For the first ten days, the compensation for income shall be paid by the employer pursuant to the separate law (NR SR Act No. 462/2003 Coll.LL. on compensation for income during sickness leave and on amendments and additions to some laws).

NR SR Act No. 462/2003 Coll.LL. on compensation for income during sickness leave and on amendments and additions to some laws provided, effective January 2004, for the obligation of the employer to pay the employees during the first ten days of their sickness leave; the benefits amount to 25% and 55% of the daily calculation base during the first three days and during days 4 - 10, respectively.

NR SR Act No. 43/2004 Coll.LL. on old-age pension savings scheme and on amendments and supplements to some laws introduced savings on personal accounts. A portion of the funds previously paid by employers to the Social Insurance Company will now be paid via the Social Insurance Company to personal accounts of employees who have contracts on old-age pension savings with a pension fund administration company registered with the register of old-age pension savings scheme contracts. This saving opportunity on own personal accounts is also open to self-employed persons participating in the old-age pension savings scheme.

Six reform health laws were drawn up during 2004, which took effect on 1 January, 2005 and which brought in numerous changes for both patients and entrepreneurs. Namely, they not only changed the amounts of the contributions to health insurance, but they also introduced advance payments. **NR SR Act No. 580/2004 Coll.LL. on health insurance and on amendments and additions to Act No. 95/2002 Coll.LL.**

on the insurance business, and on amendments and additions to some laws, introduced the new institution of advance payments of insurance premium for public health insurance. Linked to the institution of the advance payments of insurance premium for public health insurance, also the institution of the yearly settlement of the premium was introduced, the purpose of which is to secure payment of insurance premium for public health insurance from all income, i.e. that achieved not only in the respective calendar month but those achieved throughout the calendar year.

The purpose of the new **NR SR Act No. 530/2003 Coll.LL. on register of companies and on amendments and additions to some laws**, which took effect on 1 February, 2004, was to make the operations of the register of companies more efficient, and to speed up the registration procedure. The Act left the keeping of the register of companies to courts, it however changed the nature of the procedure, from civil court procedure to registration procedure. It comprehensively regulated the list of data which are entered into the register of companies, the procedure and the conditions of the entering of the records and modifications thereof, deposition of deeds with the Collection of Deeds, issues of inspection of the register of companies and making of extracts, statements, confirmations, and copies and confirmations from Collection of Deeds. The Act was supplemented by a Decree which lists in detail the documents to be mandatory completed and presented by the registering person to the registry court. The introduction of standardised forms has a pronounced effect upon making the registration procedure simple and shorter. The speeding up of the proceeding at the register of companies was achieved thanks to the prescribed forms as well as the setting of a relatively short period of 5 days for the entering of the record and the subsequent publishing in Commercial Bulletin of the data. The shortening of the entering of records thus eliminated one of the reasons for corruption which remains a significant issue in Slovakia.

NR SR Act No. 531/2003 Coll.LL., which amends and supplements Act of the Slovak National Council No. 71/1992 Coll. on judicial fees and fees for statements from criminal record, as amended from time to time, took effect in 1 January, 2004. The amendment is linked with **NR SR Act No. 530/2003 Coll.LL. on register of companies and on amendments and additions to some laws** - in effect since February, 2004, which speeded up the registration procedure and made it more efficient. The collection of the fee for petitions for modification of data recorded with the registry was made simpler. Since the early 2004, register courts collect money but once, regardless of the number of petitions for modifications or additions of data.

NR SR Act No. 411/2004 Coll.LL., which amends and supplements Act No. 328/1991 Coll. on bankruptcy and settlement, as amended from time to time, introduced a significant flexibility to the course of bankruptcy proceedings as it enabled the meeting of creditors to make decisions on matters under their powers not falling under the decision-making powers of judges, even in the case where the plea of prejudice is applied against the judge. Under the previously applicable legal regulation the application of the plea of prejudice prevented the regularly convoked meeting of creditors from being opened or continued and from making decisions on urgent issues

of the bankruptcy proceedings, e.g. approval of the realization plan or appointing of a new administrator.

The above mentioned Act on bankruptcy was rather intricate. Although having been amended almost 20 times, some frequently criticised problems could not be resolved, such as the tediousness of the bankruptcy procedure, the poor position of creditors or the unambiguous nature of the assessment of whether the entrepreneur in question meets the bankruptcy procedure opening criteria. Consequently, Ministry of Justice of the Slovak Republic undertook, in mid-2004, to draft an entirely new law, **NR SR Act No. 7/2005 Coll.LL. on bankruptcy and restructuring and on amendments and additions to some laws**, which will take effect on 1 July, 2005.

NR SR Act No. 432/2004 Coll.LL., which amends and supplements Act No. 513/1991 Coll. Commercial Code, as amended from time to time, and amends and supplements some other laws, took effect on 1 October, 2004. Since October, 2004, Slovak companies are more simply tradable in also foreign capital markets. The amendment to the law allows them to keep their equity and to issue their shares denominated in also Euros. The changes to the benefit of the entrepreneurs also included an extension of shareholders' rights. The amendment regulates the existence of European companies such as the European Grouping of Economic Interests, European shareholding company, or European cooperative. The European legal standards enable cooperation at the European Union level, in particular suited for small and medium enterprises. The amendment responded in several aspects to developments in the European Union, e.g. freedom of doing business within the whole Union. Since October, 2004, it is only the address registered with the register of companies which is considered the registered address of a company.

NR SR Act No. 177/2004 Coll.LL. on European Economic Interest grouping, which amends and supplements Act No. 595/2003 Coll.LL. on income tax, which took effect on 1 May, 2004, was enacted in connection with Slovakia's accession to the European Union, and its purpose is to enable establishment in the territory of Slovakia of the grouping under Council Regulation (EEC) No. 2137/85 of 25 July, 1985. The aim of the Regulation was to harmonize legal regulations and to establish within the common European area an economic grouping which would promote the development of business of its members throughout the EEC area.

NR SR Act No. 562/2004 Coll.LL. on the European company and on amendments and supplements to some laws implemented, as of 1 November, 2004 the empowering provisions of Council Regulation (EC) No. 2157/2001 of 8 October, 2001 on the statutes of the European company and provisions of Council Directive 2001/86/EC, which supplemented the statutes of the European company in connection with the participation of the employees in the management. The European company was regulated by the Regulation aiming at securing that the entrepreneur's business unit corresponds with its legal unit. In other words, the registered address of the company should be brought as close as possible to the address of the headquarters of the company from where it is managed, i.e. its actual headquarters. Also the requirement emerges from

the above that the European company may move its headquarters into another Member State without its registration in the original Member State extinguishing and having to be re-established in the other Member State. Thus, the European company may move its headquarters from one Member State into another one without its legal dissolution and liquidation. Nevertheless, the rights of minority shareholders, employees and creditors who disapprove with the headquarters movement should be adequately protected. From the aspect of Slovakia's legal system, this is a novel way to regulate trading companies. The direction of the European law suggests that the ability of trading companies to freely move their headquarters between the Member States is desirable to restrict barriers to business in the single internal market of the European Communities.

Also, changes concerned the **Act on judicial fees**. NR SR Act No. 432/2004 Coll.LL., which amends and supplements Act No. 513/1991 Coll. Commercial Code, as amended from time to time, and which amends and supplements some other laws, amended **Act No. 71/1992 Coll. on judicial fees and charges for statement from criminal register, as amended from time to time**. In respect of the business sector, the benefit has been that the fee for the statement became standardized, regardless of the numbers of pages (Sk 200). Also, payment for the deposition with the Collection of Deeds was abolished for documents which are deposited without petition. Previously, this was associated with some practical problems as some courts collected the fee while others did not. Free of charge (since October 2004) is also the publishing in Commercial Bulletin of notices of deposition of deeds with the Collection.

NR SR Act No. 353/2003 Coll.LL., which amends and supplements Act No. 99/1963 Coll., Civil Court Procedure, as amended from time to time, and on additions to Act No. 328/1991 Coll. on bankruptcy and settlement, as amended from time to time (taking effect on 1 January, 2003), and **NR SR Act No. 549/2003 Coll.LL. on judicial officers** (taking effect on 1 January, 2004), were enacted in the effort to making court proceedings more efficient and to eliminate unreasonable delays. The strengthening of the position of judicial officers is expected to speed up court proceedings.

NR SR Act No. 420/2004 Coll.LL. on mediation and on additions to some laws took effect on 1 Sept.2004. The introduction to the legal system of the Slovak Republic of mediation as a form of out-of-court settlement of disputes was needed so as to provide for an alternative to resolution of disputes before courts, since the growing volume of court actions, the quantity and the intricacy of the legislation prevent easy access to justice and extend court proceedings. Trans-border disputes are usually associated with even longer proceedings and higher costs than domestic disputes. The application of the Act on mediation raises the probability of the parties being able, after the settlement of the dispute, of continuing their regular and other relationships.

Act No. 562/2003, which amends and supplements Act No. 431/2002 Coll.LL. on accounting took effect on 1 January, 2004, except the specified provisions which became effective on 1 January, 2005. The major amendment to the Act on accounting was the introduction of the liability of double-entry accounting for entrepreneurs - natural persons who were value added tax payers, starting 1 January, 2005.

In September, 2004 however, NR SR adopted **Act No. 561/2004 Coll.LL., which amends and supplements Act No. 431/2002 Coll.LL. on accounting**, which abolished this obligation upon entrepreneurs - VAT payers. This amendment to the Act on accounting preserved the option of using double-entry accounting (which VAT payers may choose) provided that such books are kept throughout the accounting period. Important amendments from the viewpoint of approaching international accounting standards were made to the Act on accounting and, subsequently, to accounting procedures for enterprises.

NR SR Act No. 5/2004 Coll.LL. on employment services and on amendments and additions to some laws, which took effect on 1 February, 2004, enabled the establishment of temporary employment agencies the operation of which has already been envisaged by also the Labour Code. Such agencies, being business entities, are allowed to hire the registered unemployed to become their employees and to let them work for other employers. Also, the Act allows the provision of benefits to the handicapped who become self-employed, as well as of benefits to their assistants. The amendment to this Act (**NR SR Act No. 585/2004 Coll.LL., which supplements Act No. 575/2001 Coll.LL. on the organisation of the activities of the government and of central public service agencies, as amended from time to time, and on amendments and additions to some laws**) adopted by NR SR in September, allows, as of 1 December 2004, the granting of financial benefits to the self-employed unemployed ahead of time, as a *lump sum* payment. This abolished the previous situation, where the person's own money had to be invested first, with the recovery from Offices of Employment, Social Affairs and Family following based on provision of evidence by accounting documents and eligible costs spent.

NR SR Act No. 583/2003 Coll.LL., which amends and supplements NR SR Act No. 145/1995 Coll.LL. on administrative fees, as amended from time to time (taking effect on 1 January, 2004) introduced a fee of Sk 3,000.00 for expedient issue of Certificates of Title by Cadastre Offices, thus - as claimed by the proponent - making the real estate market more *flexible*. Apart from the questioned acceleration fee for expedient making of the entry, this amendment to the Act also modified the basic fee for making the entry.

The majority of the above changes in the legislation made a contribution towards further improvements of the business environment. Two documents were drawn up in respect of the economic strategy, determining the medium-term and long-term direction of Slovakia's economy.

Slovakia's Convergence Programme for 2004 - 2010 sets forth the medium-term and long-term goals of economic policy. The major objective of the economic policy is to achieve a high and sustainable growth of the economy and thus a more rapid improvement of the standard of life in Slovakia. The areas which this programme concerns include fiscal policy, monetary and exchange rate policy, structural policies (labour market policy, product market and capital market, environment).

Also, Development Strategy of Slovakia's Competitiveness through 2010 was developed. The major objective of the Strategy is to make Slovakia catch up with the standard of life of the most developed EU Member States. This goal can only be achieved through a rapid and long-term economic growth. In a market economy, this goal may only be supported by creating favourable conditions for a growth of the economic competitiveness of the country. The development section of the Strategy has focused upon four areas considered as the most significant ones from this aspect. All the four areas make up a single whole, with each of them being of the same importance: 1. Information society, 2. Science, research and innovations, 3. Business environment, and 4. Education and employment.

The development of Slovakia's economy 2004 confirmed the correctness of the direction the economic reforms in Slovakia are heading to. The first year of the application of the new **Labour Code (NR SR Act No. 311/2001 Coll.LL.)**, which improved the flexibility of employment in a pronounced way, has so far been associated with but a moderate increase in employment. Its positive effects however begin to show, and it is expected to contribute to the creation of new job opportunities in particular in the small and medium enterprises sector in the future.

Regarding access to funds, the conditions improved due to the developments in the financial market (drop of interest rates, high liquidity), a more widespread utilisation of the right to pledge and the pointed competition in the banking sector. The application of the right to pledge under the new regulation adopted in 2003 and the utilisation of the register of such rights on the Internet reinforced the opportunities of small and medium enterprises to acquire financing through a simplification of the registration procedure of pledges, and through enabling securitisation of loans by chattels or other property values.

During 2004, the orientation of banks towards the financing of the small enterprises segment slowly and cautiously turned from verbal into real action: several new loan products were introduced to the market. The products were of the micro-loan nature, and the banks extend them under simplified administrative procedures, thus reducing the time needed for the assessment of applications, and the costs connected with the acquisition of a loan. In assessing applications for loans, the banks place increasingly more emphasis upon guarantees than upon the quality of the business plan. The main problems concerning a better access to loans for small enterprises however remain the shortage of adequate securities whose requirements exceed the resources; poor quality of business plans, and reluctance of banks to assume business risks. Ranking first among the problems is the acquisition of the seed capital. Loans in the SME segment bear higher interest rates, and this represents an increased financial burden to be borne by the enterprises. This situation could improve in the foreseeable future by the utilisation of the recently launched loan register of natural persons, provided that it will collect also information on natural persons - entrepreneurs.

The changes in the administrative environment which occurred in 2004, in particular the speeding up of the making of records of enterprises into small trade register and register of companies and of the registration of firms with the tax offices have been accepted positively by the business community.

When it comes to the improved transparency, the making of the cadastre of real estate accessible on the Internet met the expectations but partially as these services are only available for a fee, and the cadastre data are but indicative. Also, **NR SR Act No. 330/1991 Coll. on land consolidation, settlement of land ownership, land authorities, land fund, and land associations, as amended from time to time**, was amended, and this should show as an expedient preparation process of land consolidation projects - a more expedient consolidation and splitting of parcels.

NR SR Act No. 542/2004 Coll.LL., which amends and supplements Act No. 193/2001 Coll.LL. on support of establishment of industrial parks and on additions to NR SR Act No. 180/1995 Coll.LL. on some measures to settle ownership of land, as amended from time to time, as amended by Act No. 156/2003 Coll.LL., and on additions to Act No. 175/1999 Coll.LL. on some measures concerning preparation of significant investments, and on additions to some laws, as amended by Act No. 133/2004 Coll.LL., simplified and extended the setting up of industrial parks in different regions of Slovakia, which may positively influence the growth of economy and employment, in particular in regions with higher unemployment rates. Attention should be paid to the establishment of supplier clusters of local small and medium enterprises for larger foreign investors.

In assessing the business environment, the entrepreneurs negatively perceived the frequent amendments to the legal standards. They make the orientation in the applicable legislation worse, raise the expenses for adjustments to new rules, and may result in unintentional failure to comply with them. The presentation of legislative standards with expected impacts upon the business sector should be accompanied by mandatory impact analysis.

In the judicial sector, lengthy resolution of disputes prevailed in also 2004, which was causing problems to business entities. In spite of certain measures adopted, such as implementation of judicial management and modification of the position of higher court officers, no significant changes could be achieved to improve law enforcement, such as amendment to the rules of court proceedings, setting forth maximum periods of time. The lengthy exacting of receivables through courts is associated with problems of secondary inability to pay, accounting, etc.

The prevailing problems concerned information about opportunities of drawing funds from the EU for small and medium enterprises, which the various ministries are in charge of, and this results in a poor transparency. Not infrequently, information provided to entrepreneurs are not complete. There was an absence of full and up-to-date information in 2004 about opportunities of doing business in the EU Member States.

Also, the increases of the regulated prices (gas, electricity, heat, water and sewer fees, postage fees) were perceived negatively, as were regulation of energy prices in the market and their distortions, growth of prices of inputs, reduced domestic demand, fluctuations of the exchange rate of the Slovak currency, and the persistent clientelism and corruption.

In addition to the above negative aspects, the following problems were considered by organisations associating enterprises and by professional organisations to be the major barriers to doing business in 2004:

- the still missing government strategy of SME direction and support,
- the threshold of Sk 1.5m for the obligation to pay VAT is too low,
- unreasonably high taxes and fees imposed by towns and villages,
- unreasonably high fees for services of bank institutions which keep increasing,
- the prevailing bureaucracy of officers at any level, the long dealing times, obligation to produce certificates and documents providing evidence for facts which can be derived from official registers, obligation to present numerous statistical reports,
- the long times of court proceedings, thus reducing the chance to enforce justified claims from creditors, even in the case of a favourable award,
- the poor legislative standard of some newly enacted laws, which is then reflected in the need of frequent amendments; non-coordinated private members' bills, without any impact analysis upon the business environment,
- intricate and poorly transparent system of project assistance from structural funds,
- the public procurement act makes the participation in tenders of mainly small enterprises difficult,
- adoption of standards raising the administrative burden, in particular upon small enterprises - as a typical example, the Act on archives and registers may be named,
- the discrepancy between the requirements of the economic practice and the education system, the poor standard of knowledge and practical skills of graduates of secondary vocational schools and establishments for apprentices,
- the prevailing and increasing obligatory levies from wages as well as income of small trade licensees (contributions to funds),
- the work of the Government Council on Small and Medium Enterprises has not been resumed as required by professional organisations of SMEs, as a tool of efficient dialog between SMEs and the government.

To a significant extent, the problems encountered in the regions correspond with those at the national level, with nevertheless a number of regional specifics. This mainly concerns accessibility of loans and of additional sources of funding of business at the regional level, which is largely differentiated and linked with the economic power of the regions and of business entities operating within regions, in particular small and medium enterprises. This may further intensify the existing regional disparities or the backwardness of some regions. Also, the weak development dynamics of the infrastructure, mainly transport infrastructure, may contribute to intensification of differences in the level of the economic development of regions.

The failure to complete decentralisation of public and local service and of local self-governments, including problems with the fiscal decentralisation may result in an intensification of regional bureaucracy as well as in an increased financial burden upon enterprises due to unclear competencies and to attempts to raise revenues of budgets by inappropriate raises of taxes and fees at the local level. The complete release of the rules applicable to the determination of local tax rates means opening up of a wide space for corruption and the possibility given to individuals or narrow special-interest groups to influence decisions by local government bodies to the benefit of the former. This is clearly in contradiction with the goals of the Slovak Government as regards fighting corruption. It is in particular small and medium enterprises in less developed regions that voice their worries in respect of the impacts upon consumer demand of the increased VAT rate.

In the regions, economy development should be based on existing small and medium enterprises which are based within the region in question and which take advantage of the existing potentials of the region. In this respect, more pronounced support should be given to mainly the development of tourism and industrial parks.

The business environment in the Slovak Republic gets gradually improved, with a pronounced acceleration having been witnessed within 2003 and 2004. The quality of the business environment is being principally influenced by above all factors such as political stability, stability of the economy and its growth, the standard of the legislation, and the real law enforcement. From the aspects of these factors, there is still strong criticism on the part of the business entities concerning the quality of the business environment, although a positive shift in this respect has already been achieved.

All the above facts were clearly determining the development of the business environment as a whole, thus influencing the development of SMEs in the Slovak Republic. During 2004, Ministry of Economy of the Slovak Republic drafted „Report on the Status of the Business Environment in the Slovak Republic with Suggestions for Improvements“ and „Report on the Implementation of the European Charter of Small Enterprises,“ both of which were presented to the Slovak Government for review.

2.2 Economic reforms and Slovakia's accession to the European Union from the aspect of small and medium enterprises

NADSME uses several methods to acquire objective information on the business environment and the SME sector in Slovakia. At the beginning of the second quarter of 2005, NADSME undertook a representative survey of public opinion among business entities, aiming at collecting information on how the reform steps of the economic policy of the government were perceived and at assessing the early experiences of the business entities with the single market after Slovakia's accession to the European Union. Since surveys focusing on the preparedness of Slovak enterprises for EU accession had already been conducted by NADSME in the past as well, the expectations could be compared with the actual conditions.

2.2.1 Effects of economic reforms upon SMEs' business

The reform process of Slovakia's economy noticed a marked acceleration within 2003-2004. The resulting changes influenced the activities of all business entities. It is small enterprises which are the most sensitive ones to any changes in the business environment. The objective of the second part of the survey therefore was to assess how small and medium enterprises perceive the economic reforms undertaken by the government.

A reduction of the financial burden was felt by the enterprises in particular in respect of the income tax (47.9%), establishing of businesses (29.3%), and in respect of the tax on income of natural persons (27.7%). An increased financial burden was perceived by the entrepreneurs in particular in respect of contributions to health insurance funds (54.8%), the Social Insurance Fund (53.3%), excise taxes (27.7%), value added tax (27.7%), and tax on income of natural persons (11.8%).

When it comes to the administrative requirements on doing business, as many as 39.8% of the entrepreneurs mentioned registration of new businesses as the most pronounced improvement, followed by tax on profits (21.9%), and requirements upon dissolution of companies (18.5%). On the contrary, the areas in which the entrepreneurs perceive the burden as having increased included mainly statistical reports (46.3%), communication with the Social Insurance Fund (45.9%) and with health insurance funds (41.1%), and value added tax (20.5%).

After the EU accession, the business environment improved, mainly as regards the availability of bank loans for entrepreneurs (62.1%), effectivity of the establishment of new businesses (26.3%), availability of state aid (24%), employment-related legislation (22%), and taxation (11.7%). As worsened, the entrepreneurs perceive mainly corruption (44.1%), the operation of the public service authorities (32.5%) and courts (30.6%), the system of public health and social insurance (25.5%), the operation of offices run by local self-governments (24.4%), and the stability of legislation (21.6%).

In respect of the support of education, science and research, the entrepreneurs believe that the strongest support on the part of the state is received by universities and colleges (29.3%), followed by secondary vocational schools (24.3%) and secondary general schools (21.8%). The weakest support by the state goes to innovations in companies (17%) and to the transfer of results of science and research into the business sector (8.6%).

The above results of the survey confirmed the fact that, in spite of numerous improvements in the business environment, there are still areas where the situation remains unsatisfactory and which require seeking for and adopting of appropriate solutions. The general problems mainly include efficient operation of the administration at the public and local governments level, corruption, public health and social insurance, and stability of legal standards. Additional impediments to growth mentioned by the entrepreneurs included weak support provided by the government to the transfer of results of science and research into the business sector, and support of innovations.

