

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

2005

This booklet was published by:

National Agency for Development of Small and Medium Enterprises



EIC Bratislava



NADSME, Bratislava, 2006

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The language of this text has not been corrected.

ISBN 80-88957-43-5

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1. Introduction

Small and medium-sized enterprises comprise a significant part of the Slovak economy. As in other countries, they are a stabilizing force in the economic system and the sector with the greatest potential for growth. At the same time however, owners of small and medium-sized enterprises are to an increased extent sensitive to the quality of the business environment. Therefore, the overriding task of the Government should be to systematically improve the environment for doing business, which would be subsequently reflected in improved competitiveness in both the domestic and European market.

When 2005 is assessed, continued growth in the SME sector, gradual improvement in SME indicators and partial improvement in the business environment can be seen. The experience of our enterprises operating within the European Single Market demonstrates that a further increase in competitiveness and expanded utilization of advantages within the Single Market are a necessary prerequisite for successful integration into the European economic system.

In spite of the positive trend in recent years, certain negatives still persist in the evolution of the business environment. Enterprises have unfavorably perceived, in particular, complicated and often-changing laws and administrative burdens when doing business, high employer's contributions to funds, weak law enforcement and a level of controlled pricing and corruption. It should also be mentioned that support for small and medium-sized enterprises has not been sufficient when compared with the assistance the Government has been expending to acquire foreign investors.

This report is one of the steps being taken that should contribute to optimizing the environment for small and medium-sized enterprises development in the Slovak Republic. Its purpose is to assess what has been achieved and suggest measures for both maintaining positive trends and, in general, enhancing the business environment.

The first parts of the report being submitted contain a brief assessment of the business environment, an analysis of the state and development of small and medium-sized enterprises within a time horizon of a year and a recommendation for accelerating their development in the subsequent year. An evaluation of individual vehicles for supporting small and medium-sized enterprises, according to the source of funds, is addressed in further sections.

An assessment of the state, development and support of small and medium-sized enterprises in the past year, which was submitted to the Government of the Slovak Republic by the Economy Ministry of the Slovak Republic in their Report on the State of the Business Environment in the Slovak Republic for 2005, is incorporated in Government of the Slovak Republic Resolution No. 792 of 17 July 2002. Comprehensive material on the state of small and medium-sized enterprises and their support in the Slovak Republic in 2005 will be published and also used as a database to inform institutions within the European Union, OECD, EC and UN and when conceiving comparative analyses and various studies. In accordance with methodological use within the EU, the report does not cover enterprises in the basic agricultural, forestry and fishery sectors.

2. Development of the Business Environment to the Benefit of SME Development in 2005

Small and medium-sized enterprises play a significant and essential role in all countries with a market economy. They also have extraordinary significance in the development of the Slovak economy, for creating new jobs and in regional development. However, small and medium-sized enterprises are to an increased extent sensitive to the quality of the business environment. The Government's task is to continue improving the business environment and thereby generating the conditions for increasing their competitiveness in the domestic and international markets.

Year 2005 was the first full year of our EU membership. With accession only a short time ago, it can be said that some pessimistic scenarios predicting growing problems as a result of enterprises being insignificantly prepared for operating within the conditions of the European Single Market have not come to pass. On the other hand, increased competition within the domestic market is perceivable in many sectors. An adequate response has to be increased competitiveness in the European market and utilization of all advantages the Single Market provides to our small and medium-sized enterprises. Our competitive SME sector is an essential prerequisite for full integration of the Slovak economy into the European Economic Area.

A relatively new phenomenon, which has begun to manifest itself in conditions within the Slovak Republic, is the lack of a qualified work force in some sectors, especially in areas where large foreign investors have a distinct influence, such as the engineering industry or automotive sector, or in areas with above-average high growth, such as the construction industry. This trend is causing wages and salaries to increase in professions with a shortage of trained people, which has a negative impact on competitiveness, especially for small and medium-sized enterprises, in light of their lower work productivity. It can be shown that unless the educational system can effectively prepare young people for careers and provide lifelong education in the real needs of business, there will already be in the near future severe structural problems.

In February 2005, the Government of the Slovak Republic adopted the Competitiveness Strategy of the Slovak Republic to 2010. The main strategic objective is for Slovakia to attain as quickly as possible the standard of living enjoyed by the most advanced countries in the EU, while achieving this goal can only be reached by means of rapid and long-term economic growth. In a market economy, a country may only be able to sustain such growth to the extent that it will generate the suitable conditions for the country's economic competitiveness to grow. In the part that is developing, there should be four areas targeted that, from this perspective, are considered to be the most important. All four areas comprise a single unit, with each of them being equally important: 1. An Information Society; 2. Knowledge, Research and Innovations; 3. Business Environment; and 4. Education and Employment

Tying in with the accepted strategy, four action plans were prepared that cover all the above areas. To further enhance the business environment, a key point is whether and how soon the individual points in the approved action plans can be successfully implemented. The other three action plans also have a very close connection with the business environment. Their implementation should lead to more effective interaction between the business sector and the Government by means of the Government's electronic services and to increasing business competitiveness by means of improving the conditions for innovating and improving the availability of qualified human resources.

In the past years, the business environment has been improving in many areas that affect businesses, for example, setting-up a company, improved labour market legislation and more efficient bankruptcy and restructuring process. At the end of 2005, the Government approved transparent rules for providing state subsidies in the form of so-called investment incentives. However, the need still persists for deep systematic changes in legislation to create a business environment where regard also has to be given to the opinions and suggestions of the business community and relevant institutions. The base for such a systematic approach might be a review of obstacles in doing business, which is a fundamental point of the Business Environment action plan.

Surveys among business owners, as well as from findings made by organized entrepreneur associations show that the greatest problem for businesses is changes being made too often in laws. This often relates to the poor quality of regulations. New legislation is approved without anyone considering its impact on the business environment, which nonetheless brings problems to businesses when the legislation is applied and subsequently leads to it being amended. Frequent amending of regulations places greater demands on businesses, makes understanding current legislation worse, increases the expense for making adjustments to new rules and may give rise to unknowing noncompliance.

Another serious problem is the high administrative burden related to operating a business. Even though no precise figures exist, the administrative burdens for business owners have continually been increasing in recent years. For example, Act No. 395/2002 Coll. on Archives and Registries supplementing other acts, as amended by Act 515/2003 Coll., stipulates rules for filing by the creator of a registry. Act No. 580/2004 Coll. on Health Insurance amending and supplementing Act No. 95/2002 Coll. on the Insurance System and other acts establishes annual settlement of insurance premiums. An amendment to Act No. 428/2002 Coll. on Protecting Personal Data, as amended (by Act 90/2005 Coll.), institutes new administrative duties for employers.

The complexity of legislation, frequent changes in laws and a high administrative burden have, to an increasing extent, a negative impact on small businesses and also are de-motivating for any person interested in going into business.

Weaknesses in the area of effective enforcement of law remain persistent. Lengthy resolution of disputes, which have not significantly improved since several measures (introducing court management, regulating the assignment of high court officials) were put in place, have caused problems for businesses. Slow collection of receivables through the court will in the long term tie up resources, reduces the chance for the creditor to really recover any entitled receivables and may give rise to secondary insolvency. Alternative resolution of disputes, where in past years legislative conditions have been established (e.g. the Act on Mediation), have almost never been utilized. A positive is new bankruptcy legislation that strengthens the creditor's position and should, in practice, lead to improving creditor satisfaction and an acceleration of bankruptcy proceedings.

In terms of the financial burden on businesses, the most lurking problem is the high level of employee payroll deductions and required employer contributions. As was also mentioned in the analysis of employment costs prepared by the Ministry of Finance of the Slovak Republic, the cost of employing workers negatively affects overall labour costs, in particular for low-earning groups or employees with low qualification. The area of payroll deductions and contributions that employers and employees have to make for health and social insurance is also distinguished by high administrative demands made to employers. These problems urgently need to be solved, since to a considerable extent they reduce the ability of SMEs to create new jobs.

An assessment positively has to be made on drafting the creation of a Business Environment Council, which would act as an expert advisory body for the Ministry of Economy of the Slovak Republic in the area of creating and enhancing the business environment in the Slovak Republic and for other roles in business policy. This would generate a platform for regular and permanent dialogue between the Government and business and strengthen the possibility of representatives from small and medium-sized enterprise associations to actively participate in improving conditions for doing business. Business organizations have been demanding for some time the revival of the Government Council for Small and Medium-Sized Enterprises, which served in 1999-2001 as an advisory body to the Government. Establishing a Business Environment Council will increase the influence of small and medium-sized enterprises in reforming the general conditions for doing business within the mandate of the Ministry of Economy of the Slovak Republic. However, effective problem-solving in the business environment requires an expanded and coordinated approach, and therefore the Committee should in the future obtain a status between or above government departments.

After having made significant changes in the legislative environment during 2004, characterized in particular by the institution of a new tax system, accelerated and simplified registration of businesses, reforms in exercising an active labour market policy and the draft of substantial changes in the social and health insurance systems,

the Government and Parliament of the Slovak Republic continued in 2005 to take measures connected with the preceding reform steps.

In addition to other significant changes in the tax system and the social and health insurance systems, the most substantial reform, from the point of view of the impact on the business environment, has been the new Act on Bankruptcy and Restructuring, which should allow businesses to exit from activities effectively, shortening and making bankruptcy proceedings transparent and enhancing recoveries, the Act on Illegal Labour and Illegal Employment, changes in construction law and preparation of a new act on public procurement. The following section addresses legislative changes in details that directly affect the business environment.

Several sections of the tax system have been extensively amended. In some cases, these amendments concerned subsequent steps in accordance with the conception of tax reform begun in 2004 and in other cases changes deriving from the need for applied practice. Since 1 January 2004, Act No. 595/2003 on Income Tax, as amended, has been in effect, putting in place a uniform process for levying personal and corporate income tax. Due to its simple application, an option was retained in this law for income taxpayers who are sole proprietors earning income from an undertaking, other self-employed gainful activities and leases (Sec. 6) to deduct 25% or 60% of their income. Provisions of the act regulating the percentage that can be deducted have since been several times amended.

Amendment to Act No. 595/2003 Coll. on Income Tax, as amended, published as No. 659/2004 Coll., effective from 1 January 2005 gave the option not only to taxable persons who are not VAT payers, but also to VAT payers for part of the tax period, to be able to deduct a percentage of their income for tax purposes. This also applies to those taxpayers who become VAT payers during the course of the year.

At the same time, the amendment set out new deductions from taxable income, i.e. non-taxable income, which are contributions paid to a supplementary retirement account or, in the separate case of a special purpose account, paid to a bank or insurance company whose registered office is within the territory of the Slovak Republic.

Another amendment to income tax legislation is **Act No. 534/2005 Coll., amending and supplementing Act No. 595/2003 on Income Tax, as amended, and other acts**, which the Slovak Parliament passed on 28 October 2005 with effect from 1 January 2006. It raised the standard deduction a sole proprietor may apply on income from an undertaking, other self-employed gainful activities and leases to 40%, while also preserving the tax allowance for craft trades, which are set out in Annex No. 1 of the Trade License Act. This increase in the standard deduction may considerably simplify administration (the tax deduction actually incurred is not substantiated).

Act No. 651/2004 Coll., amending and supplementing Act No. 222/2004 Coll. on Value Added Tax and amending Act No. 350/2004 Coll., effective from 1 January 2005, shortens the period when the tax authorities are obliged to register a taxable person for tax, issue that person a registration certificate and assign him or her

a tax identification number from 30 days to seven days of the date when an application to register for tax is delivered.

During the course of 2005 (on 27 October 2005), the Slovak Parliament passed a further, fourth in line amendment to Act No. 222/2004 Coll. on Value Added Tax, as amended, published as No. 523/2005 Coll., which from 1 January 2006 returned the above period back to the original 30 days, due to a review of the fact whether an applicant for tax registration is actually a taxable person. Voluntary tax registration for members of an association was also affected by the changes.

Since 1 January 2005, when Act No. 582/2004 Coll. on Local Taxes and Fees for Community and Low-level Construction Waste entered into effect, there have been extensive changes in the tax area. Local fees, except for municipal waste fees, have since January 2005 been either repealed or become local taxes, of which there are eight altogether. The number of taxes levied has indeed been reduced, but whether the final result is a rise or fall in the tax burden for business owners depends on the local government.

The Slovak Parliament on 25 October 2005 passed Act No. 517/2005 Coll., amending and supplementing Act No. 582/2004 Coll. on Local Taxes and Fees for Community and Low-level Construction Waste, as amended. Hence since 1 December 2005 there have been regulatory mechanisms stipulated to establish property tax rates, and thus restrain the full freedom of cities and municipalities to determine this tax. Thus, local government can no longer raise the tax rate for land higher than twenty times the lowest set rate and the tax rate for buildings no higher than fourty times. At the same time, the Act extends the deadline for paying property tax to 31 May. (Before the Act entered effect, it had been 31 March).

In the concept of 2004-2006 tax reform, approved by the Government of the Slovak Republic, repeal of inheritance tax, gift tax and real estate transfer tax was proposed, where the reduced income into the Slovak Republic's government budget would be compensated by other taxes. Growth in receipts flowing into the government budget in the second half of 2003 indicated that the real estate transfer tax would have to be retained. Based on this, a new proposal for real estate transfer tax was prepared.

A new Act, **No. 554/2003 Coll. on Real Estate Transfer Tax, amending and supplementing Act No. 36/1967 Coll. on Experts and Interpreters, as amended by Act No. 238/2000 Coll.**, repealed on 1 January 2004 inheritance and gift tax and, at the same time, instituted a single, flat 3% tax rate for real estate transfers, valid for both sole proprietors and legal entities, thereby simplifying such taxation.

In this case, Act No. 554/2003 Coll. only applied to tax that was charged until the end of 2004, and on 1 January 2005 this Act completely repealed real estate transfer tax, reducing the number of taxes and the tax burden.

Act No. 679/2004 Coll., amending and supplementing Act No. 511/1992 Coll. on Tax and Fee Administration and changes in the system of territorial financial

organizations, as amended, and amending and supplementing other acts has allowed taxpayers since January 2005 to file their tax returns through the internet even without a guaranteed electronic signature. To do this, the taxpayer has to register at the Slovak Republic Tax Administration's website, using an assigned identification number that was issued by the tax authorities at the taxpayer's permanent address and concluded with the authorities by agreement. Subsequently, it is no longer necessary to have the transmitted documents also submitted in paper form.

The tax and customs administration can also now make public a list of persons registered as VAT and excise tax payers. A business has the possibility to examine its commercial partner's registration over the internet without a long administrative process.

Since 1 January 2005, there have been significant changes made in old age retirement insurance. Act No. 43/2004 Coll. on Old Age Retirement Accounts amending and supplementing other acts, as amended, instituted retirement savings in a saver's personal account. In the words of the Act, persons with old age retirement accounts and their employers are required to contribute, as well as self-employed persons, who in the period before 1 January 2005 had had no retirement insurance under the Act on Social Insurance. The Act transformed how payroll deductions and employer contributions to insurance are made, depending on whether the insured has an old age retirement account and not on the institutions where the insured send their insurance contributions.

On 1 January 2005, Act No. 721/2004 Coll. amending and supplementing Act No. 461/2003 Coll. on Social Insurance and other acts, as amended, entered effect, under which an employer is required to submit to a branch office of the Social Insurance Company a report on premiums for hospitalization, old age insurance and old age retirement accounts, disability insurance, casualty insurance, surety insurance, unemployment insurance and the solidarity general reserve it paid in the relevant month for insurance and contributed into old age retirement accounts not only in printed forms, but also in another form whose contents and means of forwarding are defined by the Social Insurance Company.

Even though several amendments have been made to the Act on Social Insurance since it entered effect on 1 January 2004, other requirements have emerged from practical application that made the adoption of such amendments essential. Sec. 131 par. 3 of Act No. 721/2004 Coll. amending and supplementing **Act No. 461/2003 Coll. on Social Insurance, as amended, and other acts**, expanded the number of people whose premium rate for old age insurance was reduced by 0.5% for each dependent child, while eliminating the inequality of this provision. Under previous regulations in force, only employed persons had this option. Since 1 January 2005, the above amendment makes this option also applicable to self-employed persons and people voluntarily insured.

In connection with the increase in the tax deduction for dependent children from 1 January 2006, the Slovak Parliament approved in Act No. 534/2005 Coll. amending and supplementing Act No. 595/2003 Coll. on Income Tax, as amended, and other acts, as amended, which, in addition to provisions of the Income Tax Act, in Article IX amends Act No. 461/2003 Coll. on Social Insurance, as amended and removes the decrease in the premium rate for old age insurance for dependent children, where a grandparent or adoptive parent is caring for the dependent child, from the Act on Social Insurance.

With effect from 1 January 2005, Act No. 580/2004 Coll. on Health Insurance amending and supplementing Act No. 580/2004 Coll. on the Insurance System and other acts introduces a new institution for prepaying public health insurance premiums. Tying in with the prepayment of public health insurance premiums, annual clearance of employer and employee premiums or the premiums paid by self-employed persons have been instituted. The purpose is to ensure public health insurance premiums from income earned not only in the relevant calendar month, but in the entire calendar year.

The act provides for the first time an annual clearing of premiums paid for 2005 in 2006, originally until the end of March. In order to give the insured, employers and health insurance companies more time to prepare the first annual clearing, an amendment to Act No. 580/2004 Coll. on Health Insurance amending and supplementing Act No. 95/2002 Coll. on the Insurance System and other acts, which parliamentarians passed on 13 December 2005 and was published as No. 660/2005 Coll., extended by three months the period in 2006 for clearing 2005 premiums. Based on the above, annual premiums can be cleared until the end of June 2006.

On 1 April 2005, conditions for registering employees were tightened and sanctions for employing people illegally increased. This came as a result of Act No. 82/2005 Coll. on Illegal Work and Illegal Employment amending and supplementing other acts. At the same time, the new law amends and supplements, inter alia: Act No. 231/1999 Coll. on Government Assistance, as amended; Act No. 523/2003 Coll. on Public Procurement amending Act No. 575/2001 Coll. on Organizing the Activities of Government and Central Civil Service, as amended; Act No. 5/2004 Coll. on Employment Services amending and supplementing other acts, as amended, and in Article VI amends and supplements some provisions of Act No. 461/2003 Coll. on Social Insurance, as amended.

An amendment to Act No. 461/2003 Coll. on Social Insurance, as amended, changes, in particular, the text of Sec. 231, under which an employer still has to register an employee with the Social Insurance Company before the employee begins work, but can now do it by SMS text, fax or e-mail. In the first addressed case, however, the employer must subsequently confirm an employment relationship in writing within three days on a preprinted form issued by the Social Insurance

Company. For illegally employing a person, the employer can in future be penalized as much as one million crowns.

Act No. 573/2005 Coll. amending and supplementing Act No. 5/2004 Coll. on Employment Services and other acts, as amended, and amending and supplementing other acts, which the Slovak Parliament passed on 9 November 2005, with effect from 1 January 2006, strengthens support for employment of handicapped applicants for employment. It also namely broadens assistance for people in material need who are receiving benefits and have been collecting them for at least twelve months, on work for welfare schemes for at least six months, and for recent graduates, as well as citizens who no longer have health disabilities, having been reevaluated by the Social Insurance Company, but have difficulty with finding work.

The Act requires an employer who employs more than 20 employees to prove to the Employment Office and Office for Social Affairs and Family, in a written form prescribed by the central office, that it meets the required ratio of the number of citizens with health disabilities, according to Sec 9 par. 1(a), to the total number of its employees for the proceeding calendar year up to 31 March of the subsequent calendar year.

The objective of **Act No. 7/2005 Coll. on Bankruptcy and Restructuring, amending and supplementing other acts**, which became effective on 1 July 2005, except Article I, which entered effect on 1 January 2006, is to shorten bankruptcy proceedings and make them more transparent. Under the new law, the priority is to have assets sold as quickly as possible with the highest possible proceeds from the sale. The previous institution of receivership in the law was replaced with so-called restructuring.

Act No. 520/2005 Coll., amending and supplementing Act No. 328/1991 Coll. on Bankruptcy and Receivership, as amended, and supplementing Act No. 7/2005 Coll. on Bankruptcy and Restructuring and amending and supplementing other acts, which the Slovak Parliament approved on 28 October 2005, restricts from 1 January 2006 the option of a creditor to force bankruptcy and prevents any manipulated bankruptcies that were often initiated in the past due to doubtful receivables. For a creditor to initiate bankruptcy proceedings, it must present the circumstances that testify to the debtor being bankrupt, indicate other creditors and prove their receivables from the debtor and prove its own cash receivables from the debtor. Receivables are deemed proven when they are acknowledged by the debtor in a document signed by the debtor and officially witnessed or documented in a final ruling made by the court or other body.

On 7 December 2005, the Slovak Parliament approved Act No. 621/2005 Coll., amending and supplementing Act No. 71/1992 Coll. on Court Fees and Fees for a Police Record, as amended, to change from 1 January 2006 the schedule of court fees and respond to the situation within the judicial system up to that time. Due to the level of fees that had been set by the Justice Ministry of the Slovak Republic, parties

in court proceeding were not willing to consider alternative means for resolving litigation, e.g. mediation, out-of-court agreements, etc. Viewing an analysis of the court system's capacity, there had been an increase in legally non-justifiable complaints, as well as petitions to initiate proceedings for compensation of damages caused by wrongful decisions of government bodies or improper official procedures.

After repeated discussion, **the Slovak Parliament on 23 June 2005 approved Act No. 290/2005 Coll. supplementing Act No. 50/1976 Coll. on Regional Planning and Construction (the Construction Act), as amended, and supplementing other acts, which had been returned by the President of the Slovak Republic.** When the Act entered into effect on 1 July 2005, it transferred the authority of the engineer's office on matters of eminent domain in the case of significant investments and construction of motorways, roads and road systems under special regulations from the municipalities to the civil service, which is the regional engineer's office.

The intent of the Act was more effective eminent domain proceedings in the above cases and to accelerate eminent domain proceedings without interfering with the participants' right to due process, especially for those dispossessed of their land and buildings, thus enhancing the business environment.

On 23 September 2005, **the Slovak Parliament approved another amendment to Act No. 50/1976 Coll. on Regional Planning and Construction (the Construction Act), as amended, and supplementing other acts, published as No. 479/2005 Coll.,** effective from 1 November 2005. According to an analysis of the effects on the business environment, the length of proceedings under the Construction Act had especially been caused by the large number of rulings, opinions, judgments, expressions and consents issued by the civil service organizations affected, which special regulations required be held in administrative proceedings guided by the Construction Act, and in particular the various ways and means of issuing them and the corrective resources available against them. The above amendment to the Act observes the reduction in the number of administrative proceedings preceded by administrative proceedings under the Construction Act. Actual fulfillment of the Act's goal would have a positive effect on the business environment, especially in relation to the option to accelerate the process, the result of which should be an earlier start to construction for business purposes.

On 14 December 2005, **Act No. 25/2006 Coll. on Public Procurement amending and supplementing other acts** was approved in the Slovak Parliament. The new legal regulations entered effect on 1 February 2006, emphasizing greater transparency in the public procurement process, effective checks on the expenditure of public funds and expressly to contribute to the struggle against corruption in public administration. After EU Member States institute an electronic procurement system and unify procurement procedures, the presenters of the Act anticipate a positive impact for businesses in the Slovak Republic, where a broader approach by businesses to engagements within the Slovak Republic and the entire European Union is expected.

On 1 January 2005, provisions of Sec. 73k of Act No. 357/2003 Coll. amending and supplementing Act No. 323/1992 Coll. on Notaries and Notary Activities (Notary Procedures Code), as amended, entered effect. The Notaries' Central Register of Documents operates pursuant to this section of the Act. The register is managed by the Chamber of Notaries and simplifies communications with offices and other institutions and businesses for businesses and also other people. Electronic archives allow firms to register all important documents at a single notary's office and obtain a certified copy anytime at any notary's office without having to submit the original.

However, the money saved is an indisputable merit of this register, which participants in public tenders who have to submit a number of notarized documents have mainly welcomed. Although the initial investment to register all necessary documents into the electronic archive is certainly higher, businesses can save with further communication.

In connection with Act No. 733/2004 Coll. amending and supplementing Act No. 223/2001 Coll. on Waste and other acts, as amended, which essentially entered effect on 1 January 2005, provisions of Sec. 54e et seq. oblige electrical equipment manufacturers to guarantee, at their own expense, individual or collective disposal of electronic waste from electrical equipment entering the market after 13 August 2005. For electrical waste that the electrical equipment manufacturer cannot collect and evaluate, repeatedly use or recycle within the set limits, a contribution has to be paid to the Recycling Fund.

An amendment to Act No. 428/2002 Coll. on Personal Data Protection, as amended, published as No. 90/2005 Coll. and effective from 1 May 2005, introduces new requirements for employers when they employ a natural person and use his or her personal data without having to register with, and notify, public institutions.

An operator is responsible for supervising the protection of personal data. If the operator employs more than five persons, supervision has to be entrusted in writing to one or more persons in charge of overseeing compliance with legal provisions on processing personal data. There is also an obligation to inform the Office for Personal Data Protection of the Slovak Republic by registered mail no later than 30 days after authorizing the person in charge. That person may be neither a natural person in the operator's statutory body nor a person who is entitled to act in the name of the operator's statutory body.

Responsibility for preparing registry procedures and plans that businesses had to submit for approval, pursuant to **Act No. 395/2002 on Archives and Registries supplementing other acts, as amended,** to the relevant government archive no later than 30 June 2005 increased administrative demands and expenses for legal entities and sole proprietors who are the registry author.

Public Notice of the Ministry of Interior of the Slovak Republic No. 251/2005 Coll., amending Public Notice of the Ministry of Interior of the Slovak Republic No. 628/2002 Coll., in which some provisions of the Act on Archives and Registries, supplementing other acts, were carried out and which entered effect on 30 June 2005, met the expectations of the business community, at least to the extent that in the above public notice to the Act on Archives and Registries the deadline for submitting registry procedures for approval was shifted from 30 June 2005 to 30 June 2007.

On 18 May 2005, the Slovak Parliament passed Act No. 244/2005 Coll., amending and supplementing Act No. 280/2002 Coll. on Parental Benefits, as amended, and other acts. In addition to provisions of the Act on Parental Benefits, Article IV of the Act amended some provisions of Act No. 311/2001 Coll. (the Labour Code), as amended. The amendment affects employers, who after 1 July 2005 are obliged to state in a new line on their employee pay slips the overall cost for work.

The above legislative amendment negatively impacts employers, because it requires changes in payroll administration and modifies the appearance and alters the size of wage and salary documents since instead of a single line - the total cost of work as summary information on the employer's wage and insurance costs for a employee up to 30 June 2005 - the pay slip must show nine separate lines.

Act No. 313/2005 Coll., amending and supplementing Act No. 152/1994 Coll. on the Social Fund and Act No. 286/1992 Coll. on Income Tax, as amended, which the Slovak Parliament passed on 29 June 2005, increases effective 1 September 2005 an employee's maximum average earnings as one of several conditions to be legally entitled to benefits from the social fund for transport to the place of employment and back.

Since the beginning of 2005, there has been no obligation for a sole proprietor or legal entity which is listed in the Commercial Register and conducting business activities in either agriculture and foodstuffs or in biological, technical or commercial services in agriculture or foodstuffs to be a member of the Slovak Chamber of Agriculture and Foodstuffs. **This results from Act No. 546/2004 Coll., amending and supplementing Act No. 30/1992 Coll. on the Slovak Chamber of Agriculture and Foodstuffs, as amended by Act No. 448/2001 Coll. and other acts,** which entered effect on 1 January 2005.

The quality of the business environment, in fundamental ways, is influenced, above all, by factors such as political stability, economic stability and growth, the level of legislation and the enforceability of law. There is relatively explicit agreement that the business environment in the Slovak Republic is gradually improving. Further effort needs to be focused in areas where desirable progress has not been made and where a high degree of criticism is still expressed by economic parties. Especially, these areas are complicated and often changing legislation, heavy administrative burdens, high employment costs and a lack of a qualified workforce caused by inconsistency between the requirements of businesses and the economy in practice and the education system.

3. SME Development and Status in 2005

The quality of the business environment is a defining element in enterprise development. Changes in the business environment with a definite time interval are reflected in the quantitative characteristics of the business sector. An analysis of the state of the SME sector within the context of time allows existing trends to be identified, future trends to be anticipated and measures for guaranteeing optimal development to be prepared. In this chapter, we present quantitative characteristics of the SME sector in 2005 within the context of trends in the last several years, the main findings from surveys made of small and medium-sized enterprises and a comparison of data obtained on the business sector in Slovakia and the EU.

The categorization of enterprises by size used in this chapter is in accordance with European Commission Recommendation No. 2003/361 EC, in force since 1 January 2005. The SME category is composed of businesses employing less than 250 employees, while enterprises with 250 employees or more are considered large. Among SMEs, a differentiation is made between micro-enterprises (0-9 employees), small enterprises (10-49 employees) and medium-sized enterprises (50-249 employees). In cases where micro-enterprises are not separately broken out, all enterprises with 0-49 employees are classified as small enterprises. In addition to the number of employees, there are also other criteria related to the level of turnover, value of assets and ownership structure that are valid when categorizing an enterprise according to the above directive. In the following subchapters, the number of employees is considered as only one criterion for categorizing a business as a SME. This categorization allows the state of SMEs in the Slovak Republic to be compared with those in the business sector within the European Union.

Quantitative characteristics of the small and medium-sized enterprise sector, including trends in the number of businesses, classification by industry, regional distribution, the employment rate, production and foreign trade, are analyzed in subchapters 3.1-3.7.

In 2005 as part of its activities, NADSME continued monitoring the business sector surveying a representative sample of businesses across all of Slovakia. The completed surveys, whose topics are primarily related to the business's increased competitiveness, are an irreplaceable source of information about the qualitative characteristics and nature of the business sector. In 2005, the completed surveys focused on determining the potential for business activity among citizens and the readiness of small and medium-sized enterprises to non-banking forms of financing. An assessment of these findings is discussed in subchapters 3.8 and 3.9.

Subchapter 3.10 summarizes data that characterize the position of SMEs in Slovakia's economy. Then subchapter 3.11 compares some characteristics of the SME sector in Slovakia to that within the European Union.

The assessment of the small and medium-sized enterprise sector in this chapter originates from data processed in the statistical register of organizations and data published by the Statistical Office of the Slovak Republic. The source for information about EU Member States is the publication SMEs in Europe – Economic Report: Observatory of European SMEs, issued by the European Commission.

Graphs referred to in the following subchapters are presented in the appendix.

3.1 Natural Persons

According to data from the Slovak Republic Statistical Office, the number of natural persons - entrepreneurs in the Slovak Republic rose 1.9% from 2004 and at the end of 2005 stood at a total of 367,094. Of this number, 344,870 were small trade licensees, 12,752 were operating in free occupations (Graph Nos. 1 and 2) and 9,472 were independent farmers. Most small trade licensees were doing business in trade (113,544), construction (62,436), manufacturing (58,591) and real estate and leasing (48,515). The number of small trade licensees rose by 2.4% from December 2004, while the number operating in free occupations fell by 6.8%. The number of self-employed farmers declined by 5.8%.

In 2005, 50,032 people started a business (a year to year decrease of 6,414), while 26,172 people left business (an increase of 7,360). The largest movement was registered in trade, real estate and leasing, construction and industrial manufacturing.

The breakdown of small trade licensees by sectors has been relatively stable (Graph No. 3). In 2005, the percentage of people employed by small trade licensees fell in trade (1.3 pp) and services (0.2 pp). The largest rise was in the construction sector (1.1 pp) and other sectors (0.4 pp). The most significant sectors were internal trade with 113,544 small trade licensees, construction with 62,436 and industrial manufacturing with 58,591 (Graph No. 4).

In the period from 2000 to 2005, there was a noticeably distinct decline in the share of small trade licensees operating in trade, (5.5 pp), a moderate decline in the share of small trade licensees operating in industry (1 pp) and significant growth in the share of small trade licensees operating in construction (4.3 pp). The number of small trade licensees operating in construction grew by 68.1% from 2000, in services by 31.1% and the number of small trade licensees operating in industry by 21.2%. However, the number of small trade licensees operating in trade grew only by 9.8%.

The distribution of small trade licensees by regions is shown in Graph No. 19. Most small trade licensees were operating in Žilina (13,306), Bratislava V (12,101), Nitra (11,524), Bratislava II (10,386) and Prešov (9,368) regions. The smallest number of small trade licensees was in the districts of Medzilaborce (531), Sobrance (737) and Krupina (895).

3.2 Legal Entities

In the register of organizations maintained by the Statistical Office of the Slovak Republic, at the end of December 2005 there were 126,777 legal entities recorded, of which 83,710 were enterprises and 43,067 non-profit institutions. Year to year comparisons showed a 10.9% increase in the total number of legal entities, with a 7.5% rise in the number of non-profit institutions and a 12.8% rise in the number of enterprises.

Small businesses dominated with 95.8% of the total number of profit-oriented organizations (of which micro-enterprises with 0-9 employees counted for 83%). Medium-sized enterprises comprised 3.5% of the total and large enterprises 0.7%. The number of small enterprises grew by 9,741, while the number of medium-sized enterprises fell by 206 and large enterprises by 32.

There were 80,159 small private enterprises with up to 49 employees and 2,930 medium-sized private enterprises with 50-249 employees. The trend in the number of small and medium-sized enterprises is illustrated in Graph No. 5. Changes in individual-size categories in 1999-2005 are shown in Graph No. 6. Over the past year, there has been a rise in the share of micro-enterprises (0-9 employees) by 2.5 percentage points, while a fall in the share of small enterprises (10-49 employees) by 1.6 pp, medium-sized enterprises by 0.7 pp and large enterprises by 0.1 pp has been seen.

In the course of 2005, 1,994 new enterprises (290 more than in 2004) were formed and 990 enterprises (320 more than in 2004) were dissolved. The greatest changes took place in trade, real estate and leasing, health and industrial manufacturing sectors.

The breakdown by sectors is shown in Graph No. 7. Most small and medium-sized enterprises were operating in trade (32,261), commercial services and the financial sector (19,788), industry (11,515) and construction (6,225). The regional breakdown is illustrated in Graph No. 19 and shows a distinct peak in Bratislava Region.