2.2.2 SMEs and Slovakia's EU accession

As many as 42.4% of the entrepreneurs believe that Slovakia's accession to the EU has not influenced the activities of their companies in any way. This represents a significant increase compared to the expectations from two years ago.

Slovakia's membership in the EU brought extension and improvement of the purchase conditions (34.9%) and equal legislative environment for all partners (1.1%) for a majority of companies. It is quite striking that Slovakia's EU accession has brought increased export opportunities to the markets of the Member States to only 13.7% of the companies. As access to the single market brought in a marked simplification of the procedures and a reduction of transaction costs, we may assume that Slovakia's companies are not adequately prepared to take advantage of the benefits of the single market. An easier establishment of cooperation relationships with partner companies in the European Union is seen as an advantage by 17.2% of the companies.

The major disadvantages seen by the companies included pointed competition in the domestic market (45.4%), confirming the fears voiced in 2003 (this problem was expected to occur by 51% of the respondents). Pointed competition is understandable and could have been expected; this negative aspect should nevertheless be compensated for by the advantages presented by the single market and its opportunities. Another disadvantage mentioned was drainage of qualified workforce (27.7%); this was feared by as many as 36% of the companies before the accession. This phenomenon is less pronounced than expected, mainly because of the transitional periods concerning free movement of persons introduced by the majority of the old EU Member States; it may thus represent a problem for some sectors as soon as this restriction is relieved. Only 20.9% of the companies mentioned problems concerning increased demands on quality of production, which is also markedly less than two years ago (31%).

The major advantages compared to companies from the old EU Member States seen by our companies included low costs of labour (45.3%), a better reliability as business partner (30.9%), and an easier availability of qualified labour (22.9%). The major disadvantages perceived by our entrepreneurs included above all weaker ability to pay and solvency (33.8%), availability of capital (32.9%), the technological level of the production facilities (24.3%), and availability of good quality roads, and of telecommunication infrastructure (24%).

The survey suggested that Slovakia's accession to the EU has brought no marked changes to Slovak companies. The fact that our companies take advantage of the opportunities presented to them by the single market but inadequately may be considered as a negative development. Instead of realizing the new opportunities for sales of their production, they continue to focus on the domestic market, where they are exposed to growing competitive pressures. The advantages stemming from the low price of labour will gradually disappear, and from the long-term perspective it is therefore necessary to build on other competitive advantages while eliminating existing deficiencies.

3. SME development and status in 2004

The existence of a stimulating business environment represents the basis for a successful development of the small and medium enterprises sector. The improvement of the business environment in recent years has gradually projected into quantitative characteristics of the SME sector. An in-depth analysis of the SME sector status allows to identify prevailing trends and to timely respond to changes needed to secure a desirable situation. This chapter presents the quantitative characteristics of the SME sector for 2004 in the context of its development in the recent few years, the main findings of the surveys conducted among small and medium enterprises, and a comparison of the available data about the business sector in Slovakia and the EU.

The classification of enterprises by size applied in this chapter is in accordance with the recommendation of the European Commission No. 2003/361/EC applicable since 1 January, 2005. The category of SMEs comprises enterprises which employ less than 250 people, with large enterprises being those employing 250 or more people. The category of SMEs includes micro-enterprises (0 - 9 employees), small enterprises (10 - 49 employees), and medium-sized enterprises (50 - 249). Where the sub-category of micro-enterprises is not distinguished separately, the category of small enterprises includes all companies with 0 - 49 employees. Apart from the size category (staff numbers), the above mentioned Directive also applies additional criteria to the classification of enterprises, such as turnover, asset value, and ownership structure. The following sections of this chapter take staff numbers as the only criterion for classifying companies as SMEs. This classification allows SMEs in the Slovak Republic to be compared with the status of the business sector in the European Union.

Detailed quantitative characteristics of the small and medium enterprises including the numbers of business entities, structure by sectors, regional distribution, employment, production, and foreign trade are presented in sections 3.1 - 3.7 of this chapter.

Also in 2004, NADSME continued monitoring of the business sector as part of its activities and conducted national surveys of a representative sample of business entities. The surveys performed, whose topics were directly connected with the improvement of competitiveness of the business entities, represent an irreplaceable source of information on qualitative and quantitative characteristics of the business sector. One survey was conducted in 2004, focusing on the ascertainment of the status of innovation activities in small and medium enterprises, their equipment with information technologies, and on the implementation of other activities directed towards the development of the companies themselves. For the evaluation of this survey, see section 3.8 of this chapter.

Section 3.9 presents a summary of the data which define the position of SMEs in the economy of Slovakia. The subsequent section 3.10 compares some characteristics of the SMEs sector in Slovakia with that of the European Union.

The evaluation of the status of the sector of small and medium enterprises presented in this chapter is based on data from the statistical register of organisations and the data published by the Statistical Office of the Slovak Republic. Data for EU

Member States were derived from the publication SMEs in Europe - Economic Report Observatory of European SMEs.

Graphical data referred to in the following sections are in the annex.

3.1 Natural persons

As suggested by the data of the Statistical Office of the Slovak Republic, there was an increase in the numbers of natural persons - entrepreneurs in Slovakia in 2004 by 9.3%: there were a total of 360,378 natural persons - entrepreneurs registered at the end of 2004, thereof 336,640 small trade licensees, 13,683 persons doing business in free occupations (charts 1 and 2) and 10,055 independent farmers. Most small trade licensees were doing business in trade (115,215), manufacturing of goods (57,158), building industry (57,078), real estate and rental business (48,144). Compared to December, 2003, there were 9.9% and 4.9% more small trade licensees and persons in free occupations, respectively. The numbers of independent farmers dropped 2.6%.

In 2004, a total of 56,716 persons started up business (2,058 more than in 2003), and 18,812 persons ceased to involve in business (1,712 more). The biggest changes concerned the sectors trade, real estate and rental business, manufacturing of goods, and building industry.

The structure of small trade licensees by sectors remains relatively stable (Chart No.3). There was a reduction in the numbers of small trade licensees doing business in trade in 2004 (by 0.9 p.p.) and in manufacturing of goods (by 0.3 p.p.); the largest increase was recorded for the sectors of building industry (by 0.9 p.p.) and services (by 0.1 p.p.). The most significant sectors were internal trade, manufacturing of goods, and building industry with 115,215; 57,158; and 57,078 small trade licensees, respectively (Chart No.4).

Within 2000 and 2004, a trend of a significant reduction of the share of small trade licensees doing business in trade is visible (by 4.2 p.p.), with a slight reduction of the shares of small trade licensees doing business in industry (by 1 p.p.) and a marked increase of the numbers of small trade licensees doing business in building industry (by 3.2 p.p.). Compared to 2000, the numbers of small trade licensees doing business in building industry, services and industry increased 53.7%; 29.1%; and 18.2%, respectively. The numbers of small trade licensees doing business in trade increased 11.4% only.

The distribution of small trade licensees by regions is shown in Chart No. 13. Most small trade licensees do business in the regions Žilina (13,128), Bratislava V (12,139), Nitra (11,172), Bratislava II (10,366), Prešov (9,323). The least numbers of small trade licensees were recorded for the districts Medzilaborce (508), Sobrance (710) and Krupina (813).

3.2 Legal entities

There were 114,285 legal entities registered with the register of organisations of the Statistical Office of the Slovak Republic at the end of December, 2004, thereof

74,207 companies and 40,078 non-for-profit organisations. Year-on-year, the total numbers of legal entities increased 12.7%, with the non-for-profit organisations and companies increasing 8.3% and 15.2%, respectively.

Small enterprises accounted for the key portion of the total numbers of profit making organisations (94.9%, including micro-enterprises with 0 - 9 employees - 80.5%). Medium-sized and large enterprises accounted for 4.2% and 0.9%, respectively. The numbers of small enterprises increased by 9,316, those of medium and large enterprises by 401 and 70, respectively.

There were 70,418 small private enterprises with up to 49 employees, 3,136 medium-sized private enterprises with between 50 and 249 employees. The development of the numbers of small and medium enterprises is illustrated in Chart No. 5. Changes occurring in the different size categories within 1998 - 2004 are shown in Chart No. 6. There was a reduction of the share of micro-enterprises (0 - 9) observable in the last year by 0.2 percentage point, and an increase in the share of small enterprises (10 - 49) by 0.2 point, with the shares of medium-sized and large enterprises remaining unchanged.

The structure by sectors is shown in Chart No. 7. Most small and medium enterprises were operating in the sectors of trade, commercial services and financial sector, industry, and building industry (29,177; 16,801; 10,340; and 5,543, respectively). The regional structure is shown in Chart No. 13, with a pronounced maximum in the region Bratislava.

3.3 Contributions by SMEs to employment

On the average, the numbers of earning persons increased 0.3% from 2003, to reach 2,170.4 thousand persons. Thereof, the number of employees dropped to 1,904.2 (by 2.2%), those of entrepreneurs with no employees increasing to 185.1 thousand (by 25%), enterprises with employees increasing to 71.7 thousand (by 19.5%), and the numbers of assisting family members increased to 3.1 thousand (by 6.9%).

The contributions by SMEs to employment in the different sectors is shown in Chart No. 8. For the category of small trade licensees, 610 thousand people were estimated, with the figures for small, medium and large enterprises being 412.4 thousand; 388 thousand; and 619.5 thousand, respectively. Employment by size category of the enterprises and its development within the recent 7 years are illustrated in Chart No. 9.

Employment increased year-on-year in the category of small and medium enterprises, including small trade licensees, by 5.6% (small trade licensees 5.4%, small enterprises 6.9%, and medium enterprises 4.5%). For large enterprises, a drop by 10.1% was recorded, due to the ongoing restructuring and making activities in large enterprises more efficient after the completion of the privatisation process during the preceding years.

The role played by SMEs in respect of employment is evident from Chart No. 10. Small and medium enterprises provided employment to 59.4% of the earning popula-

tion in 1997, with reductions to 57.1 % and 56 % in 1998 and 1999, respectively, and increasing to 57.7 %, 59.1 %, 62 %, up to 66 %, and up to 69.5 % in 2000, 2001, 2002, 2003 and 2004, respectively.

Seen from the aspect of the structure by sectors, persons employed in services accounted for more than half of all employees (55.4 %). Industry employed 29.5 %, building industry 9.5 % and agriculture 5.1 %. Year-on-year, there was an increase in the share of the building industry and industry (by 0.5 p. p. and 0.2 p. p., respectively), and a drop in the share of agriculture (by 0.7 p. p.).

The shares of the different regions on the total employment did not differ markedly. The highest contribution came from the regions Bratislava (14 %) and Prešov (13.2 %), the smallest from Banská Bystrica (11 %) and Trnava (11.5 %). The growth of employment in the regions Nitra (by 6.1 %), Trnava (by 3.5 %), and Trenčín (by 0.8 %) influenced positively the overall development. Employment dropped for the regions Košice (by 2.5 %), Banská Bystrica (by 2.4 %), Bratislava (by 1.6 %), Prešov (by 0.8 %), and Žilina (by 0.3 %). The contributions by the regions to the overall employment are shown in Chart No. 11.

As suggested by sample survey of the labour force, the employment levels increased again in 2004, after keeping falling for two years. Compared to 2003, the unemployed rates increased by 4.7 % to reach 480.7 thousand persons, mainly due to a stronger growth during Q1 (511.5 thousand persons); the numbers of the unemployed gradually decreased to reach 455.1 thousand in Q4. On the average, the unemployment rates increased by 0.7 p.p. to reach 18.1 % (dropping gradually during the year from 19.3 % in Q1 to 17.1 % in Q4).

3.4 Contributions by SMEs to production in selected sectors

According to the preliminary data for 2004, the volume of the gross domestic product reached Sk 1,325.5bn, being really higher by 5.5% compared do 2003 (10.3 % in current prices). Its increment was 1 p.p. higher than in 2003. The growth dynamics during the individual quarters remained basically unchanged.

The higher generation of gross domestic product was mainly associated with the growth of added value in financial mediation (by 30.1 %), building industry (by 11.8 %), industry (by 11.5 %), trade (by 11.3 %), agriculture (by 9.6 %), real estate and rental business (by 8.3 %), and in transport, posts and telecommunications (by 1.6 %). The other social services, the health sector and social assistance, public service and defence, education, and hotels and restaurants did not reach the 2003 levels (less 25.2 %; 16.2 %; 6.2 %; 5.5 %; and 1.7 %, respectively). Also, gross domestic product generation was markedly influenced by the higher collection of taxes on products (by 2.7 %, reduced by product subsidies).

The trend of the year-on-year growth of production was continuing for the industry sector. Compared to 2003, production grew 4%, with the rate becoming gradually slowed down from 6.2% in Q1 to 1.2% in Q4.

The structure of revenues by the size of the business entity, large enterprises predominated with a share of 68.2% (companies with 1,000+ employees showing a share of 47.4%). Medium enterprises had a share of 14.3%, small trade licensees 10.6%, and small enterprises 6.9%. Higher revenues achieved by small trade licensees, medium enterprises and large enterprises (by 14.8%; 8.3%; and 6.9%, respectively) made contributions to the year-on-year growth of revenues. The revenues of small enterprises dropped by 5.6% from preceding year.

There was a trend of a year-on-year growth of production volume in the building industry. The volume reached Sk 102.3bn, thereof Sk 78.2bn in new construction, rehabilitation and upgrades, Sk 19.1bn in repairs and maintenance, and Sk 4.5bn in construction works abroad. From 2003, the volume of the building production increased 5.7% (with a growth of 14.4% in Q4).

Of the total production of building industry companies, small trade licensees, small, medium and large enterprises accounted for 32.3%; 24.6%; 20.9%; and 22.2%, respectively. Contributions to the growing trend of the building production came from mainly construction works performed by small trade licensees (by 9.2%) and large enterprises (by 21.2%). The 2003 levels were not achieved by medium enterprises and small enterprises (1.4% and 2.8% less, respectively).

After two years of reduction, revenues from own performances and merchandise grew for the first time in 2004 for wholesales. Of the total worth of Sk 575.3bn, the key contributions came from wholesales mediation (Sk 153.5bn), other wholesales (Sk 118.3bn), and wholesales of domestic wares (Sk 95.3bn). The smallest volume of revenues concerned wholesales of agricultural raw materials (Sk 11.6bn).

A substantial portion of the revenues was the result of activities of small enterprises whose shares reached 49.8%. Medium enterprises accounted for 19.9%, small trade licensees for 19.2%, and large enterprises for 11.1% of the revenues. Increases in revenues achieved by all size groups contributed to the year-on-year growth in revenues, with the greatest contributions coming from large enterprises (by 25.3%) and medium enterprises (by 11%).

After a year's break, revenues from own performances and merchandise increased again in 2004. Their volume reached Sk 355.8bn, thereof Sk 167.7bn in non-specialised shops, Sk 89.9bn in other specialised retail, Sk 43.7bn in retail except shops, and Sk 31.1bn in retail in pharmaceutical goods and cosmetics.

Small trade licensees realized 45.3% of the overall worth of the revenues from own performances and merchandise, small, large and medium enterprises accounted for 25.1%; 24.5%; and 5.1%, respectively. The switch in the development was connected with the growing revenues achieved by small trade licensees (by 7.5%), small enterprises (by 12.4%), and large enterprises (by 0.9%), while revenues achieved by medium enterprises dropped 6.2%

Sales and maintenance of motor vehicles recorded a continuing growth in revenues from own performances and merchandise, with a marked speed-up of the rates in Q3 and Q4 (by 15.4% and 12%, respectively). The volume of the revenues reached Sk 155.8bn, thereof Sk 70.5bn from sales of motor vehicles, Sk 55.2bn from retail sales of fuels, Sk 19bn from maintenance and repairs of motor vehicles, and Sk 11.1bn from sales of spare parts and accessories for motor vehicles.

Hotels and restaurants continued their long-term trend of year-on-year decreases in revenues from own performances and merchandise (with an interruption in September, November, and December). The business entities achieved revenues worth Sk 33.4bn, representing a decrease of 6.6% in constant prices from 2003 (while increasing 2.3% in Q4).

Revenues of tourist accommodation facilities recorded a year-on-year increase in revenues from accommodation of visitors (in current prices) by 2.5%, to reach Sk 5.9bn. Their level was influenced by an increase in revenues from foreign visitors (by 6.5% to reach Sk 3.7bn) and by a decrease in revenues from domestic visitors (by 3.5% to reach Sk 2.2bn).

After a year's interruption, revenues from own performances and merchandise in the transport and storage sector exceeded in 2004 the levels of the preceding year again, reaching the value of Sk 100.9bn, thereof Sk 35bn in secondary and ancillary activities in transport, Sk 32.3bn in other land transport, and Sk 27.4bn in rail transport.

From the aspect of the structure of revenues from own performances and merchandise of the other land transport by size, small trade licensees accounted for 28.5% of the revenues, large enterprises for 26.2%, medium enterprises for 25.3%, and small enterprises for 20%. The most rapidly growing revenues were those achieved by small enterprises (by 19%), followed by medium enterprises (by 12%), the revenues of large enterprises increased 0.9% and those of small trade licensees decreased 1.8%.

Posts and telecommunications achieved revenues from own performances and merchandise in 2004 worth Sk 62.4bn, thereof Sk 53.8bn in telecommunications. Compared to 2003, the revenues grew 11.4% in current prices, thereof 17.6% in mail and delivery services and 10.5% in telecommunications.

In real estate and rental business, revenues from own activities and merchandise decreased for the second year in a row. The biggest contributions to the overall volume of revenues of Sk 178.6bn came from other commercial services (Sk 87.6bn), recreation, cultural and sports activities (Sk 24.8bn), computer and other related activities (Sk 23.7bn), and from activities in real estate area (Sk 21.6bn).

Small enterprises accounted for the major part of the total value of the revenues (43.9%), medium enterprises, small trade licensees and large enterprises accounting for 23.2%; 21%; and 11.9%, respectively. The reduction of the revenues was due to their reductions in large enterprises (by 12.2%), small enterprises (by 4.2%) and small trade licensees (by 0.2%). Higher revenues than in 2003 were achieved by medium enterprises (by 9.4%).

The shares of SMEs on revenues in selected sectors are shown in Chart No. 12.

3.5 Foreign trade

The volumes of exports increased 11.4% compared to 2003, and the volumes of imports increased 13.8 %. Merchandise worth Sk 895.2bn and Sk 942.2bn was exported from and imported into the Slovak Republic, respectively. The growth rates of imports exceeding those of exports became reflected in the year-on-year increase of the negative balance by Sk 22.6bn to reach Sk 47bn.

From the aspect of the destinations, the highest negative balance concerned trade with Russia (Sk 77.7bn), China (Sk 22.4bn), Japan (Sk 15.8bn), South Korea (Sk 16.3bn). The highest positive balance could be achieved in the foreign trade with Germany (Sk 32.4bn), Austria (Sk 30bn), United States (27.2bn), and Hungary (Sk 14.7bn).

In respect of the major economic groupings, exports grew into the EU Member States by 12.2 % (accounting for 85.2 % of the total exports from the Slovak Republic) as well as to OECD states (by 10.9 %; accounting for 91.2% of the total exports from the Slovak Republic). As for the destination, larger exports concerned mainly the Czech Republic (by 15.1 %), Poland (by 28 %), Austria (by 17.6 %), Germany (by 3.7 %), the United Kingdom (by 51.9 %), Hungary (by 18.9 %), and the Netherlands (by 26 %). Less goods were exported to mainly Italy (by 5.1 %), China (by 51.1 %), and Switzerland (by 16.7 %).

Imports from EU Member States grew 12.7 % (accounting for 73.6 % of total imports) and those from OECD countries increased 7.1 % (accounting for 75.3 % of total imports to Slovakia). The levels of the preceding year were exceeded in respect of mainly imports from Germany (by 6.5 %), Poland (by 25.8 %), South Korea (by 140.8 %), the Czech Republic (by 5.3 %), the Ukraine (by 55.5 %), China (by 22 %), and Austria (by 11.2 %). Mainly imports from Spain, Russia, Finland, and the United States became reduced (by 14.6 %; 1.2 %; 19.3 % ; and 4.4 %, respectively).

With a consideration to the territory, the highest negative balance concerned trade with countries outside the EU (Sk 114.14bn), and with new member states (Sk 3.6bn). Positive balance was achieved in trade with the EU15 (Sk 71.11bn). In 2004 positive trade balance with the EU15 increased by 14% in comparison with 2003. However, negative trade balance with countries outside the EU has also increased by 29.5 % in comparison with 2003.

Slower pace in the growth of export was contributed to 14.5 % increase in export to new member states, 6.9% increase in export to non-member states and a 6,4% increase in export to the EU15. The pace of increasing import was mainly related to expanding import from the 10 new member states (increase by 17.21%) followed by import from countries outside the European Union (increase by 16.11%), and lastly from the EU15 countries (5.27%). The structure of exports and imports in 2004 according to size of enterprises is shown in Charts No. 13 and 14.

As Chart No. 15 illustrates, the share of micro-enterprises (0-9) on the overall export in 2004 was 8.3% (Sk 72.6bn), small enterprises (10-49) share was 5.9% (Sk 51.3bn) and medium enterprises (50-249) share reached 12.4% (Sk 107.8bn). The biggest share

of total export 73.4% was from large enterprises (almost Sk 638bn). The overall SME's share achieved 26.6% (Sk 231.7bn), which is more than in 2003 by 1.6 p.p.

Development of export between 2001 and 2004 according to size of the enterprises is illustrated in Chart No.16. The most dynamic growth of export, even up to 35% (Sk 18.8bn) in comparison with 2003 was registered in micro-enterprises (0-9 employees). Increase in export of small enterprises (10-49) was 7.8% (Sk 3.7bn) and of medium-size enterprises (50-249) 8.6% (Sk 8.5bn). The lowest increase of export 6.0% was recorded in large enterprises (250+) (Sk 35.9bn).

As the Chart No. 17 shows the share of micro-enterprises (0-9) on a total volume of imports in 2004 constituted 16.8% (Sk 153.9bn), small enterprises (10-49) 12.9% (Sk 118.1bn) and medium enterprises (50-249) 16.4% (Sk 150.2bn). The biggest share on import, almost 54% came from the large enterprises - Sk 494.2bn. The share of SME's on the total volume of import was 46.1% (Sk 422.1) which translates into increase by 1.6 p.p.

Development of import between 2001 and 2004 according to size of the enterprises is shown in Chart No.18. The most dynamic growth of import, even up to 22.6% (Sk 28.4bn) in comparison with 2003 was registered in micro-enterprises (0-9 employees). Increase in import of small enterprises (10-49) was 14.4% (Sk 14.9bn). In medium size and large enterprises was recorded the smallest increase by 7.7%, which for medium size enterprises means Sk 10.8bn and for large enterprises Sk 35.2bn.

Between the years 2001 and 2004, the average increase in the volume of export on year-on-year basis reached about 12.5%, while the SME's export increased about 6.9%. By 2003 the share of large enterprises in the total export volume grew continuously year-on-year about 3 p.p. However, in 2004 as a result of weak increase in export in this category, the share on export decreased by 1.6 p.p. Strong growth of micro-enterprise export (annually 35%) and weak export dynamics in large enterprises caused that the SME's share on export increased by 1.6 p.p. to 26.6%. The share of the SME's on overall export is strongly influenced by the exporting performance of large enterprises, and therefore in the upcoming years it is reasonable to expect a slight decrease in the SME's share on the total volume of export.

In the period 2001 - 2004 the average year-on-year import increased by 8.7%, while in the SME sector by 9.7%. The micro-enterprises mostly contributed to the high increase of the SME's import, with 22.6% increase in 2004 comparing to 2003. The share of the SME's on imports in a long-term perspective does not change significantly and fluctuates at about 45%.

3.6 Development of SMEs' dynamics

A total of 56,716 persons started up doing business in 2004, and 18,812 persons terminated their business activities. The dynamics of the establishment of new natural persons in 2004 exceeded those in 2003 by 2,058. The dynamics of the dissolution of business activities of natural persons increased in 2004 by 1,712 as compared with 2003. The biggest movements in this respect concerned the sectors trade, building industry, manufacturing of goods, real estate, rental business and commercial services, agriculture, hotels and restaurants, and transport and storage.

During 2004, there were 1,704 new enterprises of legal entities established, and 670 enterprises were dissolved. Compared to 2003, there were 202 more enterprises established and 136 more dissolved. The biggest changes concerned the sectors trade, real estate, rental business and commercial services, manufacturing of goods, and building industry.

Newly established and dissolved business entities in 2004, by economic activities

Sectoral classification of economic activities	Newly established		Dissolved	
	enterprises	natural persons (entrepreneurs)	enterprises	natural persons (entrepreneurs)
Economy, in total	1,704	56,716	670	18,812
<i>thereof</i>				
Agriculture, hunting and forestry	102	2,538	34	1,356
Fisheries, aquaculture	-	5	1	7
Production of mineral raw materials	3	-	2	-
Manufacturing of goods	185	8,235	112	2,336
Production and distribution of electricity, gas and water	1	29	2	-
Building industry	108	10,334	47	2,160
Wholesales and retail, repairs	560	17,937	250	7,431
Hotels and restaurants	64	2,167	22	945
Transport, storage	81	2,018	24	941
Posts and telecommunications	12	54	1	11
Financial mediation	17	100	15	99
Real estate, rental business and commercial activities	465	9,127	114	2,555
Education	18	1,037	1	163
Health and social assistance	47	509	16	198
Other societal, social and personal services	41	2,626	29	610

3.7 Regional aspects

The percentages of the distribution of small and medium enterprises by regions are shown in Chart No. 13. From the aspect of the economic activity of the regions, the parameter of significance is the ratio of the numbers of enterprises to the earning population. This ratio is shown in Chart No. 14, and this parameter reaches markedly highest values for the region Bratislava. In particular the distribution of enterprises - legal entities to a significant extent parallels the overall economic level of the regions as expressed by the production in the different sectors (see Chart No. 15).

A substantial portion of the revenues from own performances and merchandise in industry was realised by business entities with the registered address in the region Bratislava (40.7 %). The region Košice accounted for 12.1 % and the region of Trenčín for 9.8 % of the production. The shares of the other regions ranged between 4.7 % and 9.7 %. The development of the revenues was mainly influenced by their growth in the

regions Trnava (by 19.4%), Košice (by 14.1%), and Trenčín (by 12.2%), Nitra (by 10.2%), Banská Bystrica (by 8.8%), and Bratislava (by 4%). Smaller than in 2003 were revenues achieved by the regions Prešov (by 6.5%) and Žilina (by 0.8%).

More than a quarter of the production by building industry enterprises was the result of the activities of the entities with the headquarters in the region Bratislava (27.5%). The share of ten percent was exceeded by the regions Žilina (14.8%), Košice (11.9%) and Prešov (10.7%). Building production grew at a relatively most rapid pace in the regions Trnava (by 12.7%), Bratislava (by 9.9%) and Trenčín (by 8.6%). The level of 2003 building production was not achieved by entities with the registered address in the region Nitra (5.2% less).

In wholesales, entities with the registered address in the region Bratislava accounted for more than a third of the total revenues from own performances and merchandise (37.9%). Also important shares had revenues realised in the regions Žilina (12.7%), Trenčín (9.7%), Trnava (9.6%) and Nitra (8.6%). The smallest share concerned the region Banská Bystrica (5.3%). Smaller revenues than in 2003 were achieved in the regions Nitra (by 12.5%), Prešov (by 7.3%) and Trnava (by 2.9%). Revenues grew in the regions Banská Bystrica (by 22.7%), Košice (by 16.7%), Bratislava (by 12.8%), Trenčín (by 10.4%), and Žilina (by 4.5%).

Of the total volume of revenues from own performances and merchandise in retail, almost one third was realised by entities with the headquarters in the region Bratislava (31.9%). Also a significant share had revenues realised in the regions Žilina (13.4%), Trnava (12.7%) and Banská Bystrica (10.3%). The shares of the other regions on the total volume of revenues ranged between 6.3% and 8.9%. Less revenues than in 2003 were achieved by the regions Banská Bystrica (by 18.3%), Prešov (by 15.1%), Trenčín (by 10%) and Nitra (by 0.8%). Revenues grew in the regions Košice (by 74.3%), Trnava (by 39.2%), Žilina (by 24.2%), and Bratislava (by 2.3%).

The biggest share on the total volume of revenues from sales and maintenance of motor vehicles (own performances and merchandise) in 2004 had the region Bratislava (64.3%), followed by the regions Banská Bystrica (7.9%), Trnava (7.8%), Nitra (5.6%), Košice (4.9%), Žilina (3.7%), Prešov (3.3%), and Trenčín (2.5%).

In transport and storage, entities with the registered address in the region Bratislava accounted for more than a half of the revenues from own performances and merchandise (without travel agencies) (56.1%). The regions of Nitra, Trnava, Žilina, Košice, Prešov, Banská Bystrica, and Trenčín contributed 9%; 7%; 6.2%; 5.9%; 5.5%; 5.3%; and 5%, respectively.

From among the business entities trading in real estate, entities with the registered address in the region Bratislava accounted for more than half of the revenues from own performances and merchandise (52.4%), the region Košice had a share of 10%, and the shares of the other regions ranged between 5% (region Prešov) and 7.5% (region Žilina).

3.8 Innovation activities and the utilisation by SMEs of information technologies

In working together with Institute for Opinion Polls and Infostat, NADSME conducted a survey in late 2004 focusing on ascertainment of innovation activities and utilisation by small and medium enterprises of information technologies. The target entities were micro-enterprises with 1 to 9 employees, small enterprises with 10 to 49 employees, and medium enterprises with 50 to 249 employees. The representative sample counted 1,004 companies - legal entities.

The most significant conclusions arrived at from the survey are the following:

Importance of innovations

- Most entrepreneurs approached (61 %) viewed reliability (adherence to contract conditions and high quality of products (60%) as the most important source of competitiveness, 48 % considered flexibility and 45% low product price as important.
- Almost three in five small and medium enterprises approached claimed (similarly as in 2003) that permanent innovation activity is part of the long-term business strategy of their companies.

Innovation activity

- During the recent three years, approximately one in fourteen enterprises (7%) introduced entirely new technologies, and almost a third of the companies (30%) substantially upgraded their existing technologies. This represents a reduction from 2003, with 45% of the respondents having confirmed similar activities then.
- An entirely new product was introduced within 2002- 2004 by 13 % of the companies, being a reduction by 6 p.p. compared to the preceding year, and almost one third of the companies approached upgraded substantially their products (reduction by 2 p.p.).
- From among those who implemented a new or substantially upgraded the existing technological level, and/or who introduced a new or innovated a previously manufactured product, about one in seven (14%) claimed that their product or technology is protected by some copyright/licence. Six percent of the enterprises claimed them being the first ones to implement technologies in the whole of Slovakia.

Benefits of innovation activities

- Similarly as in 2003, almost three quarters of the innovating enterprises (74%) benefited from innovation activities (growing turnover), Almost a half of the respondents (46 %) claimed that their companies saved costs as the result of innovation activities.

Providers of innovations and financing of innovation activities

- The main provider of innovations is the own development centre for 45 % of the enterprises, compared to two fifths in 2003. More than one in three companies

(35 %) claimed that the provider of their innovations is another company operating in Slovakia, and almost one in five companies (18 %) claimed that they are provided with specific solutions for innovations by companies from abroad.

- Similarly as the year before, the funds used for the implementation of innovation activities were own resources in the majority of cases (87 %) and bank loans (27 %).
- The costs of innovations within 2002-2004 made up less than 10% of the overall company turnover for 57 % of the enterprises. This was an increase compared to less than a half from the preceding year. For one in three enterprises, investments into innovation activities make up between 11 and 30 % of the overall company turnover.

Other activities directed to company development (quality management, utilisation of commercial services, qualification improvement)

- More than one in ten companies (11 %) approached claimed to be holders of quality management system certificates of the 9000 series standard, whereas four in five stated that their companies has no quality management system in place. The companies - holders of the certificate are mostly operating in industry (26 %), building industry (19 %), and trade (9 %).
- Almost one half of those approached (47 %) stated that they permanently use selected commercial services (such as legal counselling, accounting, marketing, translation services), more than one in four regularly use such services on several occasions in a year, and less than one in four use such services irregularly.
- Within the recent three years, employees of one in five companies approached (20%) improved their qualification at the company account, attending courses of at least four weeks in duration.

Utilisation of information technologies

- Representatives of three in four small and medium enterprises approached use personal computers for business activities, at least one of them having Internet connectivity (representing an increase by 8 p.p. compared to 2003). One in twenty small and medium enterprises (5 %) does not utilize any information technologies.
- Similarly as in 2003, more than four in five enterprises (84 %) use information technologies to process the economic agenda. Almost one half (48 %) of the companies use electronic mail and more than two in five companies (41 %) use information technologies for electronic business.
- The respondents stating to use information technologies for doing electronic business specified the forms of how they use them. Almost two thirds of those approached (64 %) take the advantage of information technologies and the opportunities presented by them to look up commercial offers on the Internet, being an increase of 53 % compared to the preceding year. More than half of the respondents (56 %) present their offer on their own website and use internet-banking (electronic bank payments), 46 % of the companies distribute their advertising e-mails, 40 % register their products or enterprise in databases accessible through the

Internet, 25 % advertise their products on foreign websites. Seventeen percent of the enterprises sell their own products or services to other customers, 16% to end-customers, 11 % organise special Internet-mediated marketing campaigns, and 11 % have their own customer Internet centre.

Information technologies utilised by small and medium enterprises (data in %)

Utilisation of PCs	Employees 2004			Employees 2003*			Employees 2002*		
	0-9	10-49	50-249	0-9	10-49	50-249	0-9	10-49	50-249
PC without network connection	17	8	5	48	36	32	58	50	42
PC with Internet connectivity	71	86	80	61	74	78	24	40	62
Internet services without PC connection to the Internet	6	4	15	13	16	16	9	14	17
Not using information technologies	6	2	0						

Note:

* multiple answers were allowed

3.9 Position of SMEs in Slovakia's economy - summary

According to the preliminary data, gross domestic product in a volume of Sk 1,325.5bn was generated in 2004. Compared to 2003, this means a real increase by 5.5 %, or by 10.3% in current prices year-on-year. The growth was 1 p.p. higher than in 2003. On the demand side, the development trend of the gross domestic product was influenced by the continuing higher foreign demand (by 11.4 %) and, after a year's interruption, also by growing domestic demand (by 5.5 %). All the three components made a contribution to the growth of domestic demand. The relatively greatest contribution came from higher generation of gross capital (by 13.1 %, thereof generation of gross fixed capital by 2.5 %). The final consumption of the households grew 3.5 % and the final consumption of the public service grew by 1.2 %.

Of the gross domestic product generated, added value accounted for Sk 1,196.8bn, meaning a year-on-year increase of 5.8 %. The private sector generated the estimated 90.1% of the total gross domestic product generated (a share higher by 0.5 p.p. than in 2003). Its shares on the GDP generated in agriculture, forestry, industry, building industry, transport and trade were 98.9 %; 47.2 %; 84.9 %; 99.5 %; 62.3 %; and 99.8 %, respectively.

As compared with 2003, gross production in current prices increased by 7.7 % to reach Sk 3,088.6bn, and intermediate consumption grew 6 % to reach Sk 1,891.8bn. The share of intermediate consumption on gross production decreased 1 p.p. to 61.3 %.

The contributions by small and medium enterprises to the principal economic parameters did not change pronouncedly. Compared to 2003, the shares of SMEs on profits slightly decreased (by 2.4 p.p.), with the parallel increase of the shares on gross

production (by 1.4 p.p.). More pronouncedly however increased the contribution by SMEs to employment (by 3.5 p.p.).

The shares of small enterprises on gross production reached 21.1 % (an increase by 0.6 p.p.), the corresponding figures for medium and large enterprises being 18.5 % (an increase by 0.8 p.p.) and 60.4 % (a reduction by 1.4 p.p.), respectively (Chart No. 16). In current prices, gross production by SMEs increased (by 9.9 %), and this increase also concerned large enterprises (by 3.4 %).

Small enterprises accounted for 25.5% of the added value generated (a reduction by 0.7 p.p.), for medium and large enterprises the corresponding figures were 19.5 % (an increase by 0.3 p.p.) and 55 % (an increase by 0.3 p.p.), respectively (Chart No. 17). In current prices, added value generated by SMEs increased (by 5.7 %), and this increase also concerned large enterprises (by 7.1 %).

The share of earnings before taxes reached 30.2 % (a reduction by 1.0 p.p.) for small enterprises, for medium and large enterprises it was 14.5 % (a reduction by 1.4 p.p.) and 55.3 % (an increase by 2.4 p.p.), respectively (Chart No. 18). The year-on-year growth of earnings by SMEs (by 19.2 %) is behind that achieved by large enterprises (which achieved a growth by 31.3 %).

Employment was growing for the fourth year in a row. Compared to 2003, sample survey of labour force suggested an increase by 0.3 % to reach 2,170.4 thousand persons. A total of 1,904.2 thousand persons were employees, 185.1 thousand were entrepreneurs without employees, 71.7 thousand were entrepreneurs with employees, and 3.1 thousand were assisting entrepreneurs' household members. The favourable development of employment was mainly connected with the growing demand for labour during the second half-year. On the average, the numbers of entrepreneurs without employees grew 25 %, those of entrepreneurs with employees and assisting household members grew 19.5 % and 6.9 %, respectively. The numbers of employees decreased by 2.2 %.

The increasing trend of employment in small and medium enterprises has been continuing for the fifth year in a row, and its share on total employment in 2004 represented 69.5 % (Chart No. 10). The growth of employment in SMEs is accompanied by a marked reduction of employment in large companies. The numbers of employees has been gradually decreasing since 1999 by 256 thousand (29.2 %), while the numbers of employees in the SME sector has grown by 298.2 thousand (26.8 %).

The export performance of the economy measured in terms of the ratio of exports of products and services in current prices to GDP dropped year-on-year to 76.8 % (by 0.9 p.p.), with the import intensity measured in terms of the ratio of imports of products and services in current prices to GDP increasing to 79.5 % (by 0.3 p.p.). According to preliminary data, the foreign trade balance for goods and services was negative (Sk 35.6bn), being higher by Sk 17.7bn than in 2003. The deficit of the foreign trade in goods amounted to Sk 46.3bn, there was a positive balance of exports and imports of services (Sk 10.7bn). The overall balance was influenced by substantial oscillations of prices and of the exchange rates of the Slovak currency.

3.10 Comparison with available EU sources

The year 2004 was the first year of European Union membership for Slovakia. Although the business sector is substantially younger in Slovakia than in Western Europe, its structure no more markedly deviates from the latter.

The data in the following table allow a comparison to be made of the structure of the business sector and its contribution to the employment between the Slovak Republic and the EU-19, by size of the enterprise.

		Size of enterprise					Total
		micro (0-9)	small (10-49)	medium (50-249)	large (250+)	SME	
EU-19(2003)	Number of enterprises (in ,000)	17,820	1,260	180	40	19,260	19,300
	Share on total numbers	92.3 %	6.5 %	0.9%	0.2%	99.8%	100.0%
	Employees (in ,000)	55,040	24,280	18,100	42,300	97,420	139,720
	Contribution to employment	39.4 %	17.4 %	13.0%	30.3%	69.7%	100.0%
Slovakia(2004)	Number of enterprises	390,728	16,139	3,321	659	410,188	410,847
	Share on total numbers	95.1 %	3.9%	0.8%	0.2%	99.8%	100.0%
	Employees	644,983	359,692	403,973	621,700	1,408,648	2,030,348
	Contribution to employment	31.8 %	17.7 %	19.9%	30.6%	69.4%	100.0%

Note: EU19 includes 15 EU Member States plus Iceland, Norway, Switzerland, and Liechtenstein. The comparison was based on the method used in the EU, which does not distinguish between legal status, and consider both legal entities and natural persons as enterprises. Estimates were used for employment of small trade licensees.

4. Recommendations for further improvement of the business environment

Favourable business environment is the basic prerequisite for long-term competitiveness and growth of any market economy. It is in such an environment that the state promotes and protects private property and competition: it creates clear-cut and stable rules for them, secures their compliance by all market stakeholders and, at the same time, minimizes administrative barriers and requirements on entrepreneurs.

The business environment in our country markedly improved in several aspects, mainly due to the application of reform measures during the recent five years: this concerns establishment of new companies, labour market legislation, up to the bankruptcy and settlement process. As the result, there are no more serious barriers to business in Slovakia today. Law enforcement, government's transparency for entrepreneurs and the poorly developed capital market remain the major weaknesses.

There is an Action Plan Business Environment in the pipeline which addresses these issues of the business environment, and which works out the Strategy of Competitiveness in this area. The Action Plan contains the principal conception task being an independent audit of barriers to business in Slovakia. Based on the outcome of such an audit, additional administrative barriers to business should be subsequently systematically eliminated and all major processes in the public service should be improved which directly influence the business sector. The audit is expected to not only focus on the central public service level but also on local and regional levels. It at the same time should identify the legislative and administrative changes which the Slovak Republic should pursue at the EU level. Also, several tasks of the action plans Information Society, Science, Research and Innovations, and Education and Employment should markedly contribute to the achievement of this goal.

In the interest of the improvement of the business environment quality and to establish conditions for a long-term sustainable growth of Slovakia's economy, we suggest the adoption of the following measures which have been structured into 4 groups by their contents.

4.1 In respect of legislative and administrative barriers

In trying to find solutions to the problems of the business environment, account should be taken of the interests of the business community and of their harmonisation with the societal interests and international commitments. A more intensive dialogue between the government and representatives of small and medium enterprises should serve this purpose. At the top level, such a dialogue should be represented by Slovak Government's Council on Small and Medium Enterprises. It should resume its operation and be structured so as to promote the representation of small enterprises, as put forward by the European Charter of Small Enterprises.

In the area of legislation, attention is recommended to be focused upon the following aspects:

- a mandatory system of impact analyses upon the business sector should be introduced as part of the drafting procedure of legislative standards, to assess probable costs, consequences and side effects of planned policy tools, using a standard methodology; this will result in a better quality of legislative drafts,
- the institution of the short-cut approval procedure at the National Council of the Slovak Republic should only be used occasionally, thus securing a good quality of the drafting and assessing of draft laws. The draft laws presented should be simple, easy to understand, concise and unambiguous. The laws should be adopted in a comprehensive manner, and if one law is amended, subsequent effects upon other relevant laws should be addressed,
- conditions for fair resolution of disputes should continue to be established, to provide for elimination of unreasonable delays, aiming at improving the quality and the performance of the judicial system,
- to improve law enforcement by expedient amendment to the Rules of Civil Court Procedure, including the setting forth of the period within which the competent court is obliged to act in the matter,
- to reduce the significant burden represented by contributions to funds, i.e. to reduce the total employer's expenses on labour, based on a comprehensive and objective analysis of needs and opportunities for further reduction of this burden in the Slovak Republic,
- to amend the Act on Local Taxes and Local Fees, so as to prevent, by its application, uncontrolled increase of the financial burden upon SMEs by municipalities,
- to establish one-stop-shopping system, a site where starting business people may handle all necessary procedures,
- the principal prerequisite for full electronisation of information exchange on businesses between the different public institutions should be created, namely, the basic areas of the subject matter of the new legal regulation of the system of the basic public service registers have to be determined,
- the system of electronic procurement should be implemented to gradually replace the conventional system of public procurement of goods by public service,
- availability of counselling services should be provided for through support programmes financed from State Budget,
- corruption should be aggressively fought,
- the system of payments to funds should be simplified,
- companies not meeting the equity criterion as provided for by law, companies with negative equity and companies unable to meet their financial liabilities should be excluded from business by enacting relevant legal standards,
- the legislative regulation of employee's health protection at work should be improved and simplified, aiming at centralising regulation into a single entity and, at the same time, reducing the administrative burden of regulation by pragmatic amendments to the relevant laws,

- to standardise the system of allowances and incentives provided to all investors alike, in particular in respect of the tax legislation, state aid and investment incentives-related laws.

4.2 In respect of access to capital and support programmes

Access to capital represents one of the most significant barriers to SME development. In recent years, a certain improvement could be noticed in respect of the access to loans, in particular due to the development in the financial market (reduction of interest rates, high liquidity), a wider use of mortgage law, and to pointed competition in the banking sector and the related improvement in the provision of services on the part of the banks. The situation however has not much improved in the area of loans for micro-enterprises and starting businesses. The offer of long-term capital is lacking. The following is therefore recommended for this area for the future:

- identification of the legislative barriers and creation of appropriate conditions for provision of seed and development capital by private entities, and establishment of a system of support of venture capital funds from public sources,
- identification and elimination of legislative barriers to capital markets, and provision for its functioning,
- motivation of small and medium enterprises to invest into their own business activities or venture capital,
- facilitation of access to seed capital for starting enterprises,
- enhanced support of starting and small businesses through micro-loans associated with the provision of training and counselling,
- establishment of conditions for starting small and medium businesses in respect of the acquisition of premises for doing business in industrial parks or business incubators,
- aiming at export promotion, extension of insurance of commercial and political risks, with state support,
- support of activities directed towards promotion of products and services of business entities in the domestic and foreign markets,
- to improve transparency of state aid provided, disclosing on a central Internet site of all beneficiaries of the aid.