3.3 Contributions by SMEs to Employment

On average during 2005, 2,216,200 people were working in the national economy, of which 1,929,100 were employees, 206,300 were entrepreneurs without employees, 71,500 were entrepreneurs with employees and 1,500 assisting family members.

Compared with 2004, the employment rate grew faster (by 1.8 pp). In particular, businesses without employees contributed to the higher number of working people by 21,200 (or 11.5%) and employees by 24,900 (1.3%). The number of businesses with employees fell by 200 (0.3%).

In the category of small and medium-sized enterprises including small trade licensees employment jumped year to year by 4.1%, of which employment of small trade licensees increased by 4.3%, small enterprises by 2.9% and medium-sized enterprises by 5%. Employment in large enterprises recorded a fall of 2.1%, which was caused by continuing restructuring and making activities more efficient after completion of the privatization process in preceding years.

The role SMEs play in employment is apparent from Graph No. 10. Small and medium-sized enterprises, including small trade licensees, provided work in 1998 to 57.1% of the employed population, with reduction in 1999 to 56 %, rising in 2000 with an increase to 57.7% and continuing the trend in 2001 to 59.1 %, 2002 to 62 %, 2003 to 66 %, 2004 to 69.5 % and 2005 to 70.8 %. Of the total number of persons employed, 56% worked in services, 29.3% in industry, 9.5% in construction and 4.7% in agriculture. From 2004, the share of persons increased in services (by 0.6 pp), fell in agriculture (0.4 pp) and industry (0.2 pp) and remained unchanged in construction.

The share of persons employed in individual regions to total employment (Graph No. 11) ranged from 10.7 % (Trnava Region) to 17.9 % (Bratislava Region). The number of working persons rose in all regions except Košice (a decline of 1.5%). There was growth above the Slovak Republic average in Banská Bystrica (4 %), Bratislava (3.4 %), Trnava (3.2 %), Žilina (2.7 %) and Prešov (2.4 %) regions. A higher rate of employment was also achieved in Nitra (2 %) and Trenčín regions (0.7 %).

In the course of the year, there was also a positive development in the unemployment rate, characterized by a markedly declining trend in the unemployment rate. On average in 2005, compared with 2004, the number of people unemployed fell by 53,200 (or 11.1 %) to 427,500 (in 2004 it had grown by 4.7%). The unemployment rate decreased by 1.9 pp to 16.2% (in the 4th quarter it reached 15.3 %, which was the lowest level since 1999).

3.4 Contributions by SMEs to Production in Selected Sectors

In 2005, according to a revised estimate, gross domestic product of 1,498.8 billion Sk was generated and in real terms increased by 6% from 2004 (a 0.5 pp higher increase than in 2004). At nominal prices, it grew year to year by 8.6%. Compared to 2004, economic growth accelerated by 0.5 pp. In terms of development by individual quarters, there was a high pace of growth as a result of such significant acceleration in the 2nd half (in the 3rd quarter it reached 6.2% and in the fourth quarter 7.6%). Of gross domestic product generated, added value of 1,289.7 billion Sk was produced for a year to year increase of 5.1% (0.7 pp less growth than in 2004).

From total gross domestic product generated, industry had the highest percentage at 28.6%. Trade, hotels and restaurants generated 15.1% of GDP, real estate and leasing 10.1 %, transportation, post and telecommunications 9.2 %, public administration and defense 6.8 %, agriculture 5.3 %, financial intermediation 5 % and construction 4 %. Compared to 2004, the percentage from industry rose by 0.7 pp, trade, hotels and telecommunications by 0.6 pp, construction by 0.3 pp, transportation, post and telecommunications by 0.2 pp and agriculture by 0.1 pp, while financial intermediation fell by 0.9 pp, real estate and leasing by 0.7 pp, education and health and public assistance at the same rate of 0.6 pp and public administration and defense by 0.2 pp.

The increase in GDP was affected by 6.3% rise of gross production to 3,369.6 billion Sk and intermediate consumption by 7% to 2,079.9 billion Sk. Total intermediate consumption as a percentage of gross production rose year to year by 0.4 pp and reached 61.7 %. Industry comprised a decisive 59.2% of intermediate consumption (in which industrial manufacturing was 52.7 % and generation of electricity, gas and water 6.2 %). The percentage in trade was 10.9 %, transportation, post and telecommunications 6.5 % and construction 6 %. In industrial production, the manufacture of machines, electrical appliances and means of transport dominated at 24.1%. Chemical production and manufacturing from oil and rubber comprised 7%, manufacturing of steel and steel products 6.4 % and food production 5.4 %.

Growth in real gross domestic product was associated, in particular, with a greater creation of value added in construction by 15.6 %, trade by 10.9 %, transportation, post and telecommunications by 9.2 %, industry by 8.7 % and agriculture by 7.9 %, while there was a decrease from 2004 in health and public assistance by 16.1 %, education by 13.6 %, financial intermediation by 9.8 % and real estate and leasing by 0.4 %. Generation of gross domestic product was also influenced by 14.7% rise (compared to an increase of 2.7% in 2004) in tax levied on products (less subsidies on products).

Based on estimates, the private sector generated 90.6% of gross domestic product (0.5 pp higher than in 2004). Private sector percentages in individual areas were

commerce at 99.8 %, construction 99.7 %, agriculture 99 %, industry 85.9 %, transport 63.6 % and forestry 46.7 %.

Sales according to the size of the enterprise saw large enterprises in a strong position with 67% (enterprises with 1,000 or more employees were 47.7 %). Medium-sized enterprises had 14.8 % of revenues, small trade licensees 11.4 % and small enterprises 6.7%. Increases in sales made by small trade licensees of 14.8 %, medium-sized enterprises of 8.3% and large enterprises of 6.9 % contributed to year to year growth in sales revenue. Turnover generated by small enterprises fell year to year by 5.6 %.

In construction, product valued at 122.2 billion Sk was generated with an acceleration in the pace of growth to 14.7% (9 pp) from 2004, where new buildings, reconstruction and modernization produced 93.6 billion crowns, repair and maintenance 22.8 billion Sk and construction work outside the Slovak Republic produced 5.2 billion Sk.

Of total product from construction firms, small trade licensees were responsible for 30.6%, small enterprises 25.7%, large enterprises 22.1% and medium-sized enterprises 21.6%. The increase in output came from increased construction work performed by small enterprises (19.5%), medium-sized enterprises (18.3%), large enterprises (13.7%) and small trade licensees (8.7%).

Revenue from merchandise exceeded the 2004 level by 9.7% and reached 385.8 billion Sk, of which 180.9 billion Sk came from non-specialized retail shops, 100.2 billion Sk from other specialized retail, 60.8 billion Sk from retail outside shops and 27.7 billion Sk from retail of pharmaceuticals and cosmetics. The most distinct rise in sales was in retail businesses outside shops (40.8%). The pace of growth was softened, in particular, by a deepening fall in sales revenue from food, drink and tobacco retail (to 34.6%).

Of total revenue from merchandise, small trade licensees generated 43.9 %, large enterprises 25 %, small enterprises 24.7 % and medium-sized enterprises 6.4 %. This development was related to a rise in sales revenue from medium-sized enterprises by 37.1%, large enterprises by 12.2 %, small enterprises by 8%, and small trade licensees by 6.2%.

In motor vehicle sales and maintenance in 2005, year to year growth in revenue from own performance and merchandise slackened, reaching 166.8 billion Sk, of which motor vehicle sales were responsible for 72.3 billion Sk, retail fuel sales for 62.7 billion Sk, maintenance and repair of motor vehicles for 22.7 billion Sk, sales of motor vehicle spare parts and accessories for 8.9 million Sk and sales, repair and maintenance of motorcycles for 0.2 billion Sk.

In hotels and restaurants, 2005 saw a halt in the trend of year to year decline in revenue from own performance and merchandise. Volume of 35.3 billion Sk

remained at the 2004 level with a gradual slowing in the pace of growth in the first three quarters and a decline in the 4th quarter.

In tourist accommodation facilities, 6.3 billion Sk of revenue was generated from accommodating visitors (of which 4 billion Sk came from foreign visitors). Its annual increase by 6.5 % in current prices was mostly influenced by a sharp rise in the 4th quarter (by 14.3 %) The total increase in sales was related, in particular, to a rise in the number of foreign visitors by 9.4 % (in the 4th quarter by 23.3 %).

In transport and storage, revenue from own performance and merchandise reached 114.5 billion crowns in 2005 with an accelerated year to year rise in nominal prices of 13.4% (5.8 pp). In non-core and ancillary transport activities, revenues of 39.9 billion Sk were generated, while in other surface transport the figures was 36.4 billion Sk and in rail transport 28.9 billion Sk.

By size of the business, large enterprises generated 27.7 % of total revenues from own performance and merchandise, small trade licensees 27.2 %, medium-sized enterprises 24.5 % and small enterprises 20.6 %. Sales generated by large enterprises and small enterprises grew quickest, by 19.3 % and 16.3 % respectively. Sales of medium-sized enterprises grew by 8.9 % and of small trade licensees by 7.7 %.

In post and telecommunications, revenues from own performance and merchandise rose in terms of nominal prices, compared to 2004, by 8.7% to 67.8 billion Sk, of which postal and carrier activities increased by 10.4% to 9.4 billion Sk and telecommunications activities grew by 8.4% to 58.4 billion Sk.

In real estate and leasing, revenues from own performance and merchandise rose again after a two-year decline. Almost half of the total value of 202.2 billion Sk was generated in other commercial services (99.4 billion Sk). Revenues from recreational, cultural and sport activities reached 29.9 billion. Sk, computer and related activities were 27.9 billion Sk and real estate activities 22.5 billion Sk.

Activities of small enterprises were responsible for 41.6% of total sales revenue, medium-sized enterprises 26%, small trade licensees 21.3% and large enterprises 11.1%. Sales development was related to an increase in mid-sized enterprises (by 21.3%), small trade licensees (by 9.6%), small enterprises (by 2.6%) and large enterprises (by 0.4%).

SME percentages of sales revenue from selected sectors is shown in Graph No. 12.

3.5 Foreign Trade

In 2005, the Slovak Republic exported goods at a value totaling 993.5 billion Sk. Total imports of goods reached 1,069.5 billion Sk. Compared to 2004, total exports were higher by 11.5% and total imports by 13.7%.

The Slovak Republic had the largest trade deficits with the Russian Federation (99.4 billion Sk), the People's Republic of China (30.6 billion Sk), the Republic of Korea

(27.2 billion Sk), Japan (17.4 billion Sk) and Taiwan (12.8 billion Sk) and the largest trade surpluses with Germany (35.3 billion Sk), Austria (29.6 billion Sk), the Netherlands (20.1 billion Sk), Poland (18.4 billion Sk), Hungary (17.2 billion Sk) the United States (16.2 billion Sk), Italy (14.8 billion Sk) and the United Kingdom (11.2 billion Sk).

Within the main economic groups, the Slovak Republic exported 11.8% more to the EU countries by 11.8% (comprising 85.4% of total exports) and 9.6% more to the OECD countries (an 89.7% of total exports). In terms of countries, the Slovak Republic increased its exports to Spain by 29.4%, Poland by 28.3 %, the Netherlands by 26.8 %, Hungary by 23.6 %, France by 19.4%, the United Kingdom by 18.2 %, the Czech Republic by 15.7 %, Italy by 15.6 %, Belgium by 5.7 % and Austria by 3.9 %. There were fewer goods exported mainly to the United States, by 26.8%, and Japan, by 5%.

Imports from EU countries grew by 9.8 % (comprising 71.1 % of total imports) and from OECD countries by 6.5% (a 70.2% of total imports into the Slovak Republic). In particular, there were more imports, compared to one year ago, from Taiwan, by 83%, the Republic of Korea by 66%, the People's Republic of China by 34.6%, the Russian Federation by 30.4%, Hungary by 21.4%, Poland by 17.3%, the United Kingdom by 14.1%, the Czech Republic by 6.9% and Austria by 9.3%. Imports from Italy decreased by 3.1%, from Belgium by 3.1%, Spain by 0.9% and the United States by 0.3%.

From a territorial point of view, there was a trade deficit with countries outside the EU (159.2 billion Sk). A trade surplus was achieved with the EU15 countries (85.2 billion Sk) and the new EU Member States (3.5 billion Sk). In 2005, the trade surplus with the EU15 countries increased by 19.8% from 2004. On the other hand, the trade deficit also grew with countries outside the EU by 39.5% from 2004. A 20.3% rise in exports to the new EU Member States, a further 10.3% rise in exports to countries outside the EU and finally a 6.3% rise in exports to the EU15 countries contributed to the greatest extent to the 10.5% rise in exports. The pace of growth in imports (12.5%) was related, in particular, to an increase in imports from countries outside the EU (23.8%), followed by the 10 new EU Member States (16.8%) and finally the EU15 (4.2%). The volume of exports and imports in 2005, by size and region, is shown in Graph Nos. 13 and 14.

As shown in Graph No. 15, micro-enterprises (0-9 employees) constituted 13% (125.1 billion Sk) of total exports in 2005. This category also includes enterprises with an unknown number of employees, having an export volume of 42 billion Sk, which constituted 4.4% of total export volume. Small enterprises (10 – 49 employees) contributed 6.5% (62.3 billion Sk) of total exports and medium-sized enterprises (50-249 employees) 12.8% (122.9 billion Sk). The highest percentage of total export volume, 67.7%, was comprised of large enterprises, which was nearly 650.4 billion Sk. SMEs contributed to 32% of total export volume (310.3 million Sk) which was 5.7 pp more than in 2004.

Export trends in 2001-2005 according to the size of the enterprise are shown in Graph No., 16. The most dynamic rise in exports, up 72.3% (52.5 billion Sk) from 2004, was recorded by micro-enterprises (0-9 employees and enterprises with an unknown number

of employees). Small enterprises (10-49 employees) represented 21.5% (11 billion Sk) of growth, while a 14% increase (15.1 billion crowns) was documented among medium-sized enterprises. Large enterprises (250+ employees) recorded the relatively smallest export growth, 1,9%, which in absolute terms represented 12.4 billion Sk of exports.

As shown in Graph No. 17, the share of micro-enterprises (0-9 employees) in total 2005 import volume was 20.8% (214.7 billion Sk), including enterprises with an unknown number of employees at 4.2% (43.1 billion Sk) of total imports. Small enterprises (10-49 employees) contributed 13.1% (135.1 billion Sk) to total imports and medium-sized enterprises (50-249 employees) contributed 15.7% (162.1 billion Sk). The largest percentage, almost 50.4% of total imports, was generated by large enterprises, which represented 519.3 billion crowns. SMEs comprised 49.6% of total imports (512 billion Sk), which was an increase of 3.6 pp.

Import trends in 2001-2005 according to the size of the enterprise are shown on Graph No. 18. The most dynamic rise from 2003, 39.5% (60.9 billion Sk) was recorded by micro-enterprises (0-9 employees and enterprises with an unknown number of employees). Small enterprises (10-49 employees) represented a 14.4% (17 billion Sk) rise. Growth of 7.9% was recorded in medium-sized enterprises and relatively smallest growth 5.1% recorded in large enterprises, which in absolute terms represented 11.9 billion Sk in medium-sized enterprises and 25.1 billion Sk in large enterprises.

In 2001-2005, year to year export volume rose on average by 11.9%, while SME exports grew each year on average by 13.1%. Until 2003, the percentage of total exports generated by large enterprises had continually risen (at an average by 3 pp annually). However, in 2004 as a consequence of weak growth of enterprise exports in this category, the percentage of exports first decreased by 1.6 pp in 2004 and subsequently by 5.7 pp in 2005. Strong growth in exports by micro-enterprises and enterprises with an unknown number of employees (year to year by 72.3%) and weak exports in large enterprises caused the percentage of exports generated by SMEs to increase by 5.7 pp to a level of 32.3%. The SME share in exports was distinctly influenced by the export output of large enterprises and thus a moderate decline in SME to total exports can be expected in further years.

In 2001-2005, the average year to year rise in imports was 9.6%, while among SMEs the average increase was 12.5%. Micro-enterprises, together with enterprises with an unknown number of employees, contributed to the greatest extent to a high average growth of SME imports up to 39.5%. The percentage of imports generated by SMEs had not significantly changed over the long term and had been moving at a level of around 45%, indeed in the last two years growth had been observed at 49.6%, which to a great extent was caused by an increase in the percentage of enterprises with an unknown number of employees, where foreign entities also played a significant role.

From the results presented, it can be seen that since the Slovak Republic's accession into the EU, the greatest growth in exports and imports has been recorded by micro-enterprises, which include enterprises with an unknown number of employees. At

the moment, the high volumes of exports and imports in 2005 made by enterprises with an unknown number of employees have reduced the credibility of year to year comparison. The above phenomenon has appeared after introducing changes in the system for collecting data on foreign trade since the Slovak Republic's accession to the EU and an explanation of this requires deeper analysis.

3.6 Development of SME Dynamics

In the course of 2005, 50,302 persons started businesses, which was 6,414 less than in 2004. 26,172 persons left business, which represents a rise of 7,360 persons compared to 2004. The biggest movement was recorded in sectors of trade, real estate and leasing, construction and industrial manufacturing.