4.3 In respect of information and training

In this respect, the following is recommended for the period to come:

- improved information of the business community about the existing support programmes at the national and European level,
- support of training of SMEs and their employees co-financed from public sources,
- expedient setting up of e-government services in all areas of interactions between public service and local self-governments with business people,
- intensification of information campaign concerning the importance of e-business for small and medium enterprises in raising the sales of their products and extension of exports to foreign markets,

- harmonisation of the system of training and education at secondary vocational schools with the needs of SMEs,
- establishment in the system of education of foundations for a change in the philosophy of the transition from employees to employers society, education of graduates of secondary schools and universities to be prepared for self-employment through raising the knowledge level on business economics, law and IT and communications,
- within the existing counselling centres, bring master projects of drawing funds from support programmes closer to the business people,
- improvement of the transparency of the business environment, by setting up on-line versions of register of companies (collection of deeds, binding nature of copies of records in register of companies) and cadastre register (access to all interested parties free of charge),
- stronger support of counselling and education providing information about the opportunities for doing business in EU markets,
- improved information level in respect of the implementation of ongoing reforms, their mutual coordination, and provision for sufficient information to representatives of public service and local self-governments themselves, thus to avoid raising of the administrative burden upon the entrepreneurs.

4.4 In respect of employment

The following is mainly recommended in this area for the period to come:

- the system of active labour market policy should be oriented to support of creation of job opportunities in small and medium enterprises showing significant absorption capacities,
- adoption of measures to reduce the administrative demands connected with employment (simplification of the system of payments to funds), and measures to reduce the overall costs of labour by reducing contributions to funds,
- support of self-employment through counselling services and training financed from State Budget programmes,
- principal reorienting of the social assistance provided to citizens who start doing business under a certain economic pressure, switching from support in unemployment to active assistance forms during the start-up stages,
- stronger emphasis to be attached to development of programmes and pilot projects to support employment of high-risk groups of labour market participants,
- having income tax allowances for entrepreneurs doing business under disfavoured conditions - e.g. by employing persons with health disabilities - abolished, programmes should be developed to provide benefits to such businesses,
- effective measures should be adopted along with the improvement of the conditions for easier creation of job opportunities, to disclose and fight black labour which disfavours entrepreneurs who comply with the applicable regulations.

5. State support of SMEs

5.1 Ministry of economy of the Slovak Republic

The support of the development of small and medium enterprises on the part of the Ministry of Economy of the Slovak Republic in 2004 was mainly focusing on improving competitiveness of small and medium enterprises, in particular in connection with Slovakia's accession to the European Union.

Although sub-programmes of the credit nature, including Support Loan Programme, Micro-loans Programme, and Seed Capital Programme, were not financially covered in 2004, they could be implemented from revolving funds (funds accumulated under these programmes). The prevailing majority of the funds were directed to grant sub-programmes launched by the Ministry of Economy of the Slovak Republic. The programmes were implemented through the National Agency for Development of Small and Medium Enterprises and the Slovak Guarantees and Development Bank.

The programmes were mainly focusing on the support of the acquisition of innovative technologies, on implementation of quality management systems, on the support of energy savings and utilisation of renewable sources of energy, on the support of the processing and utilisation of wood raw material, education and counselling for small and medium enterprises, and - naturally, on supporting the development of tourism.

Significant attention was also attached to the development of the supporting business infrastructure, through supporting the construction of incubators, supporting the operation of those incubators, as well as of First Contact Points and Euro Info Centres.

Advance payments under the Industrial Development Grant Scheme and under the Tourism Development Grant Scheme were contracted and discharged to beneficiaries from the public and private sector. The preparatory stage for the grant schemes under the 2003 Financial Memorandum regarding support of innovative SMEs (SISME) and support of tourism was running in parallel.

Being the Managing Authority for the Sectoral Operation Programme Industry and Services (hereinafter SOP IS), the Ministry of Economy of the Slovak Republic made in 2004 calls for the submission of projects under the different state aid schemes and under the de minimis aid schemes, which represent the implementation of the SOP IS measures. The different SOP IS measures are intended for the business and the public sector and their aim is to provide for an improved competitiveness of the industry and services taking advantage of the domestic growth potential and tourism development. In respect of the business sector in particular, five state aid schemes and four schemes of de minimis aid were announced. Support through financial grants was directed towards support of SMEs, industrial research, energy savings, international cooperation, and tourism. The major interest on the part of the businesses concerned support of SMEs and tourism, the least interest concerned the construction of incubators, industrial parks, rehabilitation of production facilities and construction of infrastructure for tourism.

Implementation documents were drawn up at the Ministry before the calls, along with the communication action plan and selection of internal and external evaluators. The projects received were assessed for formal aspects in 2004. The technical assessment will be completed in 2005. The structural EU funds will be discharged within 2005 - 2006.

The standing tasks of the Ministry during the year include assessment of the effectiveness of the use and of the discharge of the funds from the chapter on the different programmes directed towards support of SMEs. The conditions of the provision of the aid and of the allocation of the funds from State Budget on specific sub-programmes for the next period will be modified during the year based on the assessment results. In formulating the policy of the state aid for SMEs, the Ministry officials take advantage of mainly knowledge acquired from events and activities organised by the EU, OECD, EEC, UNIDO, UNDP etc.

5.2 Innovation Fund

The Innovation fund, a non-for-profit fund, administered by Ministry of Economy of the Slovak Republic (MoE SR) is directed towards supporting research and development in industrial sectors aiming at providing for an expedient transfer of knowledge of research and development into the practical life, and at creating conditions for an expedient innovation growth of the industrial production, improved competitiveness, and exports of domestic production.

Based on the outcome of the selection procedure, the Innovation Fund decided to support, in 2004, five projects of innovation, by granting them loans. In 2004, funds were released to help the implementation of 3 projects, amounting to Sk 7.3m. The funding of the projects approved will continue by releasing additional Sk 12.5m in 2005, and Sk 2.5m in 2006.

5.3 Ministry of Labour, Social Affairs and Family of the Slovak Republic (MLSAF SR), and Labour, Social Affairs and Family Headquarters

Being in charge of the support of employment, MLSAF SR implements this support through the Labour, Social Affairs and Family Headquarters. Compared to 2003, Active Policy of the Labour Market (ALMP) witnessed numerous changes in 2004, which in the end-effect found their reflection in its implementation and in the utilisation of the ALMP tools. The most significant differences include the scope and the structure of ALMP tools, the obligatory nature of some ALMP tools, and the funding of the majority of the ALMP tools from the European Social Fund (ESF).

The principal limits of the utilisation of ALMP are laid down by Act of the National Council of the Slovak Republic (NR SR) No. 5/2004 Coll.LL. on employment services and on amendments and additions to some laws, as amended from time to time, which took effect on 1 February, 2004. A similar important role was also played by the implementation launch of National Projects which utilize a majority of them. Pursuant to

NR SR Act No. 5/2004 Coll.LL., ALMP shall be implemented with the use of the tools which have their financial dimension in the provision of contributions (sections 32, 43, 46, 47, 49, 50, 51, 52, 53, 54, 56, 57, 59, 60). The tools focus on two goals: increasing employment of job seekers and support of the creation of new job opportunities.

Apart from those ALMP tools, also supported were job positions created in accordance with NR SR Act No. 387/1996 Coll.LL. on employment, as amended from time to time. A total of 332,573 job seekers were activated in 2004 using the ALMP tools, including 325,450 pursuant to NR SR Act No. 5/2004 Coll.LL. and 7,123 pursuant to NR SR Act No. 387/1996 Coll.LL.

The year 2004 marked the transformation of the National Employment Office into the Headquarters and Offices of Employment, Social Affairs and Family. This process was associated with numerous organisational changes which influenced the activities of the Headquarters and of the Offices of Employment, Social Affairs and Family (OESAF). It was mainly the new ALMP tools implemented for the first time since 1 February 2004, which were directly influencing the implementation of the active policy. As soon as they started to be financed through National Projects, the EC rules had

ALMP tool	Numbers of job positions supported	Agreed amounts of funds (Sk)	Agreed contribution per 1 included per ALMP tool (Sk)
Improved employability of job seekers	261,597	1,397,969,717	35,077
thereof			
§ 46 training and preparation of job seekers for labour market	27,208	211,667,038	7,780
§ 51 contributions for practical activities of fresh graduates	14,462	199,879,537	13,821
§ 52 contributions for activation activities	219,876	985,964,553	4,484
§ 53 contributions for movement after jobs	51	458,589	8,992
Support of the creation of new job positions	7,660	456,393,087	435,117
thereof			
§ 49 contributions for self-employment	5,618	320,083,467	56,975
§ 50 contributions for employment of less favoured job seekers	1,778	109,541,958	61,610
§ 56 contributions for the establishment of protected workshops	138	13,929,496	100,938
§ 57 contributions for disabled persons for self-employment	108	10,748,968	99,527
§ 59 contributions for working assistant activities	18	2,089,198	116,067
Total	269,257	1,854,362,804	6,887

to be respected as they directly impact upon the discharge of funds from ESF and set forth the rules for the support of employers and self-employed persons in the area of employment. In 2004, ESF funds made up the substantial portion of the financing of ALMP. Offices of Social Affairs and Family agreed upon the total amount of funds allocated for created - filled job positions and numbers of persons included in the ALMP tools under NR SR Act No. 5/2004 Coll.LL. amounting to Sk 1,854,363 thousand. Altogether, 269,257 jobs were created, supported and filled with persons included.

5.4 Ministry of Construction and Regional Development of the Slovak Republic (MCRD SR)

MCRD SR implements two programmes in the area of its Housing Policy Section: Housing Development Programme and State-aided Housing Construction Programme (SAHCP) implemented in the form of granting bank guarantees for loans. There were a total of 547 applications received under the Housing Development Programme, 406 subsidies and guarantees provided, including 107 provided to small and medium enterprises, amounting to Sk 71.6m. Under the SAHC Programme implemented in the form of bank guarantees for loans, a total of 226 applications were received in 2004, granted were 210, thereof 30 to SMEs, amounting to Sk 36.6m.

In the framework of support from Structural Funds under the Single Programming Document NUTS II - Bratislava objective 2, five measures were developed in the priority Support of Economic Activities and Sustainable Development of the target territory, of which two, namely 1.1 and 1.3, have been intended for SMEs through two state aid schemes and 1 de minimis scheme. SME SPD 2 Support Scheme was developed in terms of the measure 1.1 Development of Small and Medium Enterprises. Under this scheme, applications for grants were received from 11 applicants. Tourism Development Promotion Scheme SPD2 was drawn up in terms of the measure 1.3 Development of Business Activities and Services in the Tourism and Recreation Sector. Eight applications for grant were received under this scheme. SME Support Scheme SPD2 was separately developed for selected activities of the measures 1.1 and 1.3 (de minimis scheme), under which applications were received from 2 applicants.

5.5 Ministry of Agriculture of the Slovak Republic (MoA SR)

The implementing agency for financial support of businesses from the agriculture sector is the Agricultural Paying Agency. The data for SOP Agriculture and Rural Development and the SAPARD Programme for projects approved in 2004 are shown in Tables 1,2 and 3 in Annex 2.

In addition to what has been mentioned above, state aid was provided to businesses in agriculture under MoA SR Decree No. 806/2004-100, §7 Measures Directed to Support Partial Interest on Loans on Warehouse Sheet, amounting to Sk 26.6m (153

applicants). The total amount spent on direct support of farmers on agricultural land farmed and support of less favoured areas represented Sk 7.5bn.

5.6 Slovak Guarantees and Development Bank

The Slovak Guarantees and Development Bank (SZRB) is a shareholding company 100% owned by the state, focusing specifically on supporting small and medium enterprises.

The role of SZRB in the system of support of small and medium enterprises is that of extending combined bank support. The form of the support programmes for small and medium enterprises run by SZRB include guarantees, loans and grants with multi-sectoral orientation, e.g. development of towns, villages and regions, of agricultural production, construction of housing, tourism, energy savings, utilisation of wood mass, etc. The bank provides support to also starting small and medium businesses which are not the target group of the commercial banks.

The coverage of government-approved SZRB programmes is provided for by transfers from State Budget and from own revenues. An important position in the sourcing of the bank is taken by mutual loan agreements with co-financing foreign banks, e.g. credit lines from Kreditanstalt für Wiederaufbau (KfW), from Council of Europe Bank for Development (CEB), from European Investment Bank (EIB), and from Nordic Investment Bank (NIB). The EIB credit line is intended to co-finance projects of water authorities which draw upon resources of the Cohesion Fund and Structural Funds. These projects are also co-financed from State Budget. The objective of the NIB credit line is to provide funds for business plans connected with infrastructure improvements, improvements in energy supplies, water supplies, sewage, and construction of waste water treatment plants. The funds are intended for towns, villages, small and medium enterprises.

In 2004, SZRB was given NEFI membership (Network of European Financial Institutions for SMEs). This is a network of European financial institutions specialised in SME support. The objective of the organisation is the strengthening of mutual cooperation of partner organisations, sharing of professional knowledge and experiences to the benefit of SMEs.

In 2004, SZRB started to provide bank guarantees for financial loans provided to towns and villages by State Housing Development Fund for the construction of municipal rental housing. The purpose of the provision of the guarantees is mainly to support regional development in the area of civil and housing facilities through the construction of municipal rental housing. For small enterprises, SZRB extended its offer of loan programmes by adding micro-loans with the objective of enabling existing and starting small businesses access to loans, while shortening the time needed to arrange for the application.

At the end of 2004, SZRB was cooperating with 14 commercial banks and 2 construction savings banks based on cooperation agreements. In its portfolio, SZRB has 7 guarantee, 5 grant, 4 indirect loan and 12 direct loan programmes.

5.6.1 Guarantee programmes

These programmes include the provision by SZRB of bank guarantees for financial loans to enterprises which do not have sufficient collaterals available.

1. General conditions of Slovenská záručná a rozvojová banka, a.s. for the provision of bank guarantees for financial loans

In accordance with the above conditions, SZRB provides bank guarantees with direct securitisation, bank guarantees with indirect securitisation, and bank guarantees in special cases

Support provider: SZRB

2. Programme of state assistance to housing construction development through provision of bank guarantees for loans

The programme was launched by: Ministry of Construction and Regional Development of the Slovak Republic

Support provider: SZRB

3. Support programme of seasonal agricultural works through provision of guarantees

The programme was launched by: Ministry of Agriculture of the Slovak Republic

Support provider: SZRB

4. Support programme of small and medium agricultural entities through provision of guarantees for financial loans and one-time financial grants

Support provider: SZRB

5. Support programme of purchase of new agricultural and food industry technique and technologies through provision of bank guarantees for loans

Support provider: SZRB

6. General conditions of SZRB, a.s., for the provision of bank guarantees for the product SOLVENT BIZNIS KARTA OTP Banka Slovensko, a.s.

Contractually agreed cooperation between SZRB and OTP Bank Slovensko.

7. General provisions of SZRB, a.s. for the provision of bank guarantees for financial loans from State Housing Development Fund intended for towns and villages for the construction of municipal rental housing.

Contractually agreed cooperation between SZRB and State Housing Development Fund.

A total of 412 guarantees were provided during 2004, amounting to Sk 1,556,676 thousand. The guarantees provided during the above period contributed to the creation of 388 new job opportunities. In total, the above programmes helped create 12,418 new job opportunities. Data on guarantees provided are shown in Tables 4 and 5 in Annex 2.

5.6.2 Loan programmes

The Slovak Guarantees and Development Bank provides the loan products for SMEs under four indirect loan programmes and twelve direct loan programmes.

a) Indirect loans

1. Loan programme PODPORA („support“) to support the development of small and medium enterprises
2. Loan programme ROZVOJ II MSP („SME development II“) to support small and medium enterprises and for towns and villages, financed from the credit line from Kreditanstalt für Wiederaufbau
3. Loan programme ROZVOJ II MSP-EÚ („SME-EU development II“) to support small and medium enterprises with the support by the EU, financed from the credit line from Kreditanstalt für Wiederaufbau
4. Loan programme ROZVOJ II-byty („development II - housing“) to support housing construction development, financed from the credit line from Kreditanstalt für Wiederaufbau

b) Direct loans

1. General conditions of SZRB, a.s. for the provision of direct loans
2. Programme of the financing of the infrastructure of villages and construction of housing for low-income population through a loan from the Council of Europe Bank for Development (variant A)
3. Programme of the financing of the infrastructure of villages and construction of housing for low-income population, subsidised by Ministry of Construction and Regional Development of the Slovak Republic to cover a portion of interests, through the credit line from the Council of Europe Bank for Development (variant B)
4. Loan programme ROZVOJ II-byty („development II - housing“) to support housing construction development, financed from the credit line from Kreditanstalt für Wiederaufbau
5. Business conditions of SZRB, a.s. for the provision of direct loans for the purchase new and refurbished agricultural machinery and technologies
6. Business conditions of SZRB, a.s. for the provision of direct loans for the purchase of new and refurbished food processing machinery and technologies
7. Business conditions of SZRB, a.s. for the provision of direct loans for the purchase of property from bankrupts
8. Business conditions of SZRB, a.s. for the provision of direct loans for the coverage of direct costs of setting of crops and purchase of feeding stuffs
9. Business conditions of SZRB, a.s. for the provision of direct loans for rehabilitation of agricultural production premises

10. Loan programme „Financing of environmental projects from EIB sources“
11. Loan programme „Financing of environmental projects and other projects from NIB sources“
12. Micro-loans

Applications for a total of 605 loans were received during 2004, amounting to Sk 3,208,619 thousand. The implementation of the loan programmes contributed to the creation of 927 new jobs during the reference period (2004). Altogether, the loan programmes have contributed to the creation of 6,271 new job positions. Data on loans are shown in Tables 6 and 7 in Annex 2.

5.6.3 Grant programmes

The provision by SZRB of grants represents the implementation of the government-launched development programmes, run in cooperation with Ministry of Economy of the Slovak Republic, Ministry of Agriculture of the Slovak Republic, Ministry of Transport, Posts and Telecommunications of the Slovak Republic, and Ministry of the Environment of the Slovak Republic. This helps enterprises reduce the burden represented by payments of interests and/or reduce a portion of eligible costs spent of capital investments into projects.

1. Combined transport development scheme for the Slovak Republic
2. Support scheme of the development of processing and utilisation of wood mass (de minimis aid scheme) - suspended effective 21 May, 2004
3. Support scheme of starting small enterprises ŠTART - suspended effective 29 April, 2004
4. State grant scheme of competitiveness support - scheme A de minimis support scheme) - suspended effective 29 April, 2004
5. Support scheme of tourism development in the Slovak Republic No. 6 - suspended effective 16 July, 2004
6. Support scheme of energy saving and utilisation of renewable energy sources - suspended in 2004
7. Support scheme of gradual elimination of consumption of substances damaging the ozone layer - suspended in 2004

A total of 65 grants were committed during 2004 under the grant programmes, worth Sk 100,152 thousand. Data on grants committed and paid out by SZRB are shown in Tables 8 and 9 in Annex 2. The implementation of the grant programmes during the reference period contributed to the creation of 349 new job positions. Altogether, the above mentioned programmes have so far helped create 8,138 new job positions.

Overview of grants provided to SMEs under the different grant programmes run by SZRB

Programme	period	Comb. transport	WOOD	ŠTART	EXPORT	Tourism	Alternat. sources	OZON	Other	Total
Applications for grants received	2004Total	0 5	15 67	5 41	0 11	87 1,378	0 19	0 13	12 741	19 2,275
Grants committed	2004Total	0 3	14 37	0 19	0 0	38 874	0 14	0 9	13 562	65 1,518
Amount of grants committed, in Sk ,000	2004Total	0 43,218	34,099 58,954	0 17,866	0 0	59,804 723,070	0 31,976	0 3,405	6,250 602,318	100,153 1,480,807
Amount of grants paid out, in Sk ,000	2004Total	0 30,784	37,579 57,979	0 17,508	0 0	60,956 710,793	2,896 24,479	0 3,062	7,182 565,016	108,613 1,409,621

5.7 Slovak Investments and Trade Promotion Agency

The Slovak Investments and Trade Promotion Agency (SARIO), being the implementator of the State Grant Competitiveness Support Scheme - Scheme B, provided in 2004 a total amount of Sk 2,700,000 in support to three enterprises (SMEs). The support consisted in the provision of grants for the purposes of counselling and consultation services in the area of investments and marketing information support.

In 2004, SARIO successfully started to implement the measures under the Sectoral Operational Programme Industry and Services, measure 1.2 Support of the Construction and Rehabilitation of Infrastructure, and measure 1.5 Development of Foreign Cooperation and Image of the Slovak Republic.

Under the call for SOP IS measure 1.2, seven projects were received, worth Sk 1,105.9m in total. The evaluation commission approved 4 projects in a total amount of Sk 489.9m, envisaging the creation of approx. 660 job positions (3 projects focusing on the construction of industrial parks, 1 to rehabilitate a production shop).

Under the call for SOP IS measure 1.5, twenty-four projects were received, amounting to Sk 43m in total; 9 projects were received for the state aid scheme, and 15 were received for the de minimis aid scheme. The project evaluation commission approved 19 projects amounting to Sk 23.6m in total.

5.8 Eximbanka

Eximbanka SR was established by Act No. 80/1997 Coll.LL. on Export-Import Bank of the Slovak Republic, as amended by Act No. 336/1998 Coll.LL. and Act No.214/2000 Coll.LL. Since its establishment, it has been exclusively owned by the state, and started its operations in 1997. The main objective of the institution is promotion of maximum volumes of exports of sophisticated production, in particular to the EU and OECD countries, while securing return on investments, minimisation of risks from insurance, credit, guarantee and financial transactions. In achieving the main objective, exports promotion, Eximbanka SR operates in two main areas: financing and insuring export credits. As of the end of 2004, promotion of exports by SMEs consisted in guarantees worth Sk 319,842,380 (31%) and of direct bills of exchange worth Sk 716,391,546 (69%), concerning altogether 39 business cases. More detailed data about SME exports supported by Eximbanka are shown in Table No. 10 in Annex 2.

5.9 Foundation Integra

Micro-fund is a programme of the Foundation Integra focusing on the support of starting or already running business activities of women. The programme offers training courses to familiarize the participants with principal business skills and helps them develop business plans. Based on the business plans, starting or established female entrepreneurs may get a loan and further aid in the form of consultations and training. The necessary know-how and funds to bring the programme into rolling were provided by the Canadian Agency for International Development.

Starting or established female entrepreneurs may chose from three existing models of training under the Micro-fund programme: the three-week model, the two-week model, and one-week residential training. After the completion, the client presents her business plan for approval, and may be eligible for a loan of up to Sk 100,000. The tenure of the loan is 24 months max., with the option of deferred repayment. The interest is digressive, at 9.5% p.a. In addition, starting applicants for loans pay 2% of the amount of the loan in one-time administration fee. There are three options for guarantees: group, by third party, or by collateral.

Results of the Micro-fund programme at 31 Dec., 2004

Year	1999	2000	2001	2002	2003	2004
Number of training courses	1	3	4	8	10	7
Number of attendees	19	55	70	89	182	130
Number of business plans presented	18	46	58	79	144	86
Number of loans extended	6	28	24	36	29	17
Amount of the loans, in Sk ,000	290	1.885	1.630	2.780	2.648	1.221

In 2004, Foundation Integra launched the Market Access programme. The main objective of the Market Access programme is to help small manufacturers from less favoured groups get access to the existing markets, establish new marketing channels for the target group of manufacturers, and provide them with professional assistance in developing and improving the quality of their products.

6. Evaluation of NADSME-run support sub-programmes financed under only State Budget

6.1. Support scheme of the purchase of innovative technologies and of setting up of quality management systems

The support scheme of the purchase of innovative technologies and of setting up of quality management systems comprising the section Innovative Technologies and Quality arose as a transformation of the state programmes „Technology Transfer“ and „Implementation Programme of Quality Management Systems - Quality“. The scheme is oriented on strengthening competitiveness of SMEs through implementation and utilisation of innovations and quality management systems in accordance with selected international standards

a) Technology Transfer Programme

The objective of the Programme was upgrading of production processes, improving of the productivity of labour, and facilitation of the penetration of Slovak companies of international markets. Implementation by small and medium enterprises of innovations was supported by grants under the state-run „Technology Transfer Programme“.

Since the Programme became transformed into a new programme „Support Scheme of the Purchase of Innovative Technologies and of Setting up Quality Management Systems“ in August 2003, no new applications were received and approved in 2004. Three grants amounting to Sk 1.5m in total were paid in 2004 to applicants with whom contracts had been made in 2003.

b) Implementation Programme of Quality Management Systems - QUALITY

Increasing the numbers of enterprises certified under selected international standards, such as ISO 9 000, VDA, BS, QS or ISO 14 000 was the objective of the „Implementation Programme of Quality Management Systems - QUALITY“ financed from the State Budget. The provision of grants for counselling and training (C&T) in preparing companies for certification (Cert), for the very external certification, pre-certification and re-certification (Rec) process was intended to stimulate the sector to improve the quality of products and services.

Similarly as was the case with the „Technology Transfer Programme“, no new applications were received and approved under the „Implementation Programme of Quality Management Systems“. Based on contracts made with applicants during the

preceding year, 13 grants were paid out for counselling and 16 for certification process, amounting to Sk 1.65m in total.

c) Support Scheme of the Purchase of Innovative Technologies and of Setting up of Quality Management Systems

In its role of the assistance provider to SMEs, Ministry of Economy launched this scheme in August 2003. In 2004, a total of 56 applications (26 for C&T + 30 for Cert) were received from 34 companies for grants for the implementation of quality management systems (section Setting up of Quality Management Systems), amounting to Sk 3m, and 24 applications for grants for the purchase of innovative technologies (section Innovative Technologies) amounting to Sk 32.67m.

From the aspect of their orientation, the outcome of the implemented schemes can be grouped into two categories. The first one includes grants for new technologies, and the other one grants for implementation of quality management systems.

1. Technology Transfer Programme and Support Scheme of the Purchase of Innovative Technologies and of Setting up of Quality Management Systems - section Purchase of Innovative Technologies

Volumes of funds paid out from State Budget in 2004, by regions

Region	Number of grants	Amount of grants paid out (Sk)
Prešov	3	6,377,229
Žilina	3	6,180,000
Banská Bystrica	3	5,886,800
Košice	3	4,919,324
Trenčín	5	4,610,495
Bratislava	2	2,879,000
Nitra	3	2,235,023
Trnava	1	1,931,000

Shares of grants paid in 2004, by sectors

Sector	Share
Manufacturing of goods	62 %
Services	30 %
Research, development, design	4 %
Information systems	4 %

2. Implementation Programme of Quality Management Systems - QUALITY and Support Scheme of the Purchase of Innovative Technologies and of Setting up of Quality Management Systems - section Setting up of Quality Management Systems

Volumes of funds paid out from State Budget in 2004, by regions

Region	Nos. of grants	Counselling and training, in Sk	Certification, in Sk	Re-certification, in Sk
Bratislava	43	1,504,400	668,910	59,703
Trenčín	35	1,391,683	662,011	0
Nitra	31	1,111,350	515,639	47,200
Žilina	35	950,819	698,358	0
Košice	25	910,970	392,499	0
Trnava	24	815,000	390,103	0
Banská Bystrica	17	701,138	231,500	0
Prešov	16	503,393	312,750	0

Shares of grants paid out in 2004, by sectors

Sector	Share
Manufacturing of goods	39 %
Building industry	31 %
Services	23 %
Counselling	2 %
Information systems	2 %
Research, development, design	2 %
Agriculture	1 %

Funds discharged from State Budget under the implementation of quality management systems, by years

Year	Amount	Coverage from State Budget (SB)
1999	181,239	SB 1999 - 181,239
2000	2,818,761	SB 1999 - 2,818,761
2001	4,664,227	SB 2000 - 4,664,227
2002	7,611,009	SB 2000 - 335,773
		SB 2002 - 7,275,236
2003	10,508,233	SB 2002 - 9,724,764
		SB 2003 - 783,469
2004	11,867,425	SB 2004 - 11,867,425

6.2 Support Scheme of Counselling and Training for Small and Medium Enterprises

In 2004, counselling was run through the network of the institutional network of 14 RAICs, 3 BICs and 9 FCPs.

The centres provided 1,867 informative consultations amounting to 3,497 hours of consultation about projects and programmes of SME support implemented by NADSME and outside of it, and 1,579 technical consultations in a total volume of 5,965 hours of consultations, from all areas necessary to develop business activities.

RAICs/BICs developed 229 business plans and reviewed 71 business plans for purposes of acquisition of loans, under financial support schemes or from commercial sources. In this way, they helped create 635 new job opportunities and maintain 2,754 jobs.

In 2004, training for small and medium enterprises was discharged in the form of direct assistance by providing the applicants with grants; unlike in previous years, the applicants were free to chose the training institution themselves.

In this way, support was provided to 123 training session attendees and 9 participants of electronic self-education for 73 business entities. The topics of the training courses was directed towards the management of small and medium enterprises and project management in particular.

The above counselling and training services were financed from State Budget funds, amounting to approx. Sk 4m and Sk 1m for counselling and training, respectively.

6.3 Counselling and Training Programme for Selected Groups of Persons Interested in Taking up Business

Support of selected groups of persons interested in taking up business and starting entrepreneurs (SG) through subsidised counselling and training services was provided in 2004 by the institutional network of RAICs/BICs.

The centres mentioned provided 1,553 informative consultations (777 hours) from areas needed to take up and pursue business, and 2,005 technical consultations (4,192 hours) from all areas needed to take up and develop business activities.

RAICs/BICs developed 298 business plans for the purpose of acquisition of loans, under financial support schemes or from commercial sources. Preliminary results suggest that they in this way helped establish 445 new enterprises and create 512 new jobs.

Under the programme, the organisation of 36 training courses (1,296 hours) was financed for 605 participants. The topics of the training courses included: development of business plans, basics of business activities, course for starting entrepreneurs, development of computer skills, basics of doing business, working with PC - Excel, working with PC - Word, basics of working with computers.

The above services were financed from State Budget funds, amounting to Sk 4m.

Activities of RAICs, BICs and FCPs: Counselling and training for small and medium enterprises in 2004										
-	Consult. info B	Info hours B	Consult. techn. B	Techn. hours B	pp NA Nos.	ps. NA Nos.	pp other Nos.	ps. other Nos.	New jobs	Maint. jobs
BBB	185	304.5	42	102	0	0	0	0	44	126
BPD	79	159	54	277	5	3	9	0	42	61
CBD	33	29	104	252	1	0	40	0	40	0
CBR	20	43	51	244.5	0	0	0	0	0	0
CLE	80	73.5	63	155	0	0	1	0	5	0
CME	67	127	0	0	0	0	0	0	0	0
CMI	38	84	6	45.0	3	0	5	0	0	847
CPT	20	41.5	16	30	0	0	34	0	0	0
CSB	10	20	62	328.5	0	0	0	0	0	0
CSN	43	81.5	6	13.5	0	0	1	0	0	0
CVK	18	45	17	39	0	0	21	0	21	0
KVKE	33	66	0	0	0	0	0	0	0	0
RBA	91	178	226	423	9	0	1	0	5	85
RDS	104	202	126	232.5	5	0	1	0	42	160
RKE	139	231	44	187	5	4	0	1	47	278
RKN	36	89.5	33	122	2	1	5	0	28	165
RLC	116	272	82	308	1	0	1	0	48	406
RMT	98	217.5	158	670	0	0	0	0	85	183
RNR	64	156	42	165	17	0	0	0	73	248
RPO	25	54	25	358.5	0	0	8	0	0	0
RPP	62	109	89	236.5	0	2	1	0	4	27
RPX	171	240.5	156	595	20	0	1	0	39	33
RRV	43	64	18	46	5	17	2	1	27	30
RTN	153	309.5	71	294.5	3	1	2	0	37	51
RTV	36	84	39	143.5	2	16	9	1	6	9
RZV	103	215.5	49	697	9	24	0	0	42	45
Total	1867	3,497	1,579	5,965	87	68	142	3	635	2,754

Legend (Table for group B):

BBB BIA TC Banská Bystrica

CLE

FCP Levoča

CSB

FCP Sabinov

BPD BI-TI Prievidza

CME

FCP Medzilaborce

CSN

FCP Snina

CBD FCP Bardejov

CMI

FCP Michalovce

CVK

FCP Veľký Krtíš

CBR FCP Brezno

CPT

FCP Poltár

KVKE

KVTI Košice

RBA RAIC Bratislava

RMT

RAIC Martin

RRV

RAIC Rožňava

RDS RAIC Dunajská Streda

RNR

RAIC Nitra

RTN

RAIC Trenčín

RKE RAIC Košice

RPO

RAIC Prešov

RTV

RAIC Trebišov

RKN RAIC Komárno

RPP

RAIC Poprad

RZV

RAIC Zvolen

RLC RAIC Lučenec

RPX

RAIC Považská Bystrica

NA: NADSME

Info hours B: hours of informative consultations for group B

group B: small and medium enterprises

Consult. techn. B: numbers of technical consultations for group B

maint.jobs: numbers of job positions maintained

PP (pp NA) Nos. numbers of business plans developed for NADSME

new jobs: numbers of newly created job positions

Consult. info B: numbers of informative consultations for group B

Techn. hours B: hours of technical consultations for group B

PP (pp other) Nos.: numbers of business plans developed outside of NADSME

PS (ps other) Nos.: numbers of opinions on business plans drafted outside of NADSME

PS (ps NA) Nos.: numbers of opinions on business plans drafted for NADSME

Activities of RAICs and BICs: Counselling and training for selected groups in 2004												
	Consult. info A*	Info hours A*	Consult. techn. A	Techn. hours A	developed for NA		developed outside of NA		Nos. of train courses	Nos. of attendees	New enterpr.	New jobs
					PP Nos.	PS Nos.	PP Nos.	PS Nos.				
RPP	156	78	333	510	0	0	26	0	0	0	70	108
RMT	99	49.5	105	231.5	0	0	13	0	3	54	20	24
RNR	91	45.5	93	243.5	15	0	0	0	0	0	3	3
RZV	69	34.5	91	163	0	0	0	0	0	0	16	17
RLC	167	83.5	252	516	0	0	2	0	0	0	0	0
RPX	95	47.5	108	279.5	4	0	0	0	5	66	34	34
RPO	39	19.5	39	81	0	0	0	0	5	54	0	0
RTN	181	90.5	275	731.5	1	0	8	0	1	14	48	56
RTV	26	13	36	119	0	0	36	0	0	0	1	8
RKE	160	80	156	208.5	0	0	17	0	6	81	33	44
RKN	154	77	153	466.5	0	0	11	0	0	0	50	50
RDS	73	36.5	73	73	0	0	75	0	0	0	52	52
BPD	86	43	79	119	0	0	74	0	9	248	74	74
BBB	76	38	81	212	0	0	0	0	0	0	0	0
BSN	53	26.5	79	140	0	0	8	0	7	88	41	37
RBA	28	14	52	98	0	0	0	0	0	0	3	5
Total	1553	777	2005	4192	20	0	278	0	36	605	445	512

Numbers	Info consult.		info consult.		Nos. train. courses	PP total
	tech.consult.	total	tech.consult.	total		
	1553	777	4192	4969	36	298
	2005	777	4192	4969	605	

Legend (table for group A):

RPP RLC
 RAX Poprad RPK
 RAX Marín RPO
 RAX Nirra RTN
 RAX Zvolen RTV

train courses.: numbers of training courses

new enterpr.: numbers of newly established enterprises

tech. hours A: hours of technical consultations for group A

info hours A: hours of informative consultations for group A

tech. consult. A: numbers of technical consultations for group A

Consult. info A: numbers of informative consultations for group A

group A: selected groups of persons interested in taking up business

PP (pp NA) Nos.: numbers of business plans developed for NADSME

RKE RAIC Lučenec
 RKN RAIC Považská Bystrica
 RDS RAIC Prešov
 BPD RAIC Trenčín
 BBB RAIC Trebišov

RKE RAIC Košice
 RKN RAIC Komárno
 RDS RAIC Dunajská Streda
 BPD RAIC Prievidza
 BBB BIC Banská Bystrica

BSN BIC Spišská Nová Ves
 RBA RAIC Bratislava
 NA: NADSME
 particip.: numbers of course attendees
 new jobs: numbers of newly created jobs

PS (ps NA) Nos.: numbers of opinions on business plans drafted for NADSME

PP (pp other) Nos.: numbers of business plans developed outside of NADSME

PS (ps other) Nos.: numbers of opinions on business plans drafted outside of NADSME

6.4 Euro Info Centre

The European Commission established the network of Euro Info Centres in an attempt to provide small and medium enterprises with comprehensive information on the single market, EU legislation, support programmes, and business development policies, and to help them at the same time create space for mutual cooperation. The common goal of the network of the Euro Info Centres is to improve competitiveness, innovation rates, and efficiency of international cooperation of SMEs. Two EICs were established in Slovakia: in Bratislava as part of the National Agency for Development of Small and Medium Enterprises, and in Prešov, as part of the Regional Counselling and Information Centre.

The major tasks of Euro Info Centres is to provide the European Commission with information about problems encountered by enterprises in applying the legislation of the European Community and of Commission policies. Interactive Policy Making - IPM is the initiative of the European Commission aimed at a better understanding of how the citizens, consumers and entrepreneurs perceive European Union policies, and to take lessons from their experiences. Suggestions on the operation of the single market may be forwarded via EIC directly to the European Commission (<http://www.eic.sk/ipm.htm>).

Also an important mission of Euro Info Centres is to assist entrepreneurs to succeed in the single market of the European Union, and to provide information about the opportunities and advantages offered by the market. The national website of the Slovak Euro Info Centres at www.eic-slovakia.sk provides information about the opportunities offered by the enlarged European Union and the single market. The English version of the national Euro Info Centre website publishes, apart from information about Slovakia, also offers of Slovak companies interested in cooperating abroad. Offers for cooperation from foreign enterprises and companies are regularly published in the magazine *Podnikanie* („Business“) published by the National Agency for Development of SMEs, on Internet pages of Euro Info Centres, as well as in other periodicals.

EIC Bratislava at the National Agency for Development of SMEs has been orienting its activities upon seeking production, commercial and project partners through BCD - Business Cooperation Database, upon support of the participation of Slovak SMEs in cooperation events throughout Europe, mapping of the business environment in the EU, editing of an electronic magazine and information materials, involvement in international projects aiming at promoting SME development, their penetration of new markets, establishing contacts and acquisition of the necessary professional knowledge, organisation of events. Every year, about 700 offers for cooperation from foreign companies are translated and published in a variety of periodicals and on Euro Info Centre websites. In 2004, Slovak enterprises seeking foreign partners asked for 275 contacts. BCD services provided by the Bratislava EIC were taken advantage of by 46 Slovak enterprises. About 600 companies requested research of information about the internal market, foreign companies asked for 170 contacts to Slovak companies.

Familiarisation of the business public with the influence on business of Slovakia's accession to the EU was the objective of 10 information seminars and training courses organised in the different regions of Slovakia. In working together with representatives of the National Agency for Development of SMEs, RAICs, the Slovak Chamber of Commerce and Industry, and other partners, the Bratislava EIC approached approx. 1,000 enterprises to address EU business topics.

In 2004, EIC Bratislava coordinated projects focusing on the provision of the participation of Slovak companies in cooperation events in Germany (PAVE Warnemünde, focus on food production sector) and Austria (PAVE Graz, mechanical engineering, metal processing, manufacturing of tools).

Also, EIC Bratislava cooperated in the missions of German, British, and Korean enterprises in Slovakia, organised during October and November, 2004. Together with Austrian partners, it enabled Slovak companies from information technologies sector (IT in the building industry, automotive industry) to participate in 3 information and cooperation events in Schwechat.

Based on exactly specified interests, companies may receive, on a regular basis, information from Euro Info Centre on currently opened public tenders from all over Europe.

The electronic magazine EIC-zine brings every day topical information from the EU concerning Slovak small and medium enterprises. The attention of the readers mainly concentrates upon the areas of tourism, EU programmes, information technologies and innovations. So far, about 1,500 articles on 23 different topics have been published in EIC-zine.

Information materials related to doing business in the EU are also available to interested parties at the EIC library. Brief information about the registered documents are available in on-line database on the EIC Bratislava Internet page at www.eic.sk.

7. Evaluation of NADSME-implemented support sub-programmes financed from PHARE sources and the State Budget

7.1 NADSME as the implementing agency of PHARE programmes

The National Agency for Development of Small and Medium Enterprises has been acting, since 2001, as the implementing agency of PHARE Programmes of support of small and medium enterprises. In 2004, NADSME was implementing 3 grant schemes under the Financial Memorandum 2002: Industrial Development Grant Scheme (IDGS), Tourism Development Grant Scheme (TDGS 2002), and Innovations and Technologies Grant Scheme (INTEG). Two grant schemes under Financial Memorandum 2003 started to be implemented, namely Support of Innovative Small and Medium Enterprises Grant Scheme (SISME) and Tourism Development Grant Scheme (TDGS 2003).

The total volume of the support from PHARE funds used for programmes implemented in 2004 amounted to EUR 1,914 thousand.

Discharge of funds from PHARE programmes in 2004

	EUR
FM2000	
SK 0009.01.01.05 Incubator Rožňava - retainer	18,750.02
SK 0009.01.01.08 Incubator Košice - retainer	12,147.55
Programme SK0009.01	
CPK - wages	74,690.73
FM2002 CBC	
Grant scheme INTEG	309,557.00
FM2002 NP	
Grant scheme IDGS	268,420.68
Grant scheme TDGS02	1,156,496.45
Technical assistance TDGS02	74,559.65
T o t a l	1,914,622.08

7.2 First Contact Points

The objective of the activities of 9 First Contact Points (FCP) located within the least developed regions of Slovakia is to provide a range of counselling services in the area of business for small and medium enterprises (SMEs) as well as for parties interested in taking up and pursuing business in the regions, and to help regional development through cooperation with towns, villages and local non-for-profit organisations. In 2004, FCPs became involved in the implementation of the state programme Counselling and Training for Small and Medium Enterprises.

In 2004, FCPs provided information services to 973 clients from among SMEs and parties interested in taking up business (1,240.5 hours) as part of the projects and programmes implemented. Technical consultations were provided to 814 clients (4,437 hours), and 205 business plans were developed. FCPs in addition organised 39 training courses and seminars for more than 486 clients, and developed 126 projects for a variety of interested parties.

In addition to the above activities, FCPs also run additional activities such as involvement in development projects, regional development-related cooperation with towns and villages within regions, organisation of fairs, events, editing of publications, etc.

In regard of regional development activities, FCPs cooperate with a variety of organisations, including employment offices, district offices, cities, RAICs/BICs, regional development agencies, secondary schools, NGOs, trans-border cooperation, local printed media and TV channels, regional non-for-profit organisations, etc.

7.3 SME support through the network of incubators

Business and technological incubators represent an important part of the SMEs support infrastructure. The objective of the programme SME Support Through the Network of Incubators is to set up or to rehabilitate at least 5 - 6 incubators within 2001 - 2005, and to provide for the efficient operation of a total of 12 - 13 incubators, including those to be constructed under the PHARE programme. Their mission will be to provide starting enterprises with appropriate start-up conditions for the functioning of the business, during approximately three years. Apart from business spaces, office infrastructure, administrative services and technical counselling will be made available to them. The incubators are organisations of non-for-profit nature. The purpose of the programme is to financially support the setting up of a network of incubators for starting enterprises and of specialised technological incubators, to provide for their start up, to implement the Research-based Spin-off Method, and to provide financial support to carriers of projects in the form of venture and seed capital.

A total of 7 incubators had been set up under the NADSME-implemented programmes by 2003 (Martin, Banská Bystrica, Bratislava - stage I, Košice, Prešov, Spišská Nová Ves, and Rožňava) from PHARE funds and the State Budget.

In 2004, two projects of business incubators were financed and realised from the funds allocated for the programme SMEs Support Through the Network of Incubators and Implementation of the Research-based Spin-off Method: that in Košice - The Košice Scientific and Technological Incubator - stages II and III, with Sk 15m invested, and that in Žilina - The Technological Incubator VTP Žilina, with Sk 2.4m spent on the rehabilitation of the incubator.

In parallel, support was provided in 2004 under this programme to 7 incubators to cover their operating expenses; in accordance with the programme criteria for the first year, 75% of the operating expenses were covered, amounting to Sk 11.1m.

Two projects were approved in 2004 under the PHARE programme - Grant Scheme INTEG: Technological Incubator of STU Bratislava and Technological Incubator in Sládkovičovo. The construction of these incubators and the subsequent activities will continue in 2005.