Over the course of 2005, 1,994 new enterprises (legal entities) were established and 990 enterprises were dissolved. Compared to 2004, the number of newly-found enterprises rose by 290 and the number of enterprises dissolved kept pace at 320. The largest changes happened in the trade, real estate and leasing, health and industrial manufacturing sectors.

Newly founded and dissolved businesses in 2005 by economic activity

Economic activity (classified by sector)	Newly-founded		Dissolved	
	Enterprises	Natural persons - entrepreneurs	Enterprises	Natural persons - entrepreneurs
Economy, in total	1,994	50,302	990	26,172
of which				
Agriculture, hunting and forestry	137	2,555	35	1,438
Fisheries and fish breeding	-	5	-	2
Mineral resources extraction	2	-	1	-
Industrial manufacturing	191	7,379	160	3,394
Production and distribution of electricity, natural gas and water	3	13	4	2
Construction	110	10,899	65	3,119
Wholesale and retail, repairs	533	14,785	412	9,991
Hotels and restaurants	55	1,942	28	1,269
Transport and storage	110	1,893	26	1,405
Posts and telecommunications	4	38	-	34
Financial intermediation	17	141	3	106
Real estate, leasing and commercial activities	557	7,398	209	3,745
Education	27	623	10	262
Health and social assistance	197	345	11	506
Other community, social and personal services	51	2,287	26	899

3.7 Regional Aspects

The percentage of small trade licensees and small and medium-sized enterprises, broken down by regions, is shown in Graph No. 19. In terms of considering a region's economic activity, the ratio of active enterprises to the labour force is a better predictor. This comparison is shown in Graph No. 20. The above ratio achieves the distinctly highest values in Bratislava Region, where the disproportion is more striking for legal entities. The total economic level of regions expressed by production in individual economic sectors is shown in Graph No. 21.

Broken down by regions, the highest number of enterprises as of the end of December 2005 was in Bratislava Region (25,505). In other regions, the number ranged from 7,453 (Nitra Region) to 9,841 (Košice Region). The number of enterprises grew year to year in all regions, most markedly in Prešov Region (by 14.9 %), with Trenčín Region having the smallest increase (by 9.2 %).

Most natural persons - entrepreneurs were operating in Bratislava (59,890) and Žilina regions (52,761), the least in Košice Region (39,189). With the exception of Košice Region (a decline of 0.4 %), year to year growth in the other regions was more moderate than in 2004. The relatively highest increase in the number of businesses was recorded in Banská Bystrica Region (by 4.1 %), and the smallest rise was in Trenčín Region (by 0.7 %).

In terms of regional segments, the most distinct portion of sales revenue was earned by businesses whose registered office is in Bratislava Region, 38.3 %. Percentages in other regions ranged from 4.6 % (Prešov Region) to 12.6 % (Košice Region). In all regions, sales volume was higher than in 2004, except in Bratislava Region (a decline of 4%). Sales revenue increased the most in Trnava (27.9 %), Žilina (10.2 %) and Trenčín regions (10.1 %).

More than a quarter of the product of construction companies was the result of businesses whose registered office is in Bratislava Region (26.1 %), followed by Žilina (17.5 %), Košice (12.7 %) and Prešov (10.2 %) regions. Construction grew in all regions with the highest relative increase in Žilina (35.3 %) and Košice (21.7 %) regions. There was also a significant increase in Trenčín (by 14.2 %) and Nitra (13 %) regions. The slowest growth was in Banská Bystrica Region (by 2.4 %).

In wholesale, businesses with their registered office in Bratislava (38%) and Žilina (12.7%) regions had the highest percentage of total sales volume. Share of other regions varied between 6.3 % (Banská Bystrica) and 9.4 % (Košice). Sales revenue at nominal prices rose in all regions except Trenčín (a decline of 1.7 %). The highest year to year increase, in absolute terms, was in Bratislava (40.1 billion Sk), Košice (14.7 billion. Sk) and Žilina (13.4 billion Sk) regions.

In retail by regions, the highest percentage of sales revenue was earned in Bratislava Region (35.9 %), followed by Žilina (14.2 %) and Banská Bystrica (10.2 %) regions. Košice (6.7 %) and Trenčín (6.8 %) regions contributed the lowest portions. Year to year growth was the result of an increase in sales in Prešov (35.6 %), Bratislava (23.7 %), Žilina (16.9 %), Nitra (15.6 %) and Banská Bystrica (o 8.3 %) regions, while sales decreased in Trnava (22.2 %), Trenčín (13.9 %) and Košice (6.7 %) regions.

In sales and maintenance of motor vehicles in 2005, almost two-thirds of revenue was earned by businesses whose registered office is in Bratislava Region (65.6 %). Other regions contributed from 4.1 % (Trenčín Region) to 6.8 % (Nitra Region). The highest year to year increase in revenue was in Trenčín (75.8 %) and Prešov (42.1 %) regions, while revenue decreased in Trnava (by 39.1 %) and Banská Bystrica (32.4 %) regions.

In transport and storage, 59.3 % of sales revenue from own performance and merchandise (save from travel agencies) was earned by businesses whose registered office was in Bratislava Region. Other regions contributed a range from 4.5% (Žilina Region) to 8.3% (Nitra Region). The highest year to year increase in sales, in absolute terms, was in Bratislava Region (9.4 billion Sk). 2004 levels were not achieved in Žilina (by 1.1 billion Sk) and Trnava (0.6 billion Sk) regions.

Among real estate operators, more than half of total revenues were earned by businesses whose registered office was in Bratislava Region (55.4 %). Percentages in other regions ranged from 4.5 % (Prešov Region) to 8.5 % (Košické Region). Sales revenue exceeded 2004 levels in Bratislava (by 14.7 %), Trenčín (11.3 %), Trnava (9.5 %), Banská Bystrica (6.5 %) and Žilina (1.6 %) regions, while sales fell in Košice (by 8.5 %), Nitra (4.5 %) and Prešov (3 %) regions.

3.8 Potential of Entrepreneurship Activity

In 2005, NADSME in cooperation with Infostat and the Public Opinion Research Institute of the Statistical Office of the Slovak Republic, carried out a survey that focused on determining potential business activity. Residents in the Slovak Republic aging from 18 to 64 years were targeted by the survey and the sample contained 2,000 responses.

The survey's goal was to obtain a set of characteristics defining the attitude of population towards business activity. Research predominately focused on the respondents' interest in starting a business in the next twelve months, chief reasons for such interest or lack of interest in starting a business, planned method, form and sector of the business, means of obtaining funds for starting a business, length of time self-employed persons had been in business, their chief reasons for starting a business, business sector, financing used to start the business, number of staff hired by self-em-

ployed persons, willingness of relatives and friends to lend from their own savings to start the business and expanding utilization of information technologies and the internet. The most important findings from the survey were:

Citizens interested in doing a business

- 9% of those participating in the survey expressed interest in starting a business in the next twelve months.
- As the most common reason for having no interest in business, the participants cited lack of funds (46% addressed) and lack of experience (40%) that was preventing them from going into business.
- Finding funds bothered 42% of those who planned on starting a business in the next twelve months, 17% of those asked had not yet taken any steps and 33% had obtained information about going into business.
- 65% of potential business owners wanted to dedicate themselves to the business as their main work, while 35% wanted to operate it along with their regular employment.
- 39% of future business owners cited pursuit of higher income as the chief motive for going into business, while 21% of those addressed wanted to follow their interests and ideas in business and 18% wanted to go into business because they had no other chance of being employed.
- The majority of potential business owners – 87% - wanted to be sole proprietors, 7% of those interested in business wanted to establish a limited liability company.
- 29% of survey participants said they were interested in working in trade and 21% in the commercial services sector. 15% of respondents wanted to operate in the construction, hotel, restaurant and hospitality industries.
- To start a business, 48% of potential business owners planned to use their own savings, while 42% wanted to finance their business through a bank loan. 34% of those addressed said they would finance their business using savings from other household members.
- Around one in fourteen of current business owners had been operating for less than a year and fewer than 20% had been operating for less than two years.

Citizens conducting business activities

- 46% of current business owners cited as a reason for starting a business the opportunity to follow their interests and ideas.
- 29% of respondents said they were doing business in the area of trade, while 21% were in the commercial services sector. 16% of self-employed respondents were operating in the construction industry.
- 66% of business owners had used their own savings as a source to finance the startup of their business, while 31% of those addressed had got assistance from other household members. 27% of current business owners had informally borrowed from relatives and friends.

- More than 40% of those asked were employing 1-5 staff, while 39% of respondents did not employ any staff.
- In the next five years, 80% of respondents did not want to change the number of persons employed, 16% of those addressed were planning to increase the number of employees and 4% expected to decrease the number of employees.
- 35% of those asked said they were willing to lend money to relatives or friends so they could start their own business (definitely yes, probably yes) while 65 % expressed a negative opinion (definitely no, probably no). Of those who expressed a willingness to lend, 44% of those asked said were willing to lend up to 30,000 crowns and around an equally large group would lend between 31,000 and 100,000 crowns. 8% of survey participants would be willing to provide from 101,000 to 500,000 crowns.
- 18% of survey participants had lent from their savings to relatives or friends to start a business, of which 48% said they had lent up to 30,000 crowns and 40% between 31,000 and 100,000 crowns.

Utilization of information and communication technologies

- 57% of respondents had a computer at home, while 45% of those addressed used a computer outside the home.
- 46% of households that had a computer used the internet at home. The most common means of internet connection was by broadband (23% of those addressed), while 36% of those answering used the internet outside of home.

3.9 Readiness of Small and Medium-sized Enterprises to Use Non-bank Forms of financing

Successful operation of our small and medium-sized enterprises over the long term in the EU Common Market involves continuous product and technology innovation. Investment by firms in innovation is financially demanding. The risk profile of highly innovative projects often does not permit financing through bank loans. SMEs that do not generally have sufficient capital at their disposal have to look for other forms of financing in order to innovate.

One possible solution to meet competitive pressure from the European market is to utilize venture capital, increasing the share capital of businesses. One advantage of this is by obtaining capital for long-term development of firms, there is no subsequent repayment of principal and interest. On the other hand, the original owner has to cede some decision-making within the firm to a new shareholder or shareholders and meet a jointly agreed business plan.

A statistical survey that was carried out on a representative sample (1,070 businesses, legal entities) charted the interest and readiness of small and medium-

sized enterprises to use such non-bank financing to fund business activities. The most important conclusions drawn from the survey were:

Innovation and its nature, merits and financing

- Almost three fifths of firm representatives responding (59%) said that constant innovation was a part of their firm's long-term business strategy. For two fifths (41%), innovation was not part of their business strategy.
- Almost a quarter of respondents (22 %) were planning to make more organizational changes (e.g. firm management, business model) and more than a fifth of survey participants (20 %) wanted to expand their activities by developing or introducing new services. 11% of respondents were planning to purchase new technology to expand their activities, 10% to develop or introduce new (innovated) products and 8% to introduce new technology. The largest percentage of business owners – more than two fifths (44%) were not planning to expand their firm's activities.
- Respondents who said they intended to expand their enterprise's activities were at the same time specific about what growth in sales revenue they were expecting in relation to the innovations they were preparing. More than half of those answering (52%) anticipated that when the prepared innovations were put into place, they would help increase sales by 10-30% and more than a third of representatives (35%) from answering firms expected growth in sales of up to 10%.
- More than a quarter of firms (26%) were cooperating with partner firms to innovate and more than one fifth of firms (23%) were using their own capacity to develop new products or technology. Only 7% of enterprises were cooperating with universities or research offices.
- Two thirds (66%) of small and medium-sized enterprises preparing to innovate their products said they were utilizing their own resources to finance it and more than a third (37 %) had secured a loan from a bank. Approximately one eighth of firms did not know how they were going to fund any innovations prepared.
- For most of the respondents (78%) preparing to innovate their products and services – almost four fifths – putting innovations into place meant an increase in firm turnover and for more than two fifths (44%) a cost savings. Almost a fifth (18%) were going to acquire a new market segment by innovating.
- More than a half (52%) of business representatives that were preparing to innovate their products and services said their costs for innovation in 2002-2004 represented up to 10% of the firm's total turnover and more than a third of those addressed (35 %) said they were from 10 % to 30% of the firm's total turnover.
- The largest percentage of firms, more than four fifths (84%), had no way of protecting the intellectual property rights to their innovations. Less than a tenth of the representatives of small and medium-sized enterprises answering (8%) said the supplier where the firm had obtained the innovation had the intellectual property rights. The survey found an equal 8% of enterprises had some other form of copyright.

Attitude toward the entry of investors, need of advice

- Almost 60% of those addressed considered maintaining the firm's market position and preserving management control to be the overriding strategic objective. Less than one third of respondents (32%) were interested in the firm's rapid growth in the market and keeping ownership.
- One in twenty survey participants (5%) would fully accept the financing of business activities by an additional contribution to the firm's share capital from a new investor. More than three quarters of those answering (76%) did not want to have any further shareholders in the firm and less than a fifth of enterprise representatives (19%) would be willing in certain circumstances, depending on the terms and conditions of the agreement, to accept such a form of financing their activities.
- More than half of those asked (55%) cited as the chief reason for not being interested in the entry of a minority investor their unwillingness to involve that person in the firm's decision-making. Around one quarter of business owners (26%) were inclined to answer that the firm was pursuing other goals besides the maximization of profit.
- Almost two fifths (38%) of firm representatives cited as the chief merit of having another investor that the investment would distinctly help increase turnover and company profit in forthcoming years. Almost a quarter of those answering (23%) expected help from the new shareholder in entering new markets and more than one fifth (21%) believed that the shareholder would significantly help improve the firm's financial management.
- In respect to monitoring interest and help in preparing and submitting projects to the investor, a quarter of enterprises (25%) said that they would like to utilize a consultant (25%), even if they had had sufficient experience with preparing and submitting projects. Less than one quarter would need assistance in the first place when preparing a project. The results of the survey show that more than two fifths of firm representatives (43%) do not need any advice in this area.
- Only 6% of representatives in small and medium-sized enterprises said in the survey that if they had surplus funds temporarily available, they would be willing to invest in other developing firm with the goal of utilize its resources. More than half of representatives of small and medium-sized firms asked (51%) said their enterprise had no surplus funds available. Almost a third of enterprises had surplus funds but preferred to invest in increasing their own production or expanding production to diversify the firm's activities.

3.10 Position of SMEs in the Slovak Economy - Summary

In 2005, according to refined estimates, gross domestic product amounting to 1,439.8 billion Sk was created and had increased in real terms by 6% from 2004. At nominal prices, it grew year to year by 8.6%. Compared to 2004, economic growth accelerated by 0.5 pp.

Of gross domestic product created, added value accounted for 1,289.7 billion Sk with a year to year rise of 5.1% (0.7 pp less growth than in 2004). The private sector generated, based on estimates, 90.6% of gross domestic product (a 0.5 pp higher share than in 2004). Private sector percentages in individual areas were trade 99.8 %, construction 99.7 %, agriculture 99 %, industry 85.9 %, transportation 63.6 % and forestry 46.7%.

The second consecutive year of gross domestic product growth was related to a rise in domestic demand (by 7.3%), as well as foreign demand (by 10.9%). Rapid growth in investment particularly contributed to the strengthening of domestic demand. Gross capital formation increased by 14.1% (of which gross fixed capital formation rose by 12.4%) and household final consumption expenditure increased by 5.8%. The slowest component of GDP was final consumption expenditure by public administration (an increase of 2 %).

GDP growth in 2005 was influenced by a rise in gross production of 6.3% to 3,369.6 billion Sk and intermediate consumption by 7% to 2,079.9 billion crowns. The share of intermediate consumption to gross consumption increased 0.4 pp and reached 61.7%.

The percentage of small and medium-sized enterprises in basic economic indicators did not significantly change. After a previous-year decline of 2.4 pp, a moderate rise in 2005 was recorded in the contribution by SMEs to profits (by 1.7 pp), the current rise in gross production (by 2.3 pp) and percent employed (1.3 pp).

The share in gross production by small enterprises reached 21.9 % (a rise of 0.9 pp) by medium-sized enterprises 20.0 % (a rise of 1.5 pp) and by large enterprises 58.0 % (a decline of 2.3 pp.) (See Graph No. 22). In nominal prices, gross production grew in SMEs (by 17.6 %) and large enterprises (by 6.7 %), which represented, in the case of SMEs the largest increase in the last seven years.

Small enterprises contributed 27.4% to creating value added (a rise of 1.9 pp), while medium-sized enterprises had a 21.5% share (a rise of 2.0 pp) and large enterprises 51.1% (a decline of 3.9 pp) (See Graph No. 23). In nominal prices, valued added by SMEs rose (by 21.9%) as well as did large enterprises (by 7.1%).

Small enterprises had a 31.1% share of profits before tax (a rise of 0.8 pp), medium-sized enterprises had 15.3% (a rise of 0.8 pp) and large enterprises 53.6 % (a decline of 1.7 pp.) (See Graph No. 24). Year to year growth in profits at SMEs of 19.1% topped large enterprises, where profits grew at 11.4%.