Capital funds for the construction of business incubators

Business incubator	Construction costs (Sk m)			Total costs(Sk m)
	State Budget	Phare	Other	
Martin	-	21.8	¹ 22.8	44.6
Banská Bystrica	-	21.8	² 23.3	45.1
Bratislava	6	-	-	6
Rožňava	*3.0	16.5	³ 10.3	29.8
Košice	*2.9	10.7	⁴ 2.2	15.8
Košice stage II	10.0		0.3	10.3
Košice stage III	5.0		0.4	5.4
Prešov	*18.2	14.5	⁵ 8.1	40.8
Spišská Nová Ves	*5.0	14.3	⁶ 5.1	24.4
Žilina	2.4			2.4
Total	52.5	99.6	72.5	206.5

1 Contribution in kind, project documentation, building and architect's supervision, extra works financed from funds of RAIC Rožňava and/or the town Rožňava

2 Contribution in kind, project documentation, building and architect's supervision, and extra works financed from funds of KVTI Košice

3 Contribution in kind, project documentation, building and architect's supervision and funding from funds of RAIC Prešov

4 Contribution in kind, project documentation, building and architect's supervision and funding from funds of the town Spišská Nová Ves

Funds - operations in 2004

Business incubator	Funds approved (Sk)	Funds provided (Sk)
Bratislava	668,726	668,726
Banská Bystrica	1,157,839	1,157,839
Košice	2,590,198	2,590,198
Prešov	2,633,052	2,633,052
Prievidza	1,546,770	1,546,770
Rožňava	2,575,500	1,943,522
Spišská Nová Ves	1,324,305	587,991
Total	12,496,390	11,128,098

7.4 Support Loan Programme

The main objective of the Support Loan Programme is to enable small and medium enterprises access to investment and operating funds through medium-term loans. The Support Loan Programme is intended for small and medium enterprises that employ up to 250 persons and that are doing business in manufacturing, crafts, services and inbound tourism. Enterprises meeting the programme criteria may apply for loans of up to Sk 10m, with a tenure of 8 years. Six commercial banks are involved in the implementation of the programme, including Istrobanka, a.s., Ludová banka, a.s., Slovenská sporiteľňa, a.s., Tatra banka, a.s., UniBanka, a.s., and Všeobecná úverová banka, a.s.

By launching the Support Loan Programme in 1994, the Slovak Government committed itself to provide funds from the State Budget amounting to Sk 200m for purposes of a revolving loans fund. Also, the Commission of the European Union allocated funds in the same volume and for the same purpose under the PHARE programme. The funds were entrusted to the National Agency for Development of Small and Medium Enterprises which became the coordinator and implementator of the programme. Also, three and at a later point four Slovak banks (Slovenská sporiteľňa, a.s., Tatra banka, a.s., Poľnobanka, a.s. a Istrobanka, a.s.) added their funds. In this way, funds were combined to make up the Support Loan Programme for 1994, 1995 and 1998, setting up a fund of Sk 1.8bn in total and allowing to further grant loans from also repaid loans. Late in 1998, also Ludová banka, a.s. became involved in the implementation of the programme. Additional funds were allocated towards the end of 2001 from 2000 State Budget, thus raising the volume of the available funds to Sk 2.4bn, and Všeobecná úverová banka, a.s., became the sixth bank to be involved in the programme.

Since the programme start in 1994 until 31 Dec., 2004, a total of 1,192 loans had been granted amounting to Sk 3,945.814m in total, thereof 12 loans (Sk 58.5m) in 2004. As of 31 Dec., 2004 Sk 2,924.637m were repaid from 935 loans.

Overview of loans granted, by cooperating banks; status at 31 Dec., 2004 (in Sk m)

Support Loan Programme	UniBanka, a.s.	SLSP, a.s.	Istrobanka, a.s.	Tatrabanka, a.s.	Ludová banka, a.s.	VÚB, a.s.	Total
Nos. of loans	390	396	126	178	93	9	1,192
Total amount of loans	1,367.186	1,130.623	451.878	691.015	259.611	43.500	3,945.814
Average amount of loans	3.506	2.855	3.586	3.882	2.792	4.833	3.310

Overview of loans granted, by sectors

Sector	Nos. of loans granted in 2004	Amount of loans granted in 2004	Total Nos. of loans granted by 31 Dec., 2004	Total amount of loans granted by 31 Dec., 2004
Food production	1	10.0	187	647.317
Textile production	-	-	77	209.500
Woodworking industry	1	2.5	139	422.391
Metals, plastics	2	9.0	224	791.017
Glass, stonemasonry	-	-	25	65.484
Building industry	2	4.5	108	362.929
Energy sector	2	4.5	24	80.054
Printing industry	1	6.0	18	63.664
Chem. and pharm. industry	-	-	27	100.864
Tourism	3	22.0	110	392.164
Services	-	-	253	810.430
Total	12	58.5	1,192	3,945.814

7.5 Micro-loans programme

In 1997, National Agency for Development of Small and Medium Enterprises started to implement, through three Regional Counselling and Information Centres in Považská Bystrica, Zvolen and Prešov, the pilot Micro-loans Programme project. Its main objective was to address access of small enterprises in the regions to small loans. The programme is intended for small enterprises that employ up to 20 persons. For the time being, the programme is run by fifteen centres covering the whole of the territory of the Slovak Republic.

Micro-loans may be used for the acquisition of movable and immovable fixed assets, rehabilitation of operation premises or purchase of necessary raw materials, inventory or goods. The minimum and maximum amount of the micro-loan used for

investments into manufacturing, crafts or services, including purchase of materials needed for manufacturing, is Sk 50,000 and Sk 800,000, respectively, the interest rate is 9%, and the tenure is between 6 months and 4 years. If used to purchase goods, the maximum amount of the micro-loan is Sk 400,000, the interest rate is 12%, and the tenure is up to 1 year. Deferred repayments of the principal are possible for a maximum period of 6 months.

During 2004, applications for micro-loans were received from 281 interested parties, 251 loans were granted in a total amount of Sk 107,159,557. Altogether, 1,085 micro-loans have been granted since the launch of the Micro-loans Programme, amounting to Sk 424,461,049 in total, the average amount of the micro-loans being Sk 391,208. Another factor of no lesser significance for the implementation of the Micro-loans Programme has been its impact upon employment in the regions. Altogether, 1,664 and 1,965 jobs were created and maintained respectively since the launching of the Micro-loans Programme.

Overview of micro-loans granted, by centres

Centre	Nos. of micro-loans granted in 2004	Amount of micro-loans granted in 2004, in Sk	Nos. of micro-loans granted in total	Total amount of micro-loans granted, in Sk
RAIC Dunajská Streda	10	5,499,202	44	18,050,420
RAIC Komárno	13	4,130,000	76	31,075,000
RAIC Martin	9	3,330,000	58	23,027,000
RAIC Nitra	22	5,421,225	63	22,557,909
RAIC Považská Bystrica	25	8,453,503	171	48,067,191
RAIC Prešov	33	13,270,000	133	48,867,000
BIC Prievidza	25	11,740,000	98	43,440,000
BIC Spišská Nová Ves	13	5,100,000	46	19,495,000
RAIC Trenčín	9	5,599,812	47	24,607,464
RAIC Trebišov	12	5,266,000	62	24,841,000
RAIC Zvolen	19	7,260,000	134	45,621,810
Seed Capital Company, s.r.o.	14	7,750,000	85	40,775,000
RAIC Lučenec	26	12,319,815	38	16,977,725
RAIC Poprad	6	3,700,000	11	6,462,066
RAIC Košice	15	8,320,000	19	10,596,464
Total	251	107,159,557	1,085	424,461,049

Overview of micro-loans granted, by sectors

Sector	Nos. of micro-loans granted in 2004	Amount of micro-loans granted in 2004	Nos. of micro-loans granted by 31 Dec., 2004	Amount of micro-loans granted by 31 Dec., 2004
Agriculture	19	8,957,276	101	44,656,045
Manufacturing	67	34,411,554	360	159,134,663
Trade	44	11,904,648	191	59,675,554
Services	100	40,907,079	333	122,957,614
Tourism	13	7,429,000	60	24,340,248
Other	8	3,550,000	40	13,696,925
Total	251	107,159,557	1,085	424,461,049

7.6 Seed Capital Company

The main feature of the Seed Capital Company (SCC), established by the National Agency in 1994, have been investments into the equity of companies. The Company manages seed capital fund used to make investments of up to Sk 5m. for small and medium enterprises in Slovakia. The programme is financed from PHARE programme funds. The objective of the Company is to enable, by financial investments, development of new enterprises and to develop activities of existing enterprises. Preference is given to mainly projects of manufacturing of goods, production services, and inbound tourism.

The Investment Board met five times in 2004. The other activities of the fund were oriented to monitoring of 32 companies in the Company's portfolio. Altogether, Sk 51.175m were invested in 2004, including Sk 22.475m and Sk 28.7m into equity and loans, respectively.

Altogether, by 31 Dec., 2004 the Investment Board had met 38 times, reviewed 84 suggestions for investments, approved 64, additional 14 conditionally, turned down 5, and 1 intention has remained open since the proponents were asked to provide additional information. A total of 92 investments have been made so far into 37 companies. The total amount invested into the companies in the portfolio of the Seed Capital Company, s.r.o., has been Sk 200.065m. Sk 107.935m have been provided for equity of companies, and Sk 92.13m have been provided in loans. As of 31 Dec., 2004, Sk 12.9m had been committed to 4 companies.

7.7 PHARE - FM 2002

7.7.1 IDGS - FM 2002

The Industry Development Grant Scheme financed from Financial Memorandum 2002 funds was launched on 2 September, 2003. Its main objective is to improve the competitiveness of the manufacturing enterprises in Slovakia and to strengthen less developed regions of Slovakia.

The Industry Development Grant Scheme is comprised of two components. Component 1 is intended for enterprises operating in the manufacturing sector ex-

cept for those falling into sensitive sectors (shipbuilding, steel industry, industry of synthetic fibre, and automotive industry), the support focusing upon development of new products or marked upgrading of existing products, improved efficiency of production, implementation of new production processes / technologies, raising the level of research and development and/or quality management. For Component 2, eligible applicants included not-for-profit and non-governmental organisations whose core business is support of business development. Under Component 2, the support focuses upon improved productivity, raising the shares of production with highly qualified labour on the total volume of production in Slovakia, development of production (in particular in the area of technologies) and marketing, development of commercialisation strategies, improved management efficiency and technical capacities in industrial enterprises, raising the level of knowledge and professionalism of managers, establishment of new systems enabling more efficient development of research and development activities, raising the level of awareness in industrial sectors of the benefits of investing into training and innovations. The total volume of funds allocated for both Components is EUR 4,600,000, with EUR 4,100,000 and EUR 300,000 being allocated for Component 1 and 2, respectively.

Received projects were evaluated during the first half-year of 2004; altogether 108 projects were approved in Component 1, amounting to EUR 4,080,158, with the condition that the outstanding funds (EUR 19,842) will not be allocated and will be cumulated, after checking the interest on the part of the successful applicants by phone, and used for unsuccessful applicants on the reserve list and on 11 projects of Component 2 (EUR 94,465).

During the second half-year of 2004, call 7 was announced for Component 2 since the funds from the total budget of EUR 300,000 were not totally contracted. The 11 received projects were evaluated during September and October, 9 projects were approved (in a total volume to EUR 72,793.40. EUR 191,258.19 could thus be contracted in total for Component 2, and EUR 108,741.81 remained not contracted because of the lack of absorption capacity of the applicants for grants.

The budget allocated for Component 1 (EUR 4,100,000, including co-financing) was drawn to 99.30 %, and the budget for Component 2 (EUR 300,000) to 63.75 %. The amount of the funds contracted for the whole Grant Scheme - Component 1 and 2, of EUR 4,262,602.72 in total represents 96.88 % (EUR 4,400,000 allocated).

A total of 132 grant contracts were signed with the grant beneficiaries by the end of November, 2004, including 109 contracts and 23 contracts for Component 1 and 2, respectively. As of 31 Dec., 2004, EUR 217,274.32 and EUR 79,670.22 had been paid for Component 1 from PHARE funds and the State Budget, respectively. EUR 141,817.13 were paid for Component 2 from PHARE funds, since this Component is not financed from the State Budget.

7.7.2 TDGS - FM 2002

The Tourism Development Grant Scheme financed under Financial Memorandum 2002 was announced as public call on September 2, 2003. Its priority objective was support of the growth and performance of small and medium enterprises in the area of tourism and improvement of competitiveness of the tourist industry throughout Slovakia.

The Tourism Development Grant scheme comprises two components. Component 1 was opened to small and medium enterprises, with the support being focused on construction of new accommodation facilities, improvement of the standard and rehabilitation of existing accommodation facilities, establishment of new or improvement of standard of existing facilities providing tourist services, and development of tourist attractions. In respect of Component 2, eligible applicants were non-for-profit and non-governmental organisations operating in the tourist sector, tourist associations, local self-governments, towns and villages. Support under Component 2 focused on strategic planning of tourism, tourism-related marketing and promotion, provision of information on utilisation opportunities of tourist facilities, non-for-profit investments into the infrastructure, media support for tourism, participation in tourist fairs, etc. The total volume of funds allocated for Component 1 and 2 was EUR 3,300,000 and EUR 2,200,000, respectively.

After the first round of calls for submission of projects, 37 projects (EUR 3,281,548.73) were approved for Component 1, and 66 projects (EUR 1,993,634.50) were approved for Component 2. The second round of the public call for Component 2 was opened during the 2nd half-year of 2004 because of EUR 206,379.86 remaining not contracted from round 1. Received projects (78) were evaluated during October and November, of which 7 projects were approved, amounting to EUR 204, 689.56.

7.7.3 INTEG - FM 2002

The Innovations and Technologies Development Grant Scheme - INTEG is being implemented as part of the PHARE programme Trans-border Cooperation Between Slovakia and Austria. The INTEG grant scheme was announced as public call on 8 September, 2003 (round 1) and on 2 February, 2004 (round 2). Its priority objective was support of innovative and technological transfer through establishment of technological incubators and initiation of trans-border economic cooperation with Austria. Grant contracts were made with two beneficiaries, the Slovak Technical University Bratislava, and the town Sládkovičovo, amounting to EUR 2,690,502 in total (99.65 % of the allocated funds). The projects are envisaged to be completed by 30 Sept., 2005, and the technological incubators will subsequently be opened by 30 Nov., 2005.

As part of the grant scheme, technical assistance is being provided focusing on training of the future staff of incubators, institutional development, and promotion campaign. At the same time, a venture capital fund was established to support innovative projects of the future lessees of the technological incubators; the fund is administered by Seed Capital Company, s.r.o.

7.8 PHARE - FM 2003

7.8.1 TDGS - FM 2003

The Tourist Development Grant Scheme under Financial Memorandum 2003 continues the results achieved and the experiences acquired under the preceding grant schemes, and its total volume of funds for investment and non-investment components is EUR 4,570,000.

The objective of the Grant Scheme is to support the growth and the performance of small and medium enterprises in the tourist industry sector, and to improve competitiveness of the tourist business in Slovakia. TDGS 2003 comprises two components. Component 1 supports projects of investment nature focusing on rehabilitation, construction or standard improvement of accommodation capacities in various tourist regions. Component 2, of non-investment nature, supports the setting up of tourist information centres and offices interlinked with the national network. The objective of Component 2 is to develop a favourable image of tourism of the Slovakia's tourist regions, to extend the stays of tourists, and to promote a more professional promotion of tourism.

Tender for technical assistance under TDGS 2003 was opened in 2004. The award went to the company ECO-3sprl. The contract between TDGS 2003 and ECO was signed on 23 Dec., 2004.

7.8.2 SISME - FM 2003

The Support of Innovative Small and Medium Enterprises Grant Scheme (SISME) is a continuation of the PHARE 2002 Industry Development Grant Scheme. It will be supporting projects focusing on the development of specific products, production capacities and quality, development activities to facilitate research and development, and on raising the awareness of the positive impacts of innovations. The global objective of the SISME programme is restructuring of Slovakia's manufacturing sector to turn it into knowledge-based economy, to raise its productivity, and to support continuous development of the SME sector, as well as to improve competitiveness in the EU market through innovations. The direct objective is financial support of the development of a wide range of innovative products and procedures aiming at raising output added value; to raise industrial production and to reduce total costs. The SISME Grant Scheme consists of two parts. Part one will support projects focusing on the development of specific products, production capacities and quality; development activities to support research and development and to raise the awareness of the positive impacts of innovations. Part two will be focusing on improved availability of venture capital as a special financial tool to assist specific needs of rapidly developing industrial enterprises. The implementing institution of this part will be Seed Capital Company, s. r.o.

The beneficiaries of the support will be enterprises operating in the industrial manufacturing sector. The envisaged volume of funds to be provided is EUR 2.7m from PHARE funds, with co-financing from State Budget amounting to EUR 0.9m. The call for submission of applications for grants under SISME GS was published on 12 January, 2005 with the deadline of 15 March, 2005.

8. Evaluation of NADSME-implemented SOP IS measures financed from structural funds and the State Budget

8.1 NADSME as the implementing agency for Structural Funds

NADSME has been serving as the implementing agency for Structural Funds since 2004, focusing on support of small and medium enterprises through direct support and/or indirect support provided by setting up of infrastructure to secure development of business activities on the part of the public sector.

NADSME has been in charge of the implementation of two measures of the Sectoral Operational Programme Industry and Services: measure 1.1 „Development Support of New and Existing Enterprises and Services“ intended for the private sector, and measure 1.2 „Support of the Construction and Rehabilitation of Infrastructure“, reserved to applicants from the public sector. Both measures are part of priority 1 „Improved Competitiveness of the Industry and Services Taking Advantage of the Development of the Domestic Growth Potential“.

NADSME has been serving the function of the intermediating body under Management Body, the latter being Ministry of Economy of the Slovak Republic. Based on an agreement on authorisation, NADSME has been performing activities related to informing the public on opportunities to draw on funds from Structural Funds, it was taking care of calls for submission of applications for grants, of the receipt and registration of applications for grants, of the process of formal control and professional assessment, it fulfilled the responsibilities of the Secretariat for the Evaluation Commission, made grant contracts, monitored and financially controlled project implementation.

8.2 Measure 1.1 - Support of New and Existing Enterprises and Services

The objective of this measure is to attract attention of the private sector to the development of existing and new production capacities and creation of job opportunities - including managerial job positions - through investing into implementation of new technologies and facilities. This will contribute to GDP per capita growth in the sector of industry and services, to improved productivity of labour, as well as to reduction of environmental burden. The measure focuses upon horizontal approach to the development of business activities in the regions, and it will be a significant prerequisite for the overall development of Slovakia's economy, in particular in respect of companies with a growth and prosperity potential. An important outcome will be creation of job opportunities.

The investment-oriented projects include those in the industry and industrial manufacturing, crafts and services of industrial nature, in particular services connected

with the utilisation of modern information technologies and acquisition of tangible and intangible fixed assets. Projects oriented to counselling and consultation services are connected with the implementation of modern corporate governance methods, including management information systems and progressive methods of marketing, and with services provided in the marketing area and customer relations management, financial counselling (except for tax and accounting counselling), brand building and goodwill building, organisation and management of enterprises, and technological counselling.

Call for submission of projects was published on 15 June, 2004. A total of 416 applications for grants were received by the deadline (30 Sept., 2004). The applications received were evaluated by internal and external evaluators during November and December, 2004. Recommendations and conclusions of the preceding stages of the evaluation process collectively make up the starting point for the Evaluation Commission.

SOP IS measure		Call published on	Deadline for submissions	Region	Nos. of applications and projects received
1.1	Development Support of New and Existing Enterprises and Services	15 June, 2004	30 Sept., 2004	Košice	51
				Trnava	51
				Trenčín	58
				Nitra	68
				Žilina	66
				Banská Bystrica	60
				Prešov	62
				TOTAL	416

8.3 Measure 1.2 - Support of the Construction and Rehabilitation of Infrastructure

The aim of the measure is to enable the public sector to secure the development of business in industry and services, to raise employment and to improve the quality of life in the regions under Objective 1. Moreover, recovery of business activities assisted by the public sector is attempted, to provide for an equal regional development, including recovery of industrial and business premises existing in the past.

Activities are eligible in the framework of the measure concerning the establishment of incubators for starting businesses and small trade licensees, of research and development centres, technological parks which NADSME is in charge of. The setting up of industrial parks and rehabilitation of production facilities under this measure is the responsibility of the Slovak Investments and Trade Promotion Agency. The measure focuses upon also activities directed towards the utilisation and sharing of information among scientific, academic and specialised libraries, and upon the setting up of Small Trade Business Institute, including the setting up of regional networks with the existing secondary vocational establishments for apprentices and universities and colleges.

The final beneficiaries are self-governing regions, towns and villages, their associations, and budgetary and contributory organisations established by them, which take care of the development of industry and selected services. Regarding technological parks and research and development centres, also municipalities or towns associated with a university were eligible to apply for grants.

The call for submission of projects was announced on 7 April, 2004. The deadline for submission of applications for grants was set to 31 August, 2004. By this time, 17 applications for grants were received, the Evaluation Commission approved the provision of grants to 8 applicants.

The total amount of funds provided to applicants in financial assistance amounted to Sk 269,379,570, the total eligible costs per project reached Sk 283,557,450, with co-financing by the applicants at 5% (Sk 14,177,880). Of the funds, 55 % were approved to support the setting up of business incubators, and 45 % to support the setting up of research and development centres.

SOP IS measure		Call published on	Deadline for submissions	Region	Nos. of applications and projects received	Nos. of applications and projects approved
1.2	Infrastructure Construction and Rehabilitation Support	7 April, 2004	31 August, 2004	Košice	5	4
				Trnava	2	0
				Trenčín	1	1
				Nitra	1	0
				Žilina	2	1
				Banská Bystrica	5	2
				Prešov	1	0
				TOTAL	17	8

9. Support from other sources

In addition to the implementation of the SME support financed from State Budget, Pre-accession Aid, and Structural Funds, NADSME has also been involved in projects aimed at the establishment of favourable conditions for doing business for small and medium enterprises in Slovakia. In 2004, NADSME was also involved in the development of projects focusing on an improvement of the business environment and access to financing through venture capital.

9.1 PSO - the Dutch programme for cooperation with Central and Eastern European countries

Bilateral Slovak - Dutch project „Improving SME Business Environment in Slovakia“

The project whose aim was to raise administrative capacities of Slovak institutions in respect of the improvement of the business environment was financed by the Dutch Government. The main partners of the project on Slovakia's part included NADSME and MoE SR. The Dutch party was represented by the research and counselling institution ECORYS. The project was implemented within 2003 - 2004.

The project was focusing on the reaching of two major goals:

- Strengthening of NADSME activities and capacities in respect of identification, definition, collection, processing of data about SMEs and the business environment, and their analysis for the purposes of policy making to improve the business environment.
- Strengthening of MoE SR activities in the area of SME development policy making and business environment improvements based on the NADSME-gathered and analysed data.

The project was implemented in three working groups:

- Gathering, processing and statistical analysis of data about SMEs and the business environment.
- Qualitative analysis and monitoring of the business environment.
- Analysis of information for policy making to make the business environment more efficient.

A database of business entities was set up under the project in 2004, and data processing and analysis methods were programmed. The partners and the main sources of the data for this part of the project included the Statistical Office of the Slovak Republic and DataCentrum. The database for data processing and analysis was set up at NADSME.

The partners and the sources of information for the qualitative analysis of the business environment are representatives of business associations, of the academic sector and banks who set up a monitoring group. The aim was to gather relevant information on hot problems of the business environment, and to seek for possible ways out. The knowledge acquired were then processed and a „White Book“ was drawn up whose structure had been approved by the participating institutions. Seminars were organised at regular intervals to discuss the different relevant areas of the business environment, and to comment upon analyses conducted. The monitoring group is envisaged to continue its existence beyond the project.

Analyses of the status of the preparations for the utilisation of Structural Funds by industry and services, of the effects of Slovakia's EU accession, of access of SMEs to funds, and of administrative barriers to establishment of companies were developed under Working Group 3 which was focusing upon development of sources for policy making, in close cooperation with NADSME, MoE SR and the Dutch experts. These will serve as pilot studies for further systematic preparation of background analyses for the policy making in respect of the business environment.

The results obtained during the project were presented at the final international conference attended by entrepreneurs, representatives of business institutions, banks, of the academic and government sectors. At the same time, they were published in Slovak and English languages under the title „The Business Environment in Slovakia“, presenting the substantial portion of the analyses developed. The publication was also distributed to the relevant governmental agencies in Slovakia and abroad.

9.2 ESTER

Project of the 6th Framework Programme ESTER „Establishment of Seed and Venture Capital Funds for Small Eastern European Countries According to the YOZMA Model and Technological Incubators Programme“

The main partner of the project is the Pavia University, Italy. The aim is to develop, based on the experience gained by the Israeli partners, a suggestion for the establishment of venture capital funds in Central and Eastern European countries, including specifically Slovakia, Estonia, and Latvia which correspond, by their size, to the Israeli situation, where a venture capital market could be successfully established in the recent 12 years. Slovakia is represented in the project by the National Agency for Development of Small and Medium Enterprises and the Business and Innovation Centre BIC Bratislava. The project has been scheduled for the period of 2003 - 2005. The project will provide experiences from partners from the countries in which the venture capital market operates successfully, transformed to the conditions of the Central and Eastern European countries. This stage of the project served to make an inventory of the situation regarding support and financing of innovations, research and development taking account of the needs of companies, of the legislative frameworks, and of the existing tools to stimulate prospective investors.

So far, inventory has been taken of existing forms of the access of companies to capital, and the offer of financial products was compared with the actual needs of the companies and the degree of their potential satisfaction. The target group for venture capital are companies with a rapid growth potential. This group mainly includes companies with a significant innovation activity and a high share of utilisation of most recent scientific and technological knowledge. This was the area which the previous studies conducted by NADSME were focusing upon: they included statistical surveys to ascertain the proportions of companies with satisfactory innovation activities and their options of accessing financial and capital resources. BIC Bratislava mapped activities and plans of commercial financial institutions in this regard. Based on the information gathered and analyses conducted, a draft system of the functioning of venture capital funds was prepared, and areas of its activities were identified.

10. Conclusion

The presented document of the status of small and medium enterprises provides a comprehensive picture of the development, forms or support of this sector, as well as of the development of the business environment in 2004, including the prevailing problems and suggestions for their addressing.

Seen from the aspect of changes in uencing the business environment, the year 2004 was more significant than the preceding years. In addition to a marked progress in structural reforms, the EU accession of 1 May, 2004 witnessed Slovakia's integration process of several years to peak. Although adoption of amendments in the legislative and regulatory framework connected with the enlargement was spread over several years, it was the majority of the legislation which had to be adopted specifically in connection with our EU accession.

The most significant factors impacting upon the business environment in 2004 included the implementation of the new system of taxation; making administrative procedures upon start-up of doing business more efficient; the change of the previous system of social security to turn it to a three-pillar system of social insurance; decentralisation of public service, and adoption of legislation to make the bankruptcy process more exible. Along with the reform measures taken during the preceding years, these changes will shape the business environment in advance for a long period of time. Their consequent application and elimination of the remaining problems faced by the business environment may provide for a long-term competitive edge of Slovakia's economy, and for a stronger economic growth and employment.

A positive trend was noticed last year regarding the major parameters monitored, such as employment, gross domestic product, and added value volume. Also, there was a more pronounced increase in the numbers of small and medium enterprises - both natural persons and legal entities. The shares of the large enterprises on employment continued to decrease in 2004, and the shares of the small enterprises and small trade licensees continued to increase. The growth has been evident in particular in small companies, and this gradually moves us closer to the SMEs structure prevailing in the EU. On the other hand, the contribution by SMEs to added value dropped year-on-year, despite the growing shares of SMEs on gross production, due to the higher dynamics of added value generated by large enterprises.

In spite of these positive trends in the development of small and medium enterprises in 2004, relatively numerous problems persist which in uence business activities. They mainly include the significant burden posed by contributions to funds; poor law enforcement; administrative demands on doing business; prevailing price regulation; corruption. Numerous problems for SMEs also arise from the lacking comprehensive concept of the support of SME development in the medium range, which would guide further development in this respect.

Adequate extent of the involvement of representatives of SMEs in the early stages of the drafting of legislative measures also represents an important aspect of the improvement of the business environment. This has been one of the reasons for the cri-

ticised fact that legislative standards are changed much too often, which is sensitively perceived by mainly those small enterprises which do not have apparatus available to monitor all changes. In the interest of the drafting of a good quality legislation, mandatory and qualified impact analyses upon the business sector should be introduced as an obligatory part of the draft legislation.

Based on the level of the business environment achieved, the report also presents a set of suggestions for further improvements of the business environment the implementation of which could make a contribution to a more dynamic development of SMEs in Slovakia.

Annexes 1

Chart no. 1

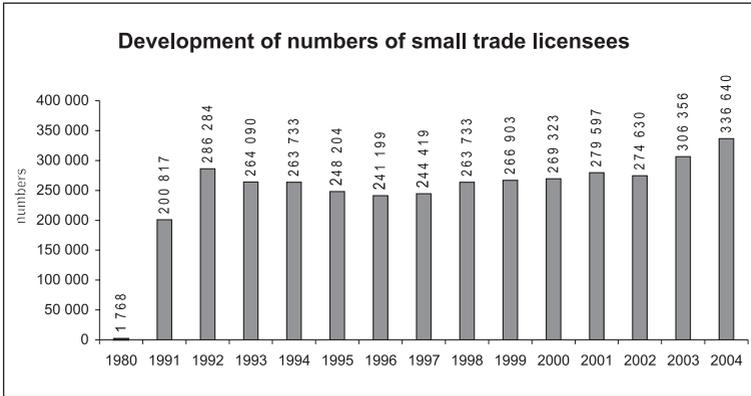


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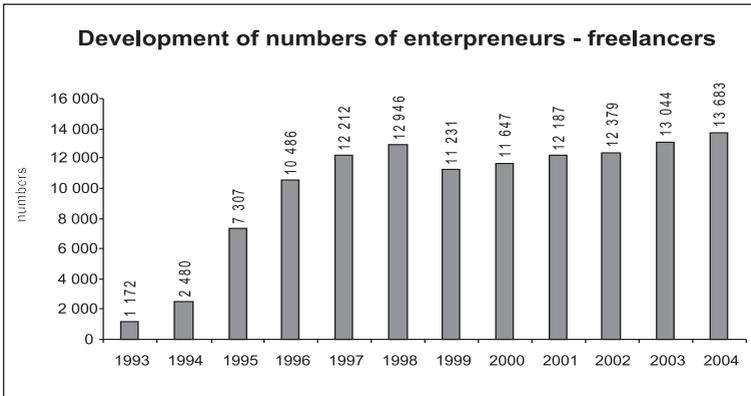


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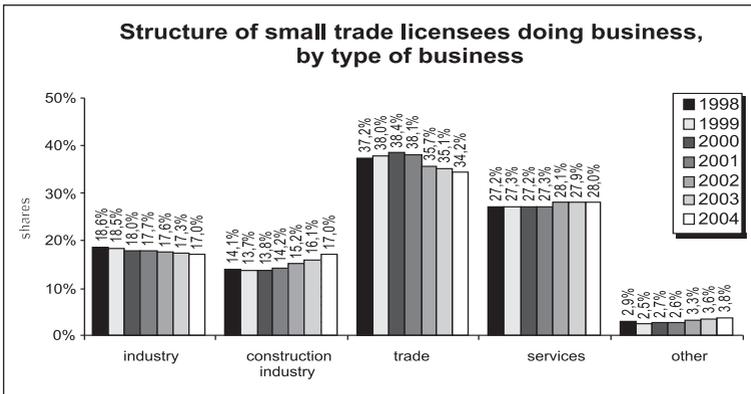


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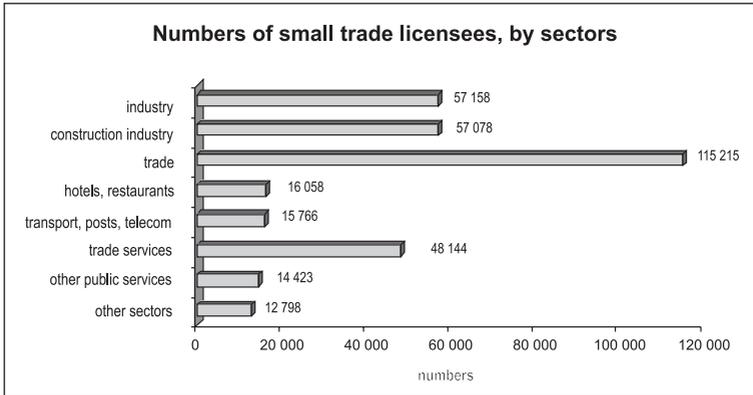


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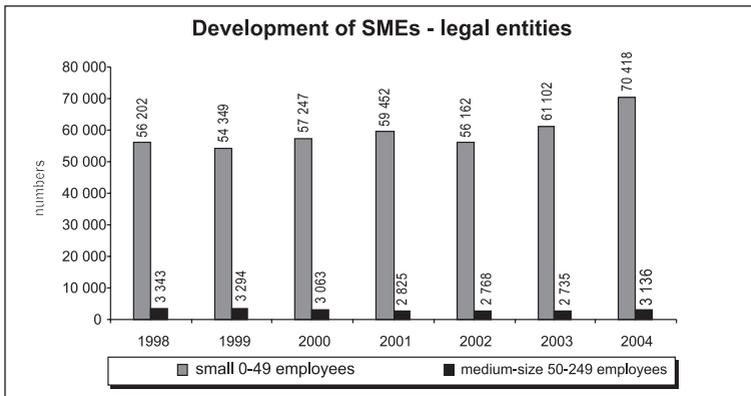


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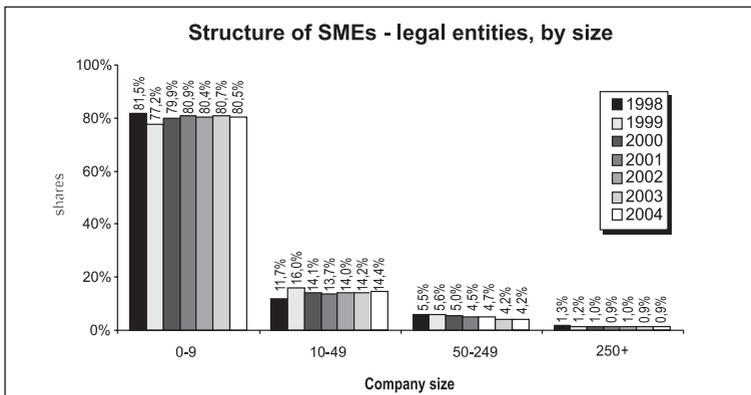


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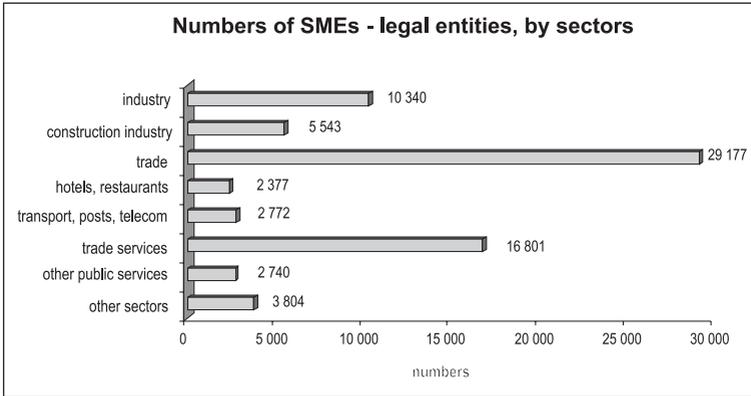


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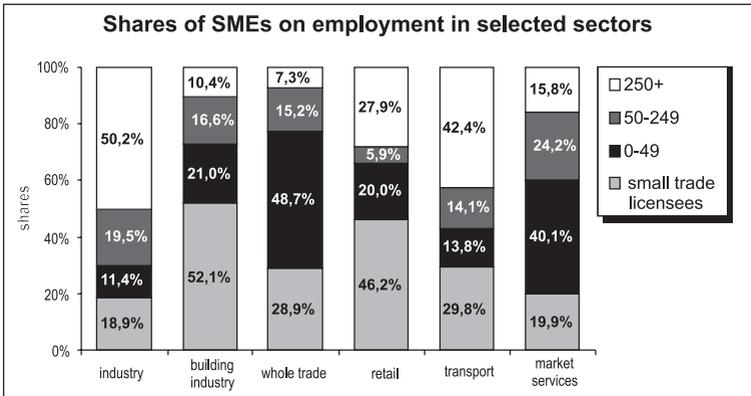


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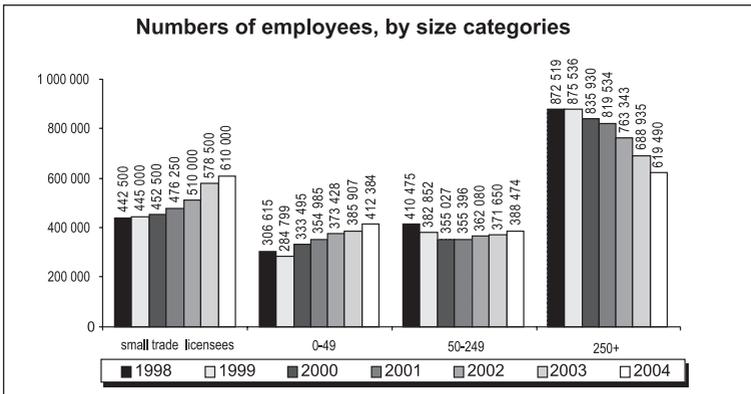


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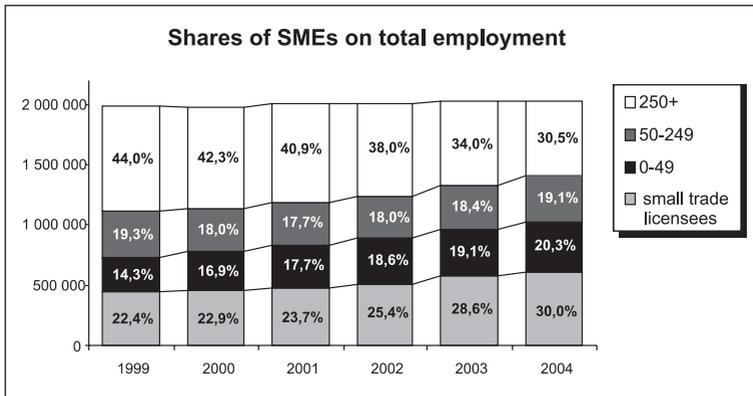


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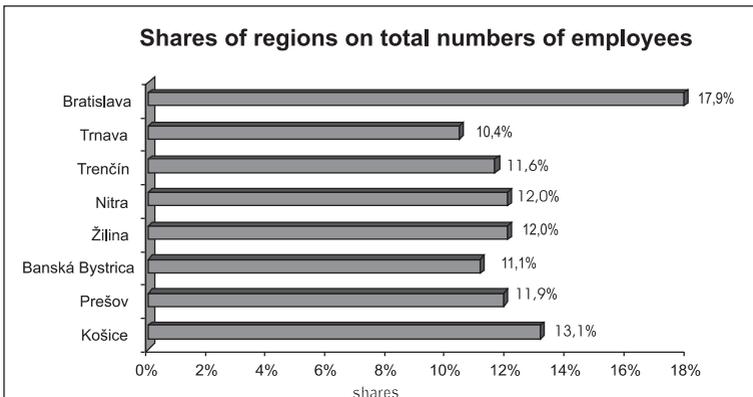


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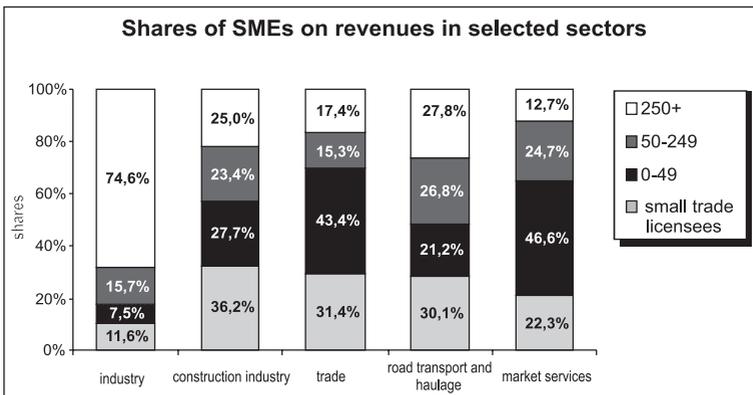


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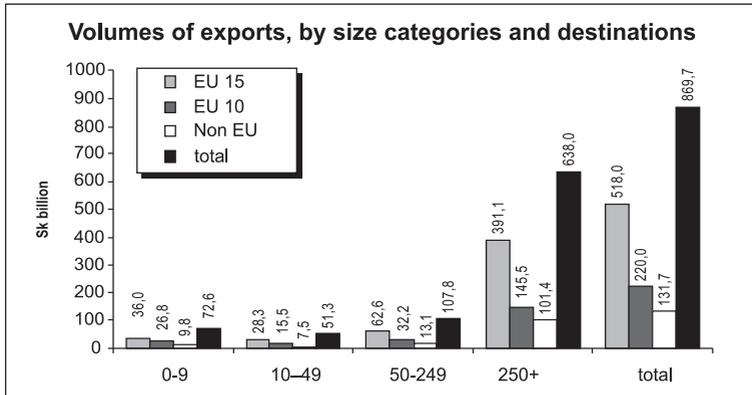


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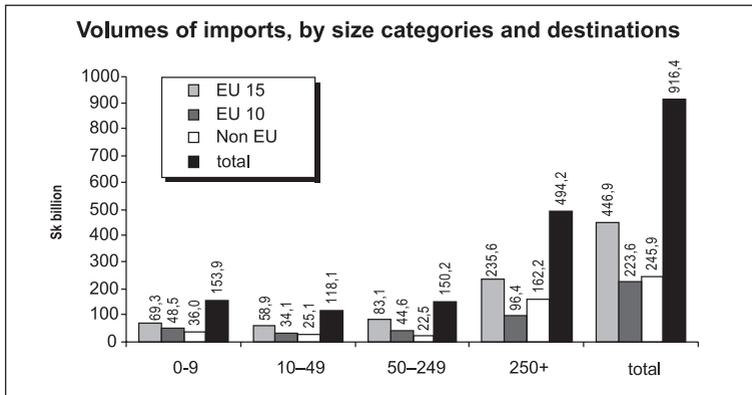


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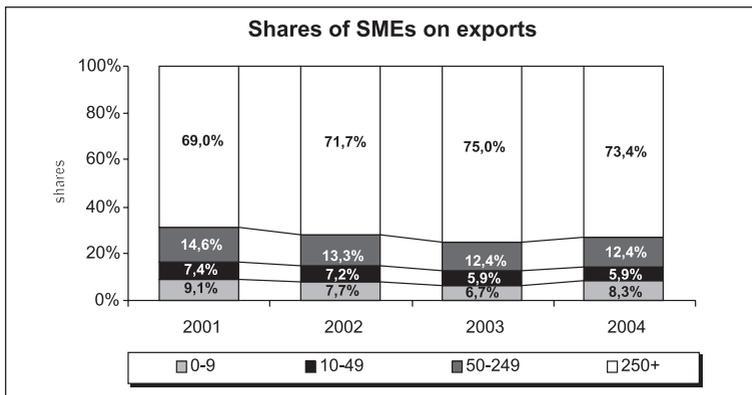


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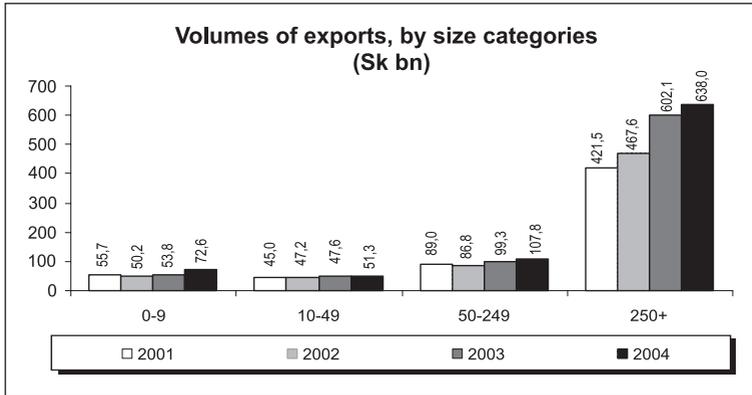


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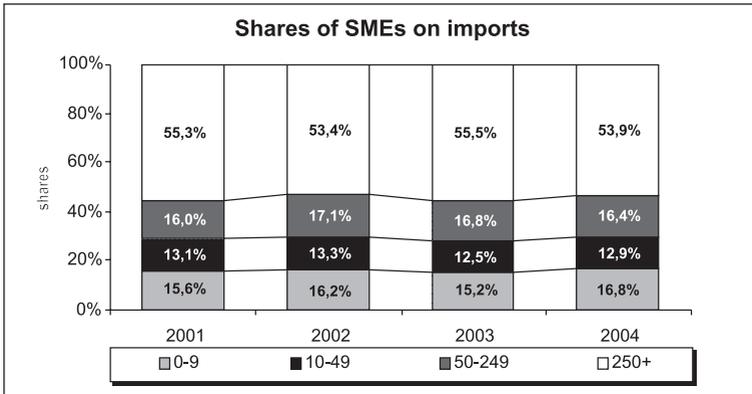