Employment for the fifth consecutive year maintained its growth pattern, while unemployment trended downward significantly. In 2005, an average of 2,216,200 people were working in the national economy (based on a sample survey of labour force). 1,929,100 were employees, 206,300 business owners without employees, 71,500 business owners with employees and 1,500 business owners assisted by household members. Compared with 2004, growth in employment accelerated by 1.8 pp to 2.1 %. Total growth in the number of people working in the national economy was mainly buttressed by an 11.5% increase in the number of business owners without employees and 1.3% increase in the number of employees. The number of business owners with employees fell by 0.3%.

The trend toward growth of employment in small and medium-sized enterprises continued for the sixth consecutive year and the share by SMEs in total employment during 2005 was 70.8% (Graph No. 10). The rise in employment at SMEs was accompanied by a distinct decline in employment at large enterprises. Since 1999, the number of staff at large enterprises has declined by 269,000 (30.7%), while in the SME sector the number of employees has risen by 355,900 (31.9%).

The export performance of the economy (measured by the percentage of goods and services exported at nominal prices to GDP) increased year to year by 1.9 pp to 78.7%. An increased import dynamics was reflected in increased import intensity (measured by the percentage of goods and services imported at nominal prices to GDP) of 3.5 pp to 83%, mainly elicited by the accelerating investment process. According to preliminary results, there was a foreign trade deficit in goods and services, at nominal prices, of 62.9 billion Sk (27.3 billion Sk greater than in 2004), a foreign trade deficit in goods amounting to 74.7 billion Sk and a foreign trade surplus in services exported and imported of 11.8 billion Sk. The total foreign trade balance was also influenced by price changes.

3.11 Comparison with Available EU Sources

2005 was the second year of Slovakia's membership in the European Union. The business sector in the Slovak Republic today is not distinctly different from the older EU Member States, even though the small and medium-sized enterprise sector only began its formation in our country sixteen years ago.

A comparison of the business sector and its share in employment within the Slovak Republic to the EU19 countries, in terms of size, can be made according to the data presented in the following table. The comparison is made according to the

methodology used in EU countries, which does not distinguish between legal forms of the businesses; all profit-making legal entities and natural persons doing business are considered enterprises. More current data on EU countries is not available.

		Enterprise size					Total
		Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250+)	Small and medium sized enterprises	
EU-19 (2003)	Number of enterprises (in thousands)	17,820	1,260	180	40	19,260	19,300
	Percentage of enterprises	92.3 %	6.5 %	0.9 %	0.2 %	99.8 %	100.0 %
	Number of employees (in thousands)	55,040	24,280	18,100	42,300	97,420	139,720
	Percentage of employees	39.4 %	17.4 %	13.0 %	30.3 %	69.7 %	100.0 %
Slovakia (2005)	Number of enterprises	409,112	15,735	3,106	627	427,953	428,580
	Percentage of enterprises	95.5%	3.7%	0.7%	0.1%	99.9%	100.0%
	Number of employees	671,744	371,921	422,656	608,667	1,466,321	2,074,988
	Percentage of employees	32.4%	17.9%	20.4%	29.3%	70.7%	100.0%

Note: EU-19 includes the 15 EU countries plus Iceland, Norway, Switzerland and Liechtenstein.

4. Recommendations for Further Improvement of the Business Environment and Development of SMEs

A favourable business environment that supports and protects private ownership and economic competition, that generates clear and stable rules for such competition and guarantees compliance, while at the same time minimizing administrative obstacles, is a basic precondition for long-term competitiveness and growth of each market economy. Small and medium-sized enterprises are sensitive to an increased degree to the quality of the business environment.

Several strategic and conceptual documents partially deal with the problems of small and medium-sized enterprises. Despite this, in Slovakia there is at present no integral concept for the support and development of small and medium-sized enterprises in the medium term that would present a further direction in the area of supporting instruments, institutional guarantees of them and adjusting the legal framework of the business environment. Creating favourable conditions for the SME development should not be confused with favoritism of SMEs as opposed to other businesses, but it is necessary to understand it as formation of a business environment that allows rapid and effective growth of the SME sector.

Creating suitable conditions to facilitate SME development should become a component of policy at all ministries, other civil service bodies and local governments. An example in this direction could be the policy of “thinking small first” that the European Commission has adopted. Its main purpose is to provide for the needs of small enterprises that are considered the backbone of the European economy when drafting regulations and formulating policy in all areas.

By designing a medium-range concept for SME development, including enhancing the business environment, having it approved by the Slovak Government and answering to the “think small first” principle, it could help improve coordination of activities directed toward enhancing the business environment, with an emphasis on small and medium-sized enterprises, and make these activities dynamic.

The concept should come from the European Charter for Small Enterprises, which the Slovak Republic acceded to in 2002 and which has become the basic cornerstone of policy for small enterprises in an expanded Europe. The charter is a declaration of principles and activities that the Member States are bound to carry out for the simplification and support of small enterprises. The effort needs to be made to utilize the European Charter for Small Enterprises as an effective tool for improving the conditions of small and medium-sized enterprises in the Slovak Republic.

Based on statements made in the preceding chapters, we propose, in the interest of enhancing the business environment and improving conditions for long-term SME development, that the following measures be taken.

4.1 In the area of legislative and administrative barriers

- In the interest of enhancing the quality of the legal framework for enterprises and augmenting their stability, utilize in the legislative process all available elements of a “better regulation” policy, as defined by the OECD or the European Commission.
- Include in procedures for drafting legal regulations two elements that have particularly been absent: consultations with the affected parties in the early stage of drafting legislation (business representatives, regulatory administrators, etc.) and assessing the impact of proposed regulations on the business environment using a single and binding methodology. To assess the impact, a system has to be created that will guarantee the quality of this process and ensure methodological support by individual Ministries when the analyses are conducted.
- Establish a sufficient length of time between approval of regulations and the date when they become effective and pass legislation affecting the SME sector so that it only takes effect on a single date in the year (e.g. on 1 January).
- Only use fast track approval in the Slovak Parliament in unique cases and to ensure in such a case that the proposed law was drafted and considered in a quality manner. Submit draft laws that are simple, readable and clear.
- Analyze the administrative burden on business that results from existing legal regulations. Based on the above analysis, identify any opportunity to decrease the administrative burden and proceed with systematic reduction of it.
- Continue creating the conditions for the fair resolution of disputes without undue delay, with the goal of improving the quality and performance of the court system, increasing the enforcement of rights through an amendment to the Civil Court Procedures Code and, in particular, making the process more effective, including setting a period when the Court has to act on applicable matters.
- Increase business awareness in the area of alternative methods of resolving disputes with the objective of increasing their utilization.
- Simplify administrative procedures for starting a business by establishing a single location for arranging all matters for new businesses, including providing general business advice.
- Simplify administrative procedures when employers pay contributions and deduct wages and salaries by a single withdrawal and clearing of contributions and taxes; repeal the current form of clearing contributions to the health insurance system.
- Assess the impact of recent enactment of new bankruptcy procedures, above all in relation to speed, effectiveness and level of creditor satisfaction.
- Accelerate the introduction of e-government services in all areas where the civil service and local government interact with businesses.
- Create incentives for wide utilization of electronic signatures for businesses.

- Put in place a system of electronic public procurement that would gradually replace completely the classical process of public procurement when public administrative bodies purchase goods.

4.2 In the area of access to capital and support programmes

- Develop conceptual materials in the area of supporting SME development, innovation and clustering. The concept of supporting SME development should also consider future programs for supporting small and medium-sized enterprises financed from the government budget, where funding for most of them was frozen or restricted during 2004.
- Facilitate access by new businesses to startup capital by providing subsidised loans or guarantees.
- Expand support for startup and small businesses with micro-credits related to providing education and advice.
- Improve access to venture capital for innovative startup firms by establishing a system based on involving private and venture capital under strict compliance with market principles.
- Establish programs for improving SME readiness when utilizing venture capital (“investment readiness” programs).
- Identify and eliminate administrative obstacles in the area of capital markets and ensure that these markets function.
- Improve conditions for startup small and medium-sized enterprises to find suitable premises for doing business in business incubators or industrial parks and ensure specialized consulting for innovative firms in technology incubators.
- Systematically encourage the creation and development of clusters, in particular in rapidly developing sectors (engineering, the automobile and electro-technical industries and information technology), with the goal of increasing SME competitiveness by involving them in a network.
- Put in place a program for encouraging SME involvement in the European Community’s framework program for research and technical development, which would help Slovak SMEs participate in utilizing results from high-level European research.
- Encourage activities directed toward promoting products and services from businesses in the domestic and foreign market.
- Reduce administrative demands, shorten and simplify procedures for obtaining and utilizing support for SMEs.
- Ensure wider access to advisory services by means of support programs financed from the government budget.
- To increase the transparency of government assistance provided, put in place the publication of all recipients in a single central internet website.

4.3 In the area of education, advice and informations

- Encourage the development of an entrepreneurial spirit (business culture) in all levels of schooling, where it is necessary to combine a formal approach (reforming the existing teaching curriculum), as well as an informal approach embodied in close contact with business in practice (so-called student micro-firms, cooperation with the business sector).
- Create in the school system the foundations for changing the philosophy from an employee to an employer society, educate high school and university graduates to be prepared for self-employment by increasing knowledge in the area of business economics, law, information science and communications.
- Modernize and the secondary vocational schools educational and training system in the face of changing conditions in close cooperation with business sector, keep apprenticed youth from falling behind in the area of applying modern technology.
- Improve access for startup businesses to consulting services at a reasonable price. Together with an increase in funding for advice to startup businesses, consider the possibility of opening existing networks of providers of such consulting services.
- Tying into creating a network of Single points of contact (SPC) and amending legislation with the goal of simplifying the startup of a business according to the government-approved concept, expand the SPC operation by integrating consulting of new businesses.
- More strongly encourage consulting and education in the possibilities of doing business in EU markets.
- Increase business environment transparency by constructing an on-line version of the Commercial Register (collection of deeds, binding nature of extracts) and the Cadastre (access for all interested persons free of charge).
- Ensure sufficient communication by the Government when introducing ongoing reforms to the business sector.

4.4 In the area of employment

- An active labour market policy oriented toward support for creating job opportunities in small and medium-sized enterprises that report a high absorption capacity.
- Encourage self-employment by means of counselling services and education financed by programs from the government budget.
- Reorient social assistance provided to citizens who start doing business under an economic pressure, switching from support in unemployment to active assistance forms during the start-up stages,
- Take steps to reduce administrative burden related to employing staff (hiring employees, the system of making contributions to funds) and adopt measures

to decrease total labour costs by reducing payroll deductions and employer contributions to funds.

- Decrease total employer costs for the workforce, based on a comprehensive and objective analysis of the needs and opportunities for further reducing the burden of making contributions and payroll deductions in the Slovak Republic.
- Place emphasis on developing programs and pilot projects to encourage employment of risk groups in the labour market.
- Draft programs to provide incentives to businesses that employ citizens with health disabilities in order to compensate for differences in work productivity among these workers compared to healthy staff.

5. Government Support of SMEs

5.1 Ministry of Economy of the Slovak Republic

In 2005, support from the Ministry of Economy of the Slovak Republic (MoE SR) in the area of small and medium-sized enterprise development focused, in particular, on increasing small and medium-sized enterprise competitiveness, above all in connection with operating in the European Union market. In particular, the MoE SR in 2005 was supporting small and medium-sized enterprises through the Sectoral Operational Programme Industry and Services and grant schemes from the 2002 and 2003 PHARE FM National Programme.

The MoE SR functions as the Managing Authority for the Sectoral Operational Programme Industry and Services (hereinafter “SOP IS”). During the first half of 2005, the evaluation process ended for individual calls for projects within measures for private sector support. Specifically, these were measures 1.1 supporting purchase of innovative technology, measure 1.3 supporting research and development and introduction of quality management systems, measure 1.4 supporting energy savings and utilizing renewable energy sources, measure 1.5 supporting participation in trade fairs and exhibitions outside Slovakia and measure 2.2 supporting tourism development. Subsequently, individual intermediary bodies under the Managing Authority for implementing individual SOP IS measures, have begun since May 2005 signing grant contracts based on a decision made by the Minister of Economy of the Slovak Republic. At present, individual contracted projects are being implemented.

According to Financial Memoranda between the European Commission and the Slovak Republic, the MoE SR is the Managing Authority and provider of PHARE National Programme assistance, the Industry Development Grant Scheme, the Tourist Development Grant Scheme – 2002 FM, the Grant Scheme for Support of Innovative Small and Medium-sized Enterprises and the Tourist Development Grant Scheme – 2003 FM.

In 2005, funding ended for the projects in the Industry Development Grant Scheme, whose purpose was to contribute to increasing the value added content of Slovak industry by improving product offerings and manufacturing technologies (sustaining 126 projects totalling more than 4.2 million EUR) and in the Tourist Development Grant Scheme, whose purpose was to improve the quality and increase the level of tourism in the Slovak Republic in the form of investment support to small and medium-sized enterprises operating in the area of tourism and non-investment support to local and regional associations and, if appropriate, other associations focused on developing tourism (sustaining 110 projects totalling around 5.5 million EUR). In both Grant Schemes, a high percentage of assistance was drawn. At present, interim monitoring of the projects is in progress.

Within the 2003 FM National Programme, the two grant schemes have been implemented. The purpose of the “Support for Innovative Small and Medium-sized Enterprises” Grant Scheme is effective support for knowledge-based manufacturing industries whose application will lead to an increase in labour productivity, support for small and medium-sized enterprise development and enhancement of their competitiveness in the market through innovation. Accordingly, the project’s purpose is to increase access to funding for innovative companies by means of establishing a sustainable investment scheme for venture capital. The second scheme is the Tourist Development Grant Scheme, whose goal is direct and indirect support to small and medium-sized enterprises operating in the area of tourism and local and regional associations and, if appropriate, other partner associations from the private or public sector that are focused on developing tourism. In both schemes, preparations to announce calls for projects were made in 2005.

Attention was also paid to the development of a supporting business infrastructure through support for constructing and operating incubators and also for First contact points and Euro info centres.

Among the Ministry’s permanent tasks during the year is an assessment of the utilization and drawing of funds for individual subprogrammes focusing on SME support. Based on the assessment’s results over the course of the year, conditions for providing assistance and allocating funds from the state budget to specific subprogrammes for future periods would be modified. Ministry staff would especially utilize the knowledge obtained from events and activities organized by the EU, OECD, ECE, UNIDO, UNDP and similar organizations when formulating policy.

5.2 Innovation Fund

Inovačný fond, n. f. (Innovation Fund, non-investment fund), operated by the MoE SR, aims at supporting research and development in industrial sectors for the purpose of accelerating transfer of research and development results into practice and creating the conditions for innovative growth in industrial manufacturing, increasing competitiveness and exporting domestic product.

In 2005, Inovačný fond, n. f. concluded six new contracts to provide returnable financial assistance totalling 27,3 mil. Sk, in accordance with its statutes. Such returnable financial assistance is usually extended in two tranches over two years when the project is completed. In 2005, Inovačný fond, n. f., provided 23,5 mil. Sk to support research and development projects.

5.3 Ministry of Labour, Social Affairs and Family of the Slovak Republic and the Central Office of Labour, Social Affairs and Family

The Ministry of Labour, Social Affairs and Family of the Slovak Republic (MLSAF SR) encourages employment through its Central Office and Offices of Labour, Social Affairs and Family. After a change at the beginning of 2004 in the system for implementing an active labour market policy (ALMP), year 2005 was characterized above all by enhancement of activities to implement the National Projects, as well as other tools for an active labour market policy.

Principal legislation for implementing an active labour market policy is Act No. 5/2004 Coll. on Employment Services, amending and supplementing other acts, as amended, which has been amended several times since 2004. An amendment to the Act effected ALMP, in particular support for creating jobs. Since 2004, the level of contributions made to encourage the employment of unemployed disadvantaged groups has increased, which resulted in more jobs created.

According to the Act No. 5/2004 Coll., ALMP is being implemented by means of tools that have a financial dimension in providing benefits (Sections 32, 43, 46, 47, 49, 50, 51, 52, 53, 54, 56, 57, 59 and 60). These tools focus, above all, on increasing the employability of job applicants and creating new jobs. An essential part of funding of these ALMP tools was made by the European Social Fund through the National Projects, under which the overwhelming majority of the above tools is being utilized. Their use is affected by compliance with European Community regulations in force.

The initial trend in 2005 within the active labour market policy was, first of all, enhancing the employability of job applicants through education and preparation for the labour market, advisory services, entry-level work for graduates, activation activities and movement after jobs. At present, ALMP tools also include measures to support an increase in the employment rate. Measures and tools increasing employability have had an impact on workforce mobility and in the area of occupational and territorial mobility.

In 2005, the Offices of Labour, Social Affairs and Family through active labour market policy tools activated 260,270 job applicants, representing 37% of total job applicants, who could be assigned that year to ALMP tools. From the total number of job applicants activated, 256,367 job applicants were positioned by ALMP tools implemented according to Act No. 5/2004 Coll. on Employment Services and 3,903 according to Act No. 387/1996 Coll. on Employment.

The LSAF Offices in 2005 agreed total funds for creating and filling jobs and for people assigned to ALMP tools under Act No. 5/2004 on Employment Services amounting to 2,478,566,000 Sk. A significant result in the year under review was the number of jobs created – 13,686, which was 6,027 more than in 2004. The extent

to that unemployed persons were placed in the labour market, with emphasis on disadvantaged groups, can be considered a positive trend.

Support according to individual tools of the active labour market policy

ALMP tools	Number of supported jobs	Agreed amount of funding (SKK)	Average benefit per person per ALMP tool (SKK)
Increasing job applicant employability	198,114	1,427,898,323	43,835
Sec. 46: Educating and preparing job applicants for labour market	35,689	263,709,643	7,389
Sec. 47 Educating and preparing employees for labour market	64	496,771	7,762
Sec. 51 Benefits for providing entry-level work for graduates	24,838	334,310,338	13,460
Sec. 52 Benefits for activation activities	137,446	828,673,574	6,029
Sec. 53 Benefits for moving after jobs	77	707,997	9,195
Support to create new jobs	18,308	1,050,668,043	641,234
Sec. 49 Benefits for self-employment	9,908	601,105,969	60,669
Sec. 50 Benefits for employing disadvantaged job applicants	3,087	228,953,539	74,167
Sec. 56 Benefits for creating protected workshops	362	54,98,287	151,376
Sec. 57 Benefits for citizens with altered working ability for self-employment	271	42,195,092	155,701
Sec. 59 Benefit for work assistants	58	9,076,415	156,490
Sec. 60 Benefits for paying operation costs for protected workplaces and employee transportation costs.	2,731	109,060,695	39,934
Sec. 110 Act No. 387/96 Coll.	1,891	5,478,046	2,897
Total	216,422	2,478,566,366	11,452

5.4 Ministry of Construction and Regional Development of the Slovak Republic

The Ministry of Construction and Regional Development of the Slovak Republic (MCRD SR) has the role of Managing Authority for the Single Programming Document (SPD) Bratislava Objective 2. Consistent with the efforts of the Slovak Republic to reduce differences in the level of development in individual regions, the MCRD SR has submitted a proposal to draw assistance from Structural Funds under Objective 2 and Objective 3 for 2004–2006. The financial framework of SPD

would contribute 37,168,218.00. The programme supplement specifying the plan for SPD NUTS II Bratislava Objective 2 in 2004-2006 – was prepared by the MCRD SR as Managing Authority, based on the principle of partnership and cooperation with the relevant partners.

Within the support from structural funds under SPD NUTS II – Bratislava Objective 2, five Measures were worked out in priority of Support for economic activities and sustainable development in targeted territories, of which two are defined for SMEs through two state aid schemes and one de minimis scheme. In terms of Measure 1.1 Development of SMEs, the Scheme for Support of Small and Medium-Sized Enterprises SPD2 was prepared. In terms of Measure 1.3, the Scheme for Support of Tourism SPD2 was prepared. Under these schemes within calls for projects 1 and 2, 39 applications for grants were submitted, of which 14 applications were approved.

After reallocation of funds by the Slovak Government and the SPD2 Monitoring Committee was approved, the balance of funds after calls 1 and 2 are as follows:

- Scheme for Support of Small and Medium-sized Enterprises SPD2 (state aid scheme) within Measure 1.1: investment projects totalling 236,166,469 Sk and projects focused on first-time participation in trade fairs, exhibitions and foreign missions and projects in the area of advice and consulting services totalling 31,074,724 Sk.
- Scheme for Support of Tourism SPD 2 (state aid scheme) within Measure 1.3: investment projects totalling 160,788,584 Sk and projects focused on first-time participation in trade fairs, exhibitions and foreign missions and projects in the area of advice and consulting services totalling 31,074,724 Sk.

For selected activities within Measures 1.1 and 1.3, the Scheme for Support of Small and Medium-sized Enterprises SPD 2 (de minimis scheme) was separately prepared, within which in the first two calls there were six applications submitted and only one of them approved. The balance of funds for the de minimis scheme is as follows:

- Scheme for Support of Small and Medium-sized Enterprises SPD 2 (de minimis scheme) within Measure 1.1 totalling 54,023,439 Sk and Scheme for Support of Small and Medium-Sized Enterprises SPD2 (de minimis assistance scheme) within Measure 1.3 totalling 18,644,834 Sk.

Further calls for submitting applications will be announced in 2006.

5.5 Ministry of Agriculture of the Slovak Republic

Financial assistance for businesses within the agriculture sector is being carried out through the Agriculture Payment Agency of the Slovak Republic (APA). In 2005, APA did not record any domestic assistance provided that was classified under the category of small and medium-sized enterprises. Based on a decision made by the Ministry of Agriculture of the Slovak Republic (MA SR), the records in question within this portfolio will be introduced from 2006. Data on the average number of employees assigned to projects approved within the Sectoral Operational Programme Agriculture and Rural Development in 2005 and data on the average number of employees assigned to projects approved within the Rural Development Plan in 2005 can be found in Table Nos. 1 and 2 in Appendix No. 2.

Based on MA SR Decree No. 806/2004-100, Section 7, the MA SR has provided assistance for businesses to cover part of the interest of loans on warehouse receipts. In 2005, support was provided to 161 applicants totalling 26 million Sk.

5.6 Slovak Guarantee and Development Bank

The Slovak Guarantee and Development Bank (Slovenská záručná a rozvojová banka, a.s. hereinafter SZRB) is a specialized government institution focusing on businesses support, in particular those categorized as small and medium-sized enterprises. The SZRB was initially established in 1991 as a government financial institution, but was transformed in 2002 into a joint-stock company 100% owned by the Ministry of Finance of the Slovak Republic.

The SZRB's specific mission has been since its establishment, above all, to extend bank guarantees to businesses that do not have sufficient assets to provide commercial lending banks as security. At present, SZRB also extends loans. As is the case with bank guarantees, SZRB is able also for loans accept with reasonable prudence higher degree of risk in terms of an assessment of the business or its collateral. This approach to assessing risk also allows newly-established businesses to be financed. In this way, the bank simplifies access to credit facilities and thus can be of assistance when a business is being launched and developed. The SZRB has been cooperating with several Ministries while implementing its support programmes with a range of financial instruments. In the interest of municipal development, the SRZB has also been financing projects financed by Structural and Cohesion Funds that relate to practically any area with a positive impact on the environment. A relatively new activity within the bank is intermediary contacts between investors and businesses with innovative projects. For small enterprises, the SRZB has expanded its lending programmes introducing loans for female entrepreneurs (Úver PODNIKATEĽKA)

with the aim to allow existing, as well as new startup businesses access to credit facilities and shortening time necessary to handle an application.

5.6.1 Guarantee programmes

The purpose of these programmes is for the SZRB to extend bank guarantees for financial loans to those businesses that do not have sufficient security at their disposal.

1. Bank guarantees for financial loans
Under these conditions the SZRB extends a bank guarantee with direct security, bank guarantee with indirect security and bank guarantee in special cases
Provider: SZRB
2. Government assistance programme for renewing the housing stock by providing a bank guarantee for loans
Announced by: Ministry of Construction and Regional Development of the Slovak Republic
Provider: SZRB
3. SZRB, a.s. General Conditions to extend a bank guarantee for financial credits from the State Housing Development Fund, designated for municipalities and cities to construct leased municipal housing
Contractually agreed cooperation between SZRB and the State Housing Development Fund
4. SZRB, a.s. General Conditions to extend a bank guarantee for SOLVENT BIZNIS KARTA (Solvent Business Card), a bank product of OTP Banka Slovensko, a. s.
Contractually agreed cooperation between SZRB and OTP Banka Slovensko, a.s.
5. Bank guarantees for micro-loans extended by Tatra banka, a.s.
Contractually agreed cooperation between SZRB and Tatra banka, a.s.

In the course of 2005, 276 guarantees valued at 1,211,990,000 Sk were extended (details on extended guarantees are shown in Table No. 3 and 4 in Appendix No. 2). As of 31 December 2005, there were 118 classified loans (the data is presented in Table No. 7 of Appendix No. 2). Unpaid principal was valued at 179,124,000 Sk. The guarantees extended in the year under review contributed to the creation of 300 new jobs. The above programmes have cumulatively assisted in the creation of 12,718 new jobs.

5.6.2 Loan programmes

As of 31 December 2005, SZRB provided loan products for SMEs through three indirect loan programmes and eleven direct loan programmes.

a) Indirect loans

1. ROZVOJ III MSP (SME DEVELOPMENT III) loan programme
The programme is financed through a credit line with Kreditanstalt für Wiederaufbau.
2. ROZVOJ II MSP – EÚ (EU DEVELOPMENT II) loan programme
The programme is financed through a credit line with Kreditanstalt für Wiederaufbau.
3. ROZVOJ III – Byty (DEVELOPMENT III – Housing) loan programme
The programme is financed through a credit line with Kreditanstalt für Wiederaufbau.

For implementation of the ROZVOJ loan programmes, SZRB has signed framework contracts with 11 commercial banks: Istrobanka, a. s., Privatbanka, a. s., Poštová banka, a. s., Komerční banka, a. s., HVB bank Slovakia, a. s., OTP banka Slovensko a. s., VÚB a.s., Dexia banka Slovensko, a. s., Tatra banka, a. s., Ľudová banka, a. s., Slovenská sporiteľňa, a. s.

b) Direct loans

1. SZRB, a.s. General Conditions for provision of direct loans
2. Loans for agriculture producers with the option of revolving loans
3. Micro-loans
4. Úver PODNIKATEĽKA (Loans for female entrepreneurs)
5. Rozvoj III – BYTY (Development III – Housing) loan programme
6. Rozvoj III – VIDIEK (Development III – Rural Areas) loan programme
7. Rozvoj III – OBCE (Development III – Municipalities) loan programme
8. Financing environmental projects from EIB sources - loan programme
9. Financing environmental and other projects from NIB sources - loan programme
10. Municipal infrastructure financing programme and construction of low-income housing through credits from the Council of Europe Development Bank (Alternative A)
11. Municipal infrastructure financing programme and construction of low-income housing with MCRD SR subsidies to pay part of the interest through a credit line with the Council of Europe Development Bank (Alternative B).

Over the course of 2005, 773 loans totalling 3,894,630,000 Sk were accepted within loan programmes (the data on loans extended, as well as a summary of the classified loans, is shown in the appendix in Tables No. 5 and 6 of Appendix No. 2). As of 31 December 2005, there were 662 classified loans and unpaid principal represented a value of 629,039,000 Sk (data is shown in Table No. 7 of Appendix No. 2). Loan programmes implemented in the year under review have contributed to the creation of 7,841 new jobs.

5.6.3 Grant Programmes

The SRZB has been providing grants within government-backed development programmes, drafted in cooperation with the Ministry of Economy of the Slovak Republic, the Ministry of Agriculture of the Slovak Republic, the Ministry of Transportation, Post and Telecommunications of the Slovak Republic and the Ministry of Environment of the Slovak Republic, thereby helping to reduce the interest burden on businesses. They can also be used to reduce part of eligible costs, i.e. the costs incurred for capital investments of the project.

Grant programmes as of 31 December 2005:

1. Combined Transport Development Scheme in the Slovak Republic
2. Scheme for Support of Timber Processing and Utilization (de minimis assistance scheme) (suspended since May 2004)
3. Scheme for Support of Small Startup Businesses (suspended since April 2004)
4. Grant Scheme for Support of Competitiveness – Scheme A (de minimis assistance scheme) (suspended since April 2004)
5. Scheme for Support of Tourism in the Slovak Republic No. 6 (suspended since July 2004)
6. Scheme for Support of Energy Savings and Utilization of Renewable Energy Resources (suspended in 2004)
7. Scheme for Support of Gradual Elimination of Substances Damaging the Ozone Layer (suspended in 2004)

Since acceptance of client applications for the above contributory schemes, with the exception of the Combined Transport Development Scheme in the Slovak Republic, have gradually been suspended, only information on programmes currently open is presented.

1. Combined Transport Development Scheme in the Slovak Republic Announced by: Ministry of Transportation, Post and Telecommunications of the Slovak Republic
Provider: SZRB

During 2005, there were no grants awarded through the grant programmes. Data on financial contributions paid through the SZRB are presented in Table Nos. 8, 9 and 10 of Appendix No. 2. These grant programmes have cumulatively contributed to the creation of 8,138 new jobs.

5.7 Export-Import Bank of the Slovak Republic

The Export-Import Bank of the Slovak Republic (Eximbanka) was formed by Act No. 80/1997 Coll. on the Export-Import Bank of the Slovak Republic, as amended by Act No. 336/1998 Coll. and Act No. 214/2000 Coll. Since its establishment, the Government has been the sole owner of the Eximbanka, which began its activities in 1997. The chief purpose of the institution is to support maximum export of sophisticated products, in particular to the EU and OECD countries, while guaranteeing recoverability of funds by minimizing the risk arising from insurance, credit, guarantees and financing transactions. When accomplishing its main objective – export support – Eximbanka conducts its activities in two main areas: financing and insuring export loans. Support for small and medium-sized sector exports in 2005 comprised of 57 guarantees and 54 direct bills of exchange, i.e. 111 transactions altogether with a total financial value of 1,475,459,268 Sk. More detailed information on SME export assistance through the Eximbanka is shown in Table No. 11 in Appendix No. 2.

5.8 Slovak Investment and Trade Development Agency

In 2005, Slovak Investment and Trade Development Agency (SARIO) successfully continued implementing the Sectoral Operational Programme Industry and Services (SOP IS), Measure 1.2 Support of the Building and Reconstruction of Infrastructure and Measure 1.5 Development of Foreign Cooperation and Image of the Slovak Republic. Small and medium-sized enterprises receive assistance only within Measure 1.5.

The objective of de minimis scheme implemented within SOP IS Measure 1.5 – Development of Foreign Cooperation and Image of the Slovak Republic, focusing on support of international cooperation, was to improve the situation and competitive strength of Slovak businesses in the internal EU and third-country markets and

increase the degree of presentations made by Slovak enterprises in international markets to a level comparative with businesses in EU countries. Assistance is being provided in the form of grants (refunding).

Eligible activities for support are: first time participation in exhibitions and trade fairs inside and outside the Slovak Republic, first time participation in business missions abroad and advisory and consulting services.

SARIO provided financial support within SOP IS Measure 1.5 for small and medium-sized enterprises that were contracted in 2005. The number of small and medium-sized enterprises receiving financial assistance in 2005 was 16. The amount of financial assistance reached 17,578,506 Sk. The amount actually paid out in 2005 was 1,180,270 Sk.

5.9 Slovak Energy Agency

The Slovak Energy Agency (SEA) was established by the Government Resolution No. 678 of 19 June 2002 as an Intermediary Body under the Managing Authority (Ministry of Economy of the Slovak Republic) for the Sectoral Operational Programme Industry and Services. Its role, in accordance with Council Regulation No.1260 of 1999, is to conduct activities that have been delegated to SEA by the Managing Authority in relation to the distribution of funds from the European Regional Development Fund.

SEA has participated in the distribution of SOP IS funds during the programming period 2004-2006 and Measure 1.3 Support for Businesses, Innovation and Application of Research and Development and Measure 1.4. Support for Energy Savings and Utilizing Renewable Energy Sources.

De minimis schemes

- a. Scheme for Support of Research and Development, Introducing Quality Management Systems, Protecting Industrial Rights and Introducing Technical Standards for Manufacturing and Services

The scheme has been implemented within SOP IS Measure 1.3 SOP IS and assistance to businesses is being provided through grants. In 2005, there were no new calls for projects announced and 37 grant contracts were concluded altogether;

- b. Scheme for Support of Sustainable Development

The scheme has been implemented within SOP IS Measure 1.4 and assistance to businesses is being provided through grants. In 2005, there were no new calls for projects announced and 16 grant contracts were concluded altogether;

- c. Scheme for Support of Energy Savings and Utilization of Renewable Energy Sources

The scheme is fully financed from the Slovak Republic's state budget and does not deal with aid within Structural Funds. Assistance to businesses is provided grants. In

2005, there were no new calls for projects announced and there were no grant contracts concluded from the previous year

State aid Schemes

- d. Scheme for Support of Industrial Research and Pre-competitive Development
The scheme has been implemented within SOP IS Measure 1.3 and assistance to businesses is provided through grants. In 2005, there were no calls for projects announced and 20 grant contracts were concluded altogether;
- e. Scheme for Support of Energy Savings and Utilization of Renewable Energy Sources
The scheme has been implemented within SOP IS Measure 1.4 and assistance to businesses is provided through grants. In 2005, there were no new calls for projects announced and 31 grant contracts were concluded altogether.

Financial statement of individual types of support (in mil. of Sk)

Scheme No.	Approved Projects		Contracted Projects	
	Total Costs	Grants	Total Costs	Grants
a. DM – 002/04	71,546	33,046	56,560	27,744
b. DM – 003/04	119,437	40,099	82,218	38,464
c. DM – 003/03	0	0	0	0
d. SA – 006/03	733,400	215,735	586,602	202,407
e. SA – 015/03	2 814,359	847,071	1 578,816	779,585

5.10 Slovak Tourist Board

The Slovak Tourist Board (Slovenská agentúra pre cestovný ruch, SACR) functions as the Intermediary Body under the Managing Authority (Ministry of Economy of the Slovak Republic) for implementing Measure 2.2. Support for Business Activities in Tourism, SOP IS Priority 2 Tourism Development, based on the Authorization Agreement between the MoE SR and SACR.

The aim of the Measure is to grow competitiveness in tourism within the area of services provided by support of investment and non-investment activities. This also enhances the quality of tourist areas and spas that are offered in Slovakia, supports the creation of new attractions in the regions and achieves a level of supply comparable with neighbouring countries and countries with an advanced tourism industry. A condition is an established minimum quality level. Accordingly, a further objective is to overcome weaknesses in services offered to tourists in terms of quantity as well as quality. Accordingly, another aim of the Measure is to help small and medium-sized enterprises present themselves in domestic and foreign tourism markets. The support is being provided on the basis of a state aid scheme – Scheme for supporting business activities in tourism through grants, where

funding from the EU sources represents, in a majority of cases 35%, the state budget 30% and co-financing by the beneficiary of assistance 35%.

35,256,932 EUR were allocated from public sources into Measure 2.2, which represents 1,339,736,416 Sk, after converting at an exchange rate of 38 SKK/EUR.

From a total number of 144 projects in technical evaluation process, 40 projects were approved and provided with grants totalling 1,303,000,000 SKK. 19 projects were put into the reserve list with a total amount of 856,600,000 Sk.

As of 31 December 2005, 37 grants contracts had been signed, where the amount of the contractually covered grants was 1,100,000,000 SKK. 14 applications altogether were submitted by beneficiaries of assistance to SACR for payment totalling 80,426,791 SKK (refunding) and no funds were drawn.

5.11 INTEGRA Foundation

The Micro-fund is a programme from the INTEGRA Foundation that focuses on supporting new or already running business activities operated by women. The programme provides training, where participants become familiar with fundamental business techniques and develop a business plan. New or existing businesswomen may choose from three existing seminar models offered by the Micro-fund programme: a three-week seminar model, two-week seminar model and one-week overnight seminar. After completing the seminar, the client submits her business plan for approval and then can apply for a credit up to 100,000 SKK. The credit matures after a maximum 24 months, with an option to apply for an extension. There is declining interest and the annual interest rate is 9.5 %. In addition, the successful loan applicant pays 2 % of the amount lent as a one-time manipulation fee. There are three possible means of guarantees: group, by third party or by collateral.

Micro-fund Programme Results as of as 31 December 2005

Year	1999	2000	2001	2002	2003	2004	2005	Total
Number of seminars	1	3	4	8	10	7	7	40
Number of seminar participants	19	55	70	89	182	130	107	652
Number of business plans submitted	18	46	58	79	144	86	78	509
Number of loans extended	6	28	24	36	29	17	16	156
Amount of loans in thousands of SKK	290	1,885	1,630	2,780	2,648	1,221	1,325	11,779

In 2005, the Market Access program continued as a separate program whose main objectives are to help small producers from handicapped groups obtain access to existing markets, create new sale channels for a target group of producers and provide technical assistance to develop and increase the quality of their products.

6. Evaluation of Support Sub-programmes Implemented by NADSME Financed Only from the State Budget

6.1 Scheme for support of the purchase of innovative technologies and setting up of quality management systems

The Scheme for Support of the Purchase of Innovative Technologies and Setting up of Quality Management Systems, composed of an Innovative Technologies and Quality Section, was created by the transformation of two government programmes: “Transfer of Technology” and “Programme for Implementing Quality Management Systems – Quality”. The Scheme aims to strengthen SME competitiveness by introducing and utilizing innovations and quality management systems in accordance with selected international standards. The results of implemented schemes are, in terms of their scope, classified into two programmes. The first consists of contributions to implement quality management systems and the second consists of contributions for new technologies.

The objective of the first programme is to support enterprises that are striving to implement quality management systems (QMS) under selected international standards such, as ISO 9000, VDA, BS, QS and ISO 14000.

This programme was not financially supported in 2005. In that year, new applications were not accepted. Only enterprises that had a valid contract on provision of subsidies concluded in 2004 and valid until 2005 and had completed building a QMS in 2005 were subsidized. 17 grants totalling 1,143,195 Sk were paid to 13 firms, of which 13 for specialized consulting in the area of building a QMS and 4 for the certification process.

Within the second programme, there were 94 applications submitted in 2005 to award grants for the purchase of innovative technologies amounting to 224.3 mil. Sk. In that year, a meeting of the Selection Committee took place, in which 94 applications were assessed. Seven grants totalling 12.9 mil. Sk were approved and paid out.

Within the second program, there were 94 applications submitted in 2005 to award a non-returnable financial contribution for the purchase of innovative technologies amounting to 224.3 mil. Sk. In that year, a meeting of the Selection Committee took place, in which 94 applications were discussed. Seven grants totaling 12.9 mil. Sk were approved and paid out.

Funds paid from the 2005 State Budget by individual regions

Region	Quality		Innovative technologies	
	Number of grants	Amount of grants paid out (Sk)	Number of grants	Amount of grants paid out (Sk)
Prešov	0	0	2	2,123,880
Žilina	2	157,392.50	0	0
Banská Bystrica	1	90,668	1	803,400
Košice	3	230,500	0	0
Trenčín	4	281,434	0	0
Bratislava	5	244,700	1	3,296,877
Nitra	0	0	2	3,209,104
Trnava	2	138,500	1	3,457,941

Percentage of grants paid out in 2005 by sector

Sector	percentage	
	Innovative technologies	Quality
Industrial manufacturing	86 %	29 %
Services	14 %	35 %
Construction		24 %
Information systems	0 %	12 %
Research, development, project engineering	0 %	

6.2 Scheme for Support of Counselling and Training for SMEs

In 2005, NADSME provided counselling through an institutional network of 13 Regional Advisory and Information centres, nine First Contact Points and three Business Incubators.

The regional centres and incubators provided small and medium-sized enterprises with 1,062 informative consultations, totalling 2,215 consulting hours, about programmes and projects to support small and medium-sized enterprises that had been implemented within and outside of NADSME and 1,375 technical consultations, totalling 5,375 consultation hours, in all areas necessary for developing business activities.

To obtain loans either through financial support schemes or commercial sources, the regional centres prepared 170 business plans and reviewed 23, contributing to the creation of 342 new jobs and helping to save 1,345 jobs.

In 2005, there were no funds assigned for training of small and medium-sized enterprises implemented in the form of direct assistance to applicants through grants.

Consulting services were financed by sources within the State Budget and amounted to 3,316,946 Sk.

Subsidized consulting for managers of SMEs within the Scheme for Support for Counselling and Training for SMEs, provided by the RAIC/FCP regional center and incubator network in 2005										
	cons.	info hrs.	cons.	tech.	bp NA	oe NA	bp oth.	oe oth.	jobs	jobs
	Info B	hrs B	tech. B	hrs B	num.	num.	num.	num.	created	saved
CBR	15	35	20	151	0	0	2	0	15	6
CLE	39	39	83	188	0	0	0	0	0	0
CME	24	61	20	79,5	0	0	0	0	41	25
CMI	92	95	32	101	0	0	0	0	5	3
CPT	65	177	106	144	0	0	31	0	0	0
CSB	6	12	35	240	0	4	0	0	0	0
CSN	20	40	94	188	0	0	0	0	0	0
CVK	32	56	98	294	0	0	0	0	0	0
RBA	47	101	127	379	4	0	2	0	21	14
RDS	101	184	85	201	4	0	10	0	12	189
RKE	25	55	1	0	0	0	4	0	15	58
RKN	51	130	51	566	0	0	8	0	4	54
RLC	94	230,5	49	245	1	0	1	0	0	117
RMT	76	177	164	557,5	0	0	0	0	10	76
RNR	51	129	69	256,5	31	0	0	0	23	170
RPO	13	25	26	141	1	0	0	0	24	0
RPP	16	32	20	79,5	0	1	0	0	9	72
RPX	39	71	94	365	13	0	0	0	8	356
RTN	54	123,5	17	174,5	6	0	1	0	11	47
RTV	28	63	46	292	1	2	13	0	4	7
RZV	42	99	28	151,5	5	4	0	0	69	62
BIC-TI	19	46	52	293	7	12	6	0	39	18
BlatC	11	26	8	24	0	0	0	0	0	0
RRV	64	122	20	54	0	0	0	0	15	37
Total	1062	2215	1375	5375	75	23	95	0	342	1345

Explanatory notes (for B Group table):

CBD	FCP Bardejov	CVK	FCP Veľký Krtíš	RPO	RAIC Prešov
CBR	FCP Brezno	RBA	RAIC Bratislava	RPP	RAIC Poprad
CLE	FCP Levoča	RDS	RAIC Dunajská Streda	RPX	RAIC Považská Bystrica
CME	FCP Medzilaborce	RKE	RAIC Košice	RTN	RAIC Trenčín
CMI	FCP Michalovce	RKN	RAIC Komárno	RTV	RAIC Trebišov
CPT	FCP Poltár	RLC	RAIC Lučenec	RZV	RAIC Zvolen
CSB	FCP Sabinov	RMT	RAIC Martin	RRV	RAIC Rožňava
CSN	FCP Snina	RNR	RAIC Nitra	BIC-TI	BIC - Technological Centre in Prievidza
				BlatC	Business Incubator and Technological Centre in Banská Bystrica

NA: NADSME

Group B: managers of small and medium-sized enterprises

cons. info B: number of informative consultations for Group B

info hrs B: number of hours of informative consulting for Group B

cons. tech.: number of technical consultations for Group B

tech. hrs B: number of hours of technical consulting for Group B

BP (bp NA) number: number of business plans prepared for NADSME

EO (eo NA) number: number of expert opinions on business plans prepared for NADSME

BP (bp oth.) number: number of business plans prepared outside NADSME

PS (ps oth.) number: number of expert opinions on business plans prepared outside NADSME

jobs saved: number of jobs saved

jobs created: number of newly created jobs

6.3 Programme of Counselling and Training for Selected Groups of Persons Interested in Starting a Business

In 2005, support for selected groups of persons interested in starting a business and new businesses through subsidized counselling and training services was provided by an institutional network of Regional Advisory and Information Centres (RAIC) and Business Innovation Centres (BIC).

The centres mentioned provided 1,327 informative consultations, totalling 664 hours, in the areas necessary for starting and developing a business and 1,846 professional consultations, totalling 5,555 hours, in all areas necessary for starting and developing business activities.

For the purpose of obtaining loans, whether through financial support schemes or commercial sources, the RAIC/BICs prepared 398 business plans. According to preliminary results, this helped establish 642 new businesses and created 551 new jobs. The programme covered the organization of 10 seminars totalling 240 hours, where 36 people participated. The seminars were organized under the theme of "Setting up a Business".

The above services were financed by sources within the State Budget and amounted to 3,841,005 Sk.

Subsidized counselling and training for persons interested in starting a business within the Programme for Counselling and Training Selected Groups of Persons Interested in Starting a Business, provided by the RAIC and BIC network in 2005 and financed from the state budget												
	cons. info A*	info hrs. A*	cons. tech. A	tech. hrs A	BP		EO		numb. of sem.	numb. of part.	new ent.	new jobs
					num.	num.	num.	num.				
RPP	216	108	440	668	0	0	5	0	0	0	62	74
RMT	195	97,5	190	513	0	0	15	0	0	0	133	80
RNR	57	28,5	62	164	18	0	0	0	0	0	40	40
RZV	154	77	159	455,5	0	0	0	0	0	0	4	4
RLC	84	42	118	303	0	0	5	0	0	0	28	0
RPX	57	28,5	172	548,5	45	0	0	0	0	0	45	45
RPO	25	12,5	26	58	0	0	0	0	0	0	0	0
RTN	97	48,5	97	327	1	0	17	0	0	0	36	44
RTV	23	11,5	34	317	0	0	33	0	0	0	0	0
RKE	54	27	56	162	0	0	26	0	0	0	24	24
RKN	75	37,5	75	676	0	0	5	0	0	0	12	4
RDS	79	39,5	79	535,5	0	0	185	0	0	0	157	157
BPD	117	58,5	119	338,5	0	0	15	0	10	346	74	78
BBB	52	26	58	156	0	0	0	0	0	0	0	0
BSN	30	15	137	253	0	0	13	0	0	0	26	0
RBA	12	6	24	80	6	0	0	0	0	0	1	1
Total	1327	664	1846	5555	70	0	319	0	10	346	642	551

<i>Numb.</i>	<i>info cons.</i>	1327
	<i>tech. cons.</i>	1846
	<i>total</i>	3172

<i>Počet hodín</i>	<i>info cons.</i>	664
	<i>tech. cons.</i>	5555
	<i>total</i>	6219

<i>Number semin.</i>	10	<i>BP total</i>	389
<i>particip.</i>	346		

Explanatory notes (for A Group table):

RPP RAIC Poprad
RMT RAIC Martin
RNR RAIC Nitra
RZV RAIC Zvolen
RLC RAIC Lučenec

RPX RAIC Považská Bystrica
RPO RAIC Prešov
RTN RAIC Trenčín
RTV RAIC Trebišov
RKE RAIC Košice

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

NA: NADSME

cons. info A*: number of informative consultations for selected groups of persons interested in starting a business

info hrs A*: number of hours of informative consultations for selected groups of persons interested in starting a business

tech. cons. A: number of technical consultations for selected groups of persons interested in starting a business

tech. hrs A: number of hours of technical consulting for selected groups of persons interested in starting a business

BS (bs NA) num.: number of business plans prepared for NADSME

OE (eo NA) num.: number of opinions on business plans prepared for NADSME

BS (bs oth.) num.: number of business plans prepared outside NADSME

EO (eo oth.) num.: number of opinions on business plans prepared outside NADSME

numb. of sem.: number of seminars

numb. of part.: number of seminar participants

new ent.: number of new enterprises established

new jobs: number of newly created jobs

6.4 Euro info centre

The European Commission, DG Enterprise and Industry has established a network of Euro info centres in an effort to provide small and medium-sized enterprises with comprehensive information on the Single Market, EU legislation, support programmes and business development policies, while at the same time helping to create space for their mutual cooperation. The Euro info centres' common objective is to increase competitiveness, innovation and effectiveness of international cooperation among SMEs. Two Euro info centres operate in Slovakia: one in Bratislava within the National Agency for the Development of Small and Medium Enterprises and another in Prešov in the Regional Advisory and Information Centre.

Another important mission of the Euro info centres is to help businesses become successful in the European Union's Single Market and communicate possibilities and advantages provided by this market. The Slovak Euro info centres' national website www.eic-slovakia.sk provides information about opportunities available in an expanded Europe and the Single Market. In addition to information about Slovakia, the English section of the Euro info centres' website also publishes offers from Slovak firms interested in cooperation abroad. Offers of cooperation from foreign businesses are regularly published on the Euro info centres' internet sites and occasionally in the press and other periodicals.

One of main tasks of the Euro info centres also is to inform the European Commission about problems businesses face when applying European Community legislation and putting the Commission's policies into practice. Interactive Policy

Making (IPM) is a European Commission initiative whose aim is to understand better how citizens, consumers and businesses perceive European Union policy and utilize their experiences. Through the EIC, suggestions for operating in the Single Market may be directly sent to the European Commission (<http://www.eic.sk/ipm.htm>).

EIC SK672 Bratislava at the National Agency for the Development of Small and Medium Enterprises focuses its activities on searching for manufacturing, commercial and project engineering partners through the Business Cooperation Database (BCD), supporting participation of Slovak SMEs in cooperative events throughout Europe, monitoring business environment in the EU, publishing an electronic magazine and information materials, participating in international projects with the aim of supporting SMEs and their penetration into new markets, introducing contacts and obtaining necessary professional knowledge, as well as organizing various events.

Every year approximately 600 offers for cooperation from foreign companies are translated and published in various periodicals and Euro info centre web pages. In 2005, Slovak businesses looking for foreign partners requested 356 contacts. The Business Cooperation Database provided by the EIC Bratislava was used by 29 Slovak SMEs. Around 550 firms requested research of information about the Single Market. Foreign firms solicited 329 contacts to Slovak companies.

Acquainting the business public with the impact on businesses of the Slovak Republic's accession into the EU was the objective of 18 informative seminars and training sessions that were organized in various regions within the Slovak Republic. The Bratislava EIC, together with representatives of the National Agency for the Development of Small and Medium Enterprises, Regional Advisory and Information Centres, the Slovak Chamber of Commerce and Industry and others, spoke about EU and business issues to a large number of businessmen and other persons interested in the issue of supporting and developing business in the Slovak Republic. 352 business representatives participated in these seminars.

In 2005, EIC Bratislava coordinated projects focused on provision of participation of Slovak firms in cooperation events at the PAVE Project in Austria (held in Graz in the area of wood-processing and furniture production) and Finland (held in Turku in the area of automated production processes and ICT). Within these sector-oriented trade fairs and exhibitions, three contract and cooperation meetings of firms from various countries under the EU Matching Project took place: in May at the INTEL exhibition in Italy focusing on electro-technical, electronic and industrial mechanisms; in October at a trade fair centred on transportation and logistics in Belgium, and at the BATIMAT trade fair in France aimed at the construction sector. Cooperation between the EU countries and Asia is developing within the Asia-Invest project through the EU-Thailand Partenariat, where firms from Slovakia also participated. The Partenariat took place in Bangkok in November 2005.

Based on precisely specified interest, companies may regularly obtain information from a Euro info centre about current public tenders announced throughout Europe

(TSS). In 2005, 17 Slovak firms found over 550 notices of tenders announced within the EU in areas that met their profile.

The electronic magazine EIC-zine every day brings current information from the EU that relates to Slovak small and medium-sized enterprises. Readers' attention is especially focused on tourism, EU programmes, information technology and innovation. Since 2001, a total of 2,500 contributions, classified in 23 topical groups, have been published in EIC-zine.

Persons interested may find informative material related to doing business in the EU in the EIC library. Most book titles can only be examined after signing in. Brief information about registered materials is available in the online database at EIC Bratislava's Internet web site www.eic.sk.

7. Evaluation of Support Programmes Implemented by NADSME financed from PHARE and the State Budget

7.1. NADSME as the Implementing Agency for PHARE Programmes

Since 2001 the National Agency for the Development of Small and Medium-sized Enterprises has been operating as a PHARE Implementing Agency for programs to support small and medium-sized enterprises. In 2005, NADSME implemented three grant schemes from the 2002 Financial Memorandum: the Industrial Development Grant Scheme (IDGS), the Tourism Development Grant Scheme (TDGS 2002) and the Innovation and Technologies Grant Scheme (INTEG). Based on the 2003 Financial Memorandum, NADSME implemented two grant schemes, the Support of Innovative SMEs Grant Scheme (SISME) and the Tourism Development Grant Scheme (TDGS 2003).

Funds drawn from PHARE programmes in 2005

USE OF FUNDS	Amount in thousands of EUR	Amount in thousands of SKK
I. Facilitating access to capital	1,900,00	71,911.20
- Seed Capital Company (SCC)	1,900,00	71,911.20
II. Increasing SME Competitiveness	11,107.30	420,389.09
- FCP (First contact centres)	53.50	2,024.87
- Holding	37.60	1,423.08
- IDGS Grants	3,635.00	137,577.48
- Technical assistance for IDGS	86.20	3,262.50
- TDGS 2002 Grants	3,789.00	143,406.07
- Technical assistance for TDGS 2002	0.00	0.00
- Enterprise incubators within INTEG	2,647.00	100,183.66
- Technical assistance for INTEG	377.00	14 268.70
- SISME Grants	0.00	0.00
- Technical assistance for SISME	210.00	7,948.08
- TGDS 2003 Grants	153.00	5,790.74
- Technical assistance for TDGS 2003	119.00	4,503.91
Total I. - II.	13,007.30	492,300.29

Exchange rate as of 31 December 2005 – EUR/SK 37.848

7.2 First Contact Points

The goal of the nine First Contact Points (FCPs), which are located in the least developed regions of Slovakia, is to provide a wide range of counselling services for small and medium-sized enterprises doing business and persons interested in starting a business in the region, as well as assisting regional development through cooperation with municipalities and local non-profit organizations. In 2005, FCPs were also involved in the implementation of the State Programme for Counselling and Training for SMEs.

Besides subsidized consulting services financed from the State Budget to support small and medium-sized businesses, the centres provided, over the first three quarters of 2005, 581 hours of informative services to 517 clients (small and medium-sized enterprise managers and persons interested in starting a business) from other sources, 2,965.5 hours of advisory and consultation services to 482 clients, 12 seminars and training sessions for 135 participants, produced 187 business plans and contributed to the creation or implementation of 121 projects.

In addition to the above activities, the FCPs are also involved in other activities, such as participating in development projects, cooperating with municipalities in the region in relation to regional development, organizing trade fairs and events, issuing publications, etc. In regional development activities, FCPs cooperate with relevant organizations – employment offices, district offices, cities, RAIC/BIC, regional development agencies, secondary schools, non-governmental organizations, cross-border cooperation, local press and television, regional non-profit organizations, etc.

7.3 SME Support through the Network of Incubators

Business and technology incubators comprise an important part of the support infrastructure. The objective of the programme SME Support through the Network of Incubators, was to build or reconstruct during 2001-2005 a minimum of 5-6 incubators and guarantee the effective operation of 12 – 13 incubators in total, including those which had been constructed through PHARE. Their mission is to provide new businesses with the appropriate startup conditions for operating a business over a period lasting approximately three years. In addition to business space, enterprises will have at their disposal an office infrastructure, administrative services and technical consultation. Incubators are non-profit organizations.

The programme's objective is to financially support the construction of a network of incubators for new businesses and specialized technology incubators, guarantee their launch, implement the Research-based Spin-off Method and provide financial

assistance to the project carriers in the form of startup capital. Along with this, new jobs will also be created.

In 2005, technology incubators also implemented the Research-based Spin-off Method to create the appropriate conditions for utilizing research and development, patents, industrial and useful formulas in a close connection with scientific and technical institutions.

Up until 2003, seven incubators had been constructed through programmes implemented by NADSME from PHARE and state budget sources. In 2004, two business incubator projects were funded and implemented from financial sources allocated to the programme SME Support through the Network of Incubators and by means of implementing the Research-based Spin-off Method. In parallel during 2004, support was provided to seven incubators to finance operational costs, where they were provided, on the basis of programme conditions for the first year of financing 75% of operational costs, which in real terms represented 11.1 mil. Sk.

Within PHARE – the INTEG Grant Scheme - two projects were approved in 2004, both technology incubators were constructed in 2005: the University Incubator at STU in Bratislava and the Inovatech Technology incubator in Sládkovičovo. These incubators were opened in November 2005. Total contributions from PHARE amounted to 2,646,745.02 EUR.

In 2005 within the same support programme (SME Support through the Network of Incubators) the Prievidza business incubator was also reconstructed, where 6.2 mil. Sk was allocated for reconstruction work. Similarly in the same year, funds amounting to 3.6 mil Sk (from state budget funds) were allocated and invested into construction of the business incubator in Moldava nad Bodvou.

Enterprise structure and funds incurred for construction and reconstruction incubators in 2005

Incubator	Constructing costs (mil. Sk)			Total costs (Sk)
	SB	PHARE	Other	
Prievidza	6,2	-	0,7	6,9
Sládkovičovo*	-	46,2	35,1	81,3
STU Bratislava*	-	53,0	31,8	84,8
Moldava n/Bodvou**	3,6	-	-	3,6
Total	9,8	99,2	67,6	176,6

* Incubator construction in Sládkovičovo and Bratislava (STU) was financially secured by PHARE funds – cross-border cooperation from the MCRD SR chapter

** Moldava nad Bodvou incubator is under construction, anticipated completion is in 2006

Financial support to operate the incubators was established on the basis of the program conditions and amounted to 50 % of the individual incubators' operation costs in 2005. For this purpose, a total of 10.0 mil Sk was allocated for incubators

assigned to this program in Bratislava, Banská Bystrica, Košice, Prešov, Prievidza, Rožňava and Spišská Nová Ves.

Incubated firms in incubators receiving investment in 2005 and number of employees in these firms

	Firms in incubator	Number of employees
Prievidza	22	64
Moldava n/Bodvou*	-	-
Bratislava STU **	5	14
Sládkovičovo **	9	15
Spolu	36	93

* *Incubator whose construction began only in the beginning of 2005*

** *Incubator finished 10/2005, high occupation expected*

It is assumed that new incubators will be built during 2006-2008 by EU Structural Funds through the Sector Operations Program for Industry and Services.

7.4 Support Loan Programme

The chief objective of the Support Loan Programme was to allow small and medium-sized enterprises access to investment and operating capital in the form of medium-term loans. The Support Loan Programme was designated for small and medium-sized enterprises employing up to 250 staff and operating in manufacturing, crafts, services and active tourism sectors. Businesses meeting the programme criteria could apply for extension of credit to a maximum of 10 mil. Sk, with the loan maturing in up to eight years.

By establishing the Support Loan Programme in 1994, the Government committed itself to providing funds from the state budget amounting to 200 mil. Sk for the purposes of a revolving loan fund. For the same purpose and in the same amount, the European Commission, within PHARE, also released funds. These funds were put under the charge of the National Agency for the Development of Small and Medium Enterprises, as programme coordinator and implementer. Three, later four, Slovak banks also contributed to the fund: Slovenská sporiteľňa, a.s., Tatra banka, a.s., Poľnobanka, a.s. and Istrobanka, a.s. In this way, the Support Loan Programme was financed in 1994, 1995 and 1998, to establish a fund totalling 1.8 billion Sk that enabled further loans to be also extended from credit installments. Ľudová banka, a.s. joined in implementing the programme at the end of 1998. At the end of 2001, the fund was further financed from the 2000 state budget, thereby increasing total funds to 2.4 mil. Sk. At the same time, a sixth bank also joined the programme, Všeobecná úverová banka, a.s.

From the start of the programme in 1994 until 1 April 2005, when it was completed, a total of 1,192 loans were extended, amounting to 3,945,814 Sk. As of 31 December 2005, a total of 935 loans, amounting to 2,924,637 Sk, had been repaid. The reason for ending the programme was more advantageous conditions being offered for medium-term loans by other institutions, whereby this programme ceased to be lucrative for small and medium-sized enterprises. At the same time, a decision was made on utilizing the remaining funds and the means for having outstanding loans repaid by other ways, for example through a venture capital programme, which was being managed by the Seed Capital Company, a company founded by NADSME.

Summary of loans extended, listed by cooperating bank, as of 1 April 2005 (in mil. of Sk)

Support loan programme	UniBanka, a.s.	SLSP, a.s.	Istrobanka, a.s.	Tatrabanka, a.s.	Ľudová banka, a.s.	VÚB, a.s.	Total
Number 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 single loan	3,506	2,855	3,586	3,882	2,792	4,833	3,310

7.5 Micro-loans Programme

In 1997, the National Agency for the Development of Small and Medium-sized Enterprises started implementing a pilot project, the Micro-credit Program, through three Regional Advisory and Information Centers in Považská Bystrica, Zvolen and Prešov. Its chief objective is to solve the problem of access by small enterprises in the regions to small loans. The program is designated for small enterprises employing up to 50 employees. At present, the program is being implemented in 15 centers covering the entire territory of the Slovak Republic.

Micro-credits may be used to acquire movable and immovable fixed assets, reconstruct operating premises or purchase necessary stocks, raw materials or merchandise. The minimum amount of a micro-credit is 50,000 Sk and the maximum amount is 1,500,000 Sk, while the interest rate is 7.55% p.a. and the period to maturity is from six months to four years.

In the course of 2005, 230 interested persons submitted applications for micro-credit, with 194 micro-credits totalling 96,968,320 Sk being extended. Since the start of implementation, 1,279 micro-credits amounting to 521,429,369 Sk have been extended within the Micro-loans Programme. The average micro-credit amount is

375,142 Sk. Another important factor related to the implementation of the Micro-loans Program is its impact on the employment rate in the regions. Since micro-loans began to be extended, a total of 1,664 jobs have been created and 2,215 jobs saved.

Micro-loans extended by individual centre

Centre	Number of micro-loans extended in 2005	Amount of micro-loans extended in 2005 in Sk	Total number of micro-loans extended	Total amount of micro-loans extended in Sk
RAIC Dunajská Streda	0	0	7	18 050 420
RAIC Komárno	12	8 070 000	81	31 075 000
RAIC Martin	12	7 643 500	53	23 027 000
RAIC Nitra	8	4 786 090	49	22 557 909
RAIC Považská Bystrica	10	7 357 410	57	48 067 191
RAIC Prešov	18	6 654 460	173	48 867 000
BIC Prievidza	8	4 830 000	142	43 440 000
BIC Spišská Nová Ves	31	8 470 000	98	19 495 000
RAIC Trenčín	11	3 633 000	52	24 607 464
RAIC Trebišov	3	2 800 000	27	24 841 000
RAIC Zvolen	13	6 315 000	98	45 621 810
Seed Capital Company, s.r.o.	4	2 473 860	68	40 775 000
RAIC Lučenec	16	8 310 000	148	16 977 725
RAIC Poprad	17	7 425 000	38	6 462 066
RAIC Košice	31	18 200 000	128	10 596 464
Spolu	194	96 968 320	1 279	521 429 369

The volume of micro-loans extended by sector in 2005 is shown on Graph No. 25 in Appendix No. 1.

7.6 Seed Capital Company

The Seed Capital Company, s.r.o. (Spoločnosť zárodkového kapitálu) was founded in December 1994 by the National Agency for the Development of Small and Medium Enterprises for the purpose of implementing one of its financial support programs – venture capital investment. The company has dedicated itself since its origin to finding young, innovative firms with medium-term prospective growth and investing in such firms to make accelerated development and attainment of firm goals possible. The company uses revenues earned from its operations to develop further its activities and invest in new projects. Services provided by the company include: investment into share capital, follow-up financing, guaranteed and non-guaranteed loans, subordinate and convertible

loans, financial analysis and forecasting, arranging syndicate financing, capitalization, firm mergers and marketing advice.

Since 1995, the company has made significant progress in the volume of funds administered, the size of its portfolio of administered projects and the number of financially supported firms, as well as the number of administered funds. SCC, s.r.o. has been a charter member since 1995 of the Slovak Venture Capital Association (SLOVCA) and a member of the European Private Equity and Venture Capital Association (EVCA). It has been a member since 2000 of the Association of Microfinance Institutions in Slovakia (AMIS). Seed Capital Company, s.r.o., administers a start-up capital fund and a regional start-up capital fund.

The **Start-up Capital Fund** had already been established in 1994 and was designated for small and medium-sized enterprise development in the territory of the entire Slovak Republic. Its activities are administered from Seed Capital Company, s.r.o.'s registered office in Bratislava. The following are considered suitable in relation to investments made within the Start-up Capital Fund: industrial manufacturing, production services (transport, engineering, service and repair activities), innovative enterprises, active tourism (support for tourists traveling from abroad into Slovakia, hotel and pension operations). The maximum level of investment is 10 mil. Sk, where the specific amount, as well as other conditions for cooperation, depends on an individual review of projects submitted. In 2005, two companies were supported with investments amounting to 9,500,000 Sk in the form of credits.

In the period between 1995 and 2005, 64 investment proposals were approved, of which 209,565,000 Sk was invested into the companies' portfolio, 106,135,000 Sk was added into share capital and 103,430,000 Sk was lent in the form of a credit.

The **Regional Startup Capital Fund** was established in 2003 and its funds are designated for small and medium-sized enterprise development in Banská Bystrica, Žilina, Prešov and Košice regions. Its activities are administered by the Regional Office of Seed Capital Company, s.r.o., in Banská Bystrica. The following are considered suitable in relation to investments made within the RSCF: industrial manufacturing, production services (transport, engineering, service and repair activities), commercial services (wholesalers, restaurant facilities, etc.) and active tourism (support for tourists traveling from abroad into Slovakia, hotel and pension operations). The maximum level of investment is 5 mil. Sk, where the specific amount, as well as other conditions for cooperation, depends on an individual review of projects submitted. In 2005, two investment proposals amounting to 4,865,000 Sk were submitted and approved, of which 2,000,000 Sk was designated for share capital and 2,865,000 was lent as a credit.

In the period between 1995 and 2005, 13 investment proposals were approved, of which 39,915,000 Sk was invested into the companies' portfolio, 7,000,000 Sk was added into share capital and 32,915,000 Sk was lent in the form of a credit.

In the fourth quarter 2005, two new funds were started, INTEG and SISME, which are dedicated to supporting innovative projects and also linked to incubators. During 2005,

there were no new investments made from the above new funds. The main efforts of the company have been addressed toward establishing the above funds and publicizing them in the market and adequate communication to potential clients has been made.

A venture capital fund has been established to support innovative projects by tenants in technology incubators. This fund is administered by Seed Capital Company, s.r.o. and has capital amounting to 800,000 EUR at its disposal.

7.7 PHARE – 2002 FM

7.7.1 IDGS 2002 FM

The Industrial Development Grant Scheme financed from the 2002 Financial Memorandum was launched by call for projects on 2 September 2003. Its chief purpose was to increase manufacturing enterprise competitiveness in Slovakia and strengthen its less developed regions. The Industrial Development Grant Scheme consisted of two components.

In Component 1, enterprises operating in the manufacturing sector could apply for the grant, where support was focused on developing new manufacturers or making significant changes at existing manufacturers, increasing manufacturing efficiency, introducing new manufacturing processes/technologies, increasing the level of research and development and/or quality management.

In Component 2, non-profit and non-government organizations whose main activities are support for business development were entitled to apply. Support within Component 2 focused on increasing industrial manufacturing productivity and the percentage produced by the input of highly-qualified work, product and market development (especially in the area of technology), development of a commercialization strategy, increasing management and technical capacity efficiency in industrial enterprises, enhancing the level of knowledge and technical skill of managers, establishing new systems in which more effective research and development activities can be spread and increasing awareness about investment in training and innovation.

Total funding allocated to Component 1 was 4.1 million EUR, including co-financing from the state budget. Within Component 1, 190 projects were implemented (six subsequently did not meet conditions and therefore not funded) and within Component 2, 23 projects were implemented.

126 projects with total funds paid out amounting to 3,904,102 EUR were successfully completed within the scheme, of which 2,899,598 EUR was funded by PHARE. 2,739,454 EUR (73.11% from PHARE and the remainder from the state budget) was paid out to recipients of Component 1 for 103 projects and 160,144 EUR (from PHARE, none from the state budget) was paid out to recipients of Component