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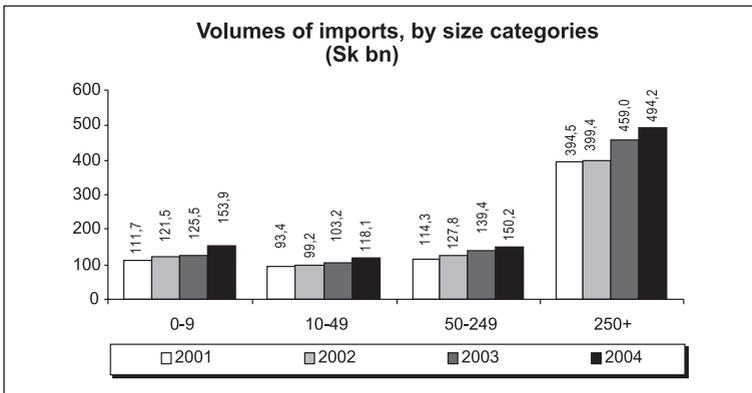


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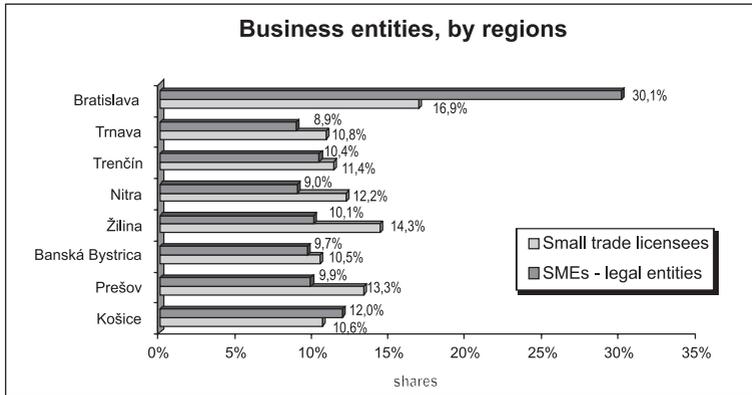


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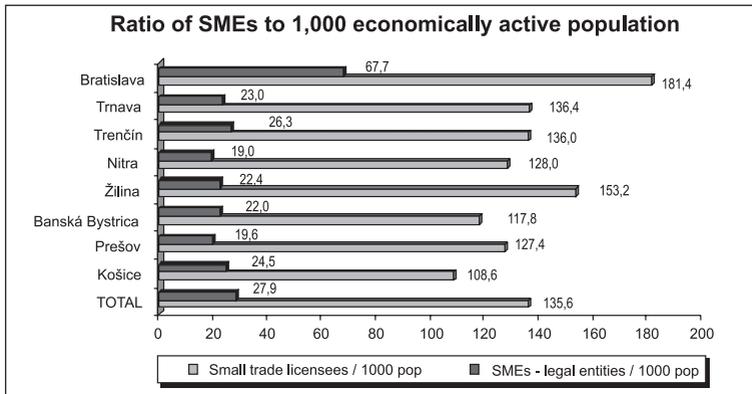


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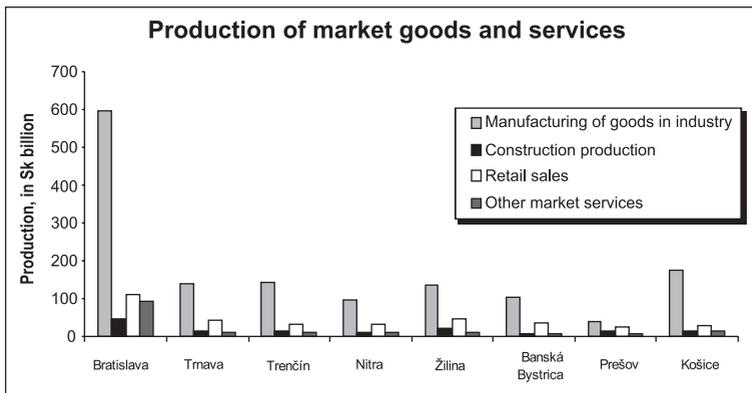


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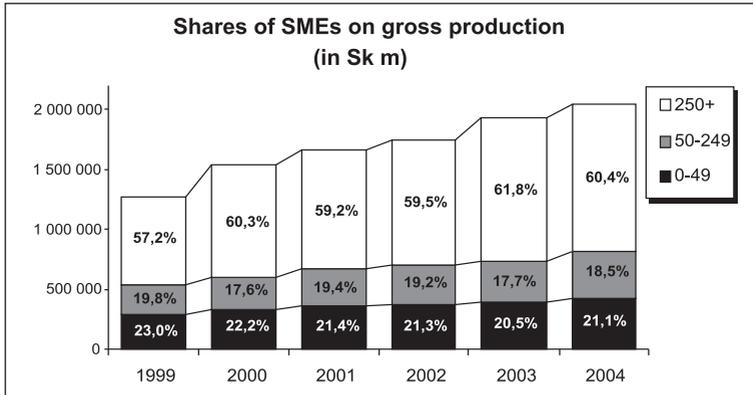


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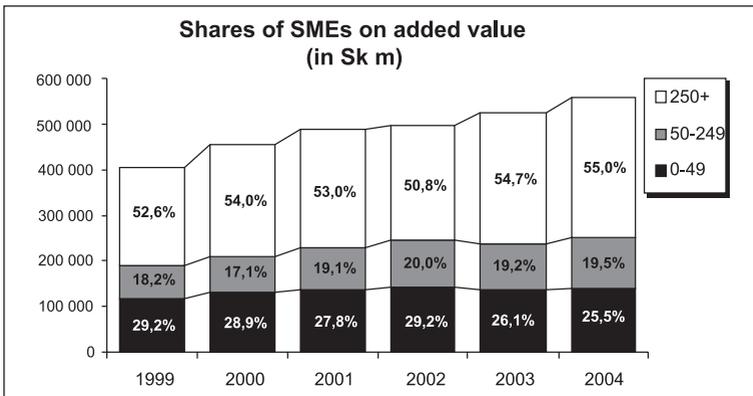


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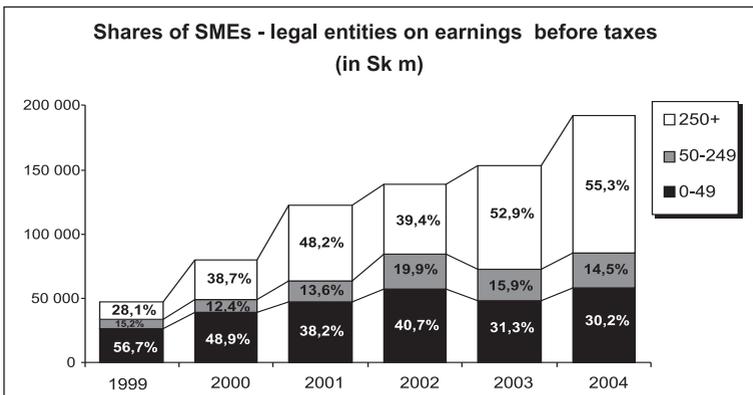


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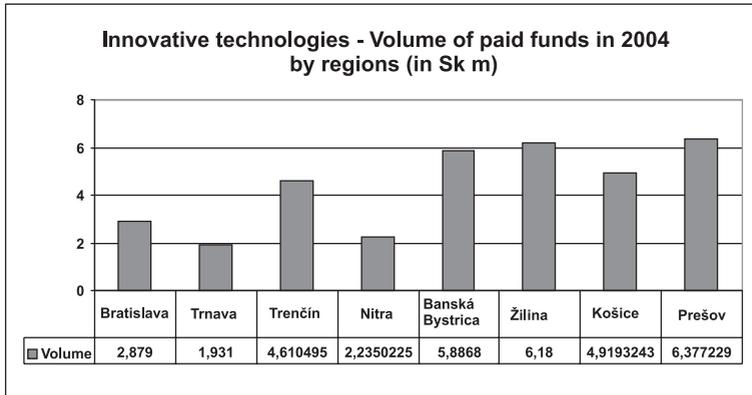


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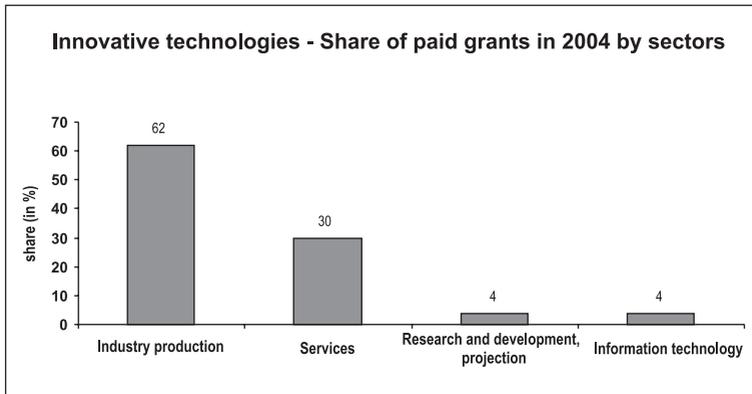


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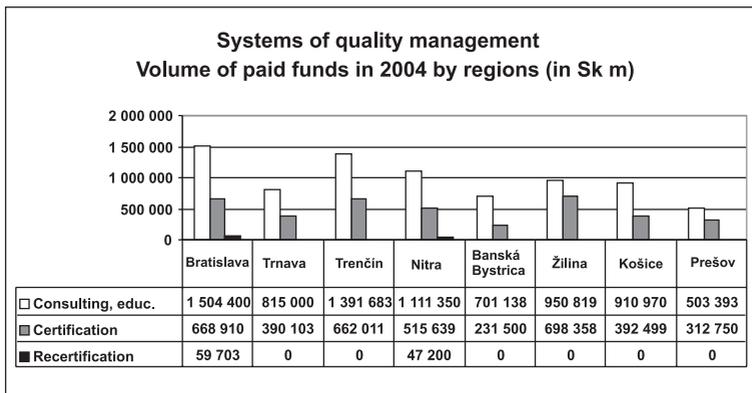


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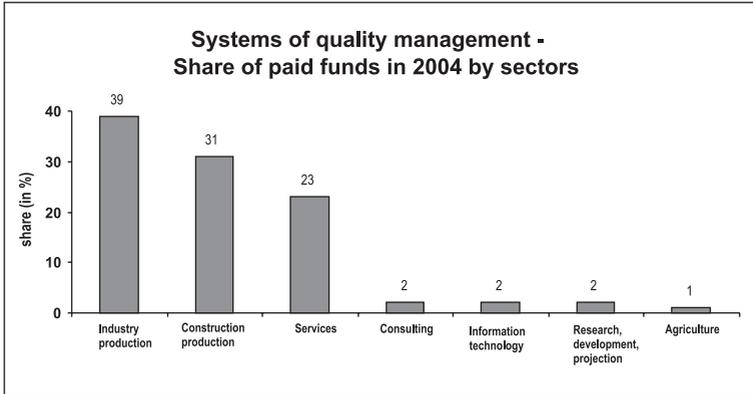


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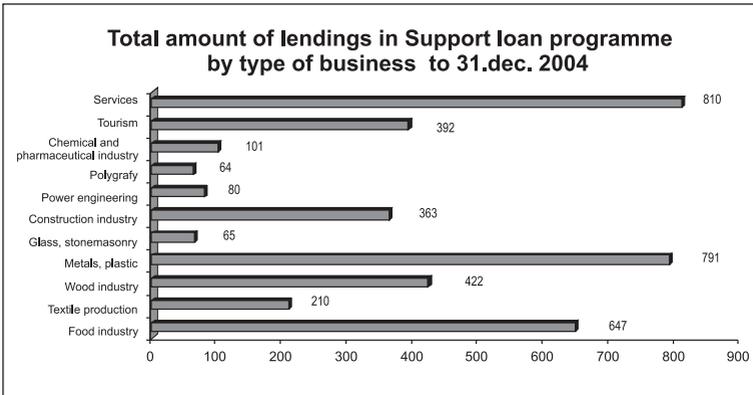


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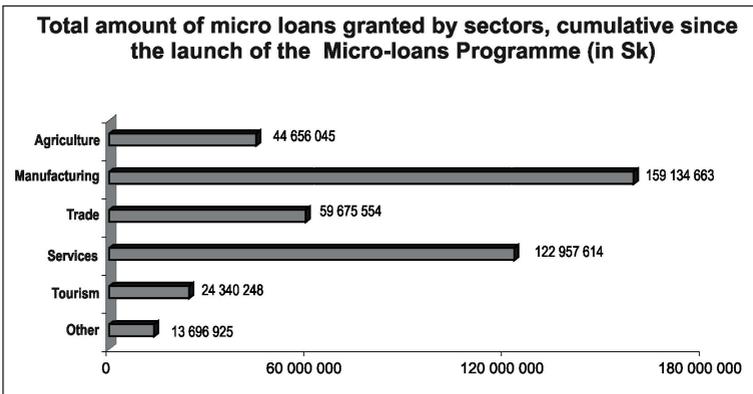


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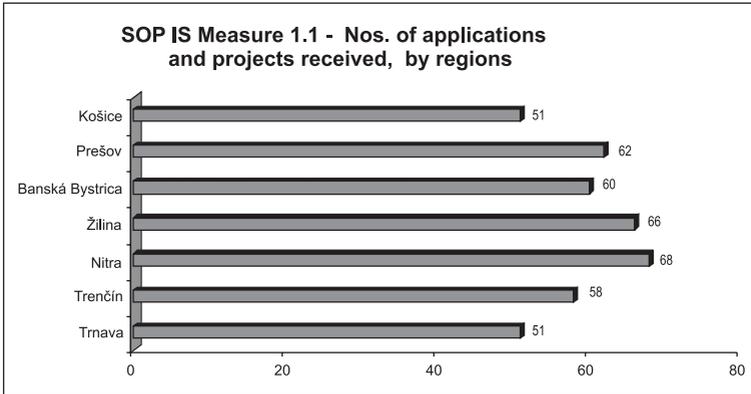
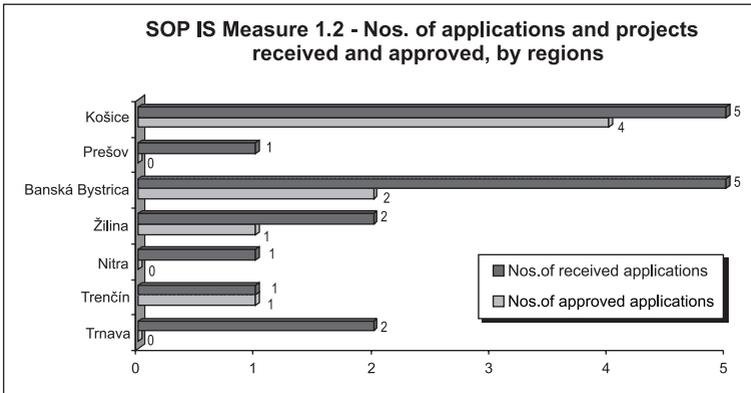


Chart no. 32



Annexes 2

Table No. 1
Data on average headcounts per project approved under SOP P-RV in 2004

Measure	Total numbers of projects approved under the measure in question	Total approved contribution from SOP P-RV, in Sk ,000	Average headcounts as of 31 Dec.								
			1-10			11-50			51-250		
			p.p.	p.ž.	contribution	p.p.	p.ž.	contribution	p.p.	p.ž.	contribution
1.1	697	3 219 469	252	245	658 363	207	183	1 017 484	207	181	1 400 162
1.2	141	1 535 073	11	10	40 185	46	39	295 705	63	45	803 945
Total	838	4 754 542	263	255	698 548	253	222	1 313 189	270	226	2 204 107

Table No. 2
Data on average headcounts per project approved under SOP P-RV in 2004

Measure	Total numbers of projects approved under the measure in question	Total approved contribution from SOP P-RV, in Sk ,000	Average headcounts as of the application date								
			1-10			11-50			51-250		
			p.p.	p.ž.	contribution	p.p.	p.ž.	contribution	p.p.	p.ž.	contribution
1.1	697	3 219 469	256	246	662 039	210	186	1 042 516	207	181	1 402 730
1.2	141	1 535 073	8	8	31 386	49	41	304 504	63	45	803 945
Total	838	4 754 542	264	254	693 425	256	227	1 347 020	270	226	2 206 675

Legend:

The data on average headcounts was taken from NFP applications

1.1 - Investments into agricultural holdings

1.2 - Improved processing and marketability of agricultural products

p.p. - projects approved

p.ž. - numbers of applicants (KP/PP) who had project(s) approved

contribution - approved contribution from SOP P-RV, in Sk ,000

Table No. 3
Average headcounts per projects approved
under the SAPARD programme in 2004

Measure	Projects approved, in total	Total contribution from SAPARD approved	Average headcounts as of 31 Dec.2004 (application date)			
			1-25	25-50	51-250	51-250
			p-p	p-p	p-p	p-p
1*	295	1 228 924	64	31	150	18
2	42	324 691	6	4	14	18
3	6	29 760	not monitored			
4a	6	39 833	5	0	1	0
4b	14	28 126	not monitored			
5	17	21 455	13	3	1	0
6	10	54 408	not monitored			
7	41	170 291	not monitored			
8	4	4 975	not monitored			
9	18	20 583	not monitored			
Total	453	1 923 046	88	38	166	36

Legend:

Data on average headcounts was taken from NFP applications

Schedule of measures:

Measure 1 - Investments into agricultural holdings

Measure 2 - Improved processing and marketability of agricultural products

Measure 3 - Establishment of producer organisations

Measure 4a - Diversification activities in rural areas

Measure 4b - Non-diversification activities in rural areas

Measure 5 - Forestry

Measure 6 - Agricultural procedures heading towards environmental and landscape protection

Measure 7 - Land consolidation

Measure 8 - Human resources development

Measure 9 - Technical assistance

Table No. 4**Overview of guarantees provided under the guarantee programmes implemented by SZRB, by regions**

Region	Guarantees provided - cumulatively (in Sk ,000)		Guarantees provided - in 2004(in Sk ,000)	
	number	amount	number	amount
Bratislavský	378	1 691 668	25	89 209
Trnavský	538	2 129 996	37	374 296
Trenčiansky	255	868 262	15	63 115
Nitriansky	866	2 594 499	85	282 431
Žilinský	245	1 091 248	61	314 197
Banskobystrický	494	1 494 086	112	205 992
Prešovský	508	1 452 570	37	140 995
Košický	334	1 130 106	40	86 442
Total	3 618	12 452 436	412	1 556 676

Table No. 5**Overview of guarantees provided under the guarantee programmes implemented by SZRB, by sectors**

Sector	Guarantees provided - cumulatively (in Sk ,000)		Guarantees provided - in 2004(in Sk ,000)	
	number	amount	number	amount
manufacturing	371	3 302 154	34	264 842
trade	262	1 330 233	63	146 835
services	387	875 846	219	301 534
tourism	92	459 079	13	63 253
agriculture	2 371	5 157 796	31	132 191
other	135	1 327 330	52	648 022
Total	3 618	12 452 436	412	1 556 676

Table No. 6**Overview of loans extended through SZRB, by regions**

Region	Loans accepted - cumulatively(in Sk ,000)		Loans accepted in 2004(in Sk ,000)	
	number	amount	number	amount
Bratislava	146	1 655 366	37	588 970
Trnava	154	963 527	73	445 752
Trenčín	149	717 599	66	227 613
Nitra	186	1 050 643	85	477 424
Žilina	169	822 887	70	327 088
Banská Bystrica	302	1 433 693	128	504 085
Prešov	184	986 864	65	277 226
Košice	184	838 984	81	360 462
Total	1 474	8 469 563	605	3 208 619

Table No.7
Overview of loans extended through SZRB, by sectors

Sector	Loans accepted - cumulatively (in Sk ,000)		Loans accepted in 2004(in Sk ,000)	
	number	amount	number	amount
manufacturing	375	2 787 320	72	696 370
trade	197	1 198 704	38	358 113
services	108	655 953	45	322 793
tourism	180	720 468	40	240 426
agriculture	467	1 376 868	376	991 020
other	147	1 730 250	34	599 898
Total	1 474	8 469 563	605	3 208 619

Table No. 8
Overview of contributions paid by SZRB, by regions

Region	Funds committed - cumulatively (in Sk ,000)		Funds committed in 2004 (in Sk ,000)	
	number	amount	number	amount
Bratislava	163	162 867	8	16 382
Trnava	149	123 537	7	7 934
Trenčín	103	104 600	4	6 756
Nitra	202	195 814	6	2 143
Žilina	242	223 057	13	16 942
Banská Bystrica	252	274 085	8	20 001
Prešov	248	209 378	17	24 780
Košice	159	187 469	2	5 215
Total	1 518	1 480 807	65	100 152

Table No. 9
Overview of contributions paid by SZRB, by sectors

Sector	Funds committed - cumulatively (in Sk ,000)		Funds committed in 2004 (in Sk ,000)	
	number	amount	number	amount
manufacturing	174	377 508	12	30 387
trade	21	17 481	0	0
services	25	14 008	0	0
tourism	768	619 930	26	43 730
agriculture	378	251 827	14	6 367
other	152	200 052	13	19 668
Total	1 518	1 480 807	65	100 153

Table No. 10
Export promotion in the SMEs sector as of 31 Dec. 2004

By sectors		
light industry	9 903 000	1,0%
electrical engineering industry	138 629 400	13,4%
woodworking industry	59 831 939	5,8%
other industries	470 455 780	45,4%
metallurgical industry		0,0%
chemical industry	100 000 000	9,7%
food industry	27 700 000	2,7%
building industry	7 089 052	0,7%
mechanical industry	222 624 755	21,5%
Total	1 036 233 926	100%
By destinations		
European Union	651 073 226	62,8%
CEFTA	98 866 330	9,5%
Formes CIS countries	234 184 564	22,6%
South-East Asia	604 733	0,1%
Other	17 497 073	1,7%
Near and Middle East	34 008 000	3,3%
Total	1 036 233 926	100,0%
SITC		
chemicals		0,0%
beverages and tobacco		0,0%
oils and fats	13 333 333	1,3%
other	30 000 000	2,9%
food	72 422 222	7,0%
manufactured goods	89 798 451	8,7%
machines and equipment	198 866 312	19,2%
market goods	631 813 608	61,0%
Total	1 036 233 926	100,0%



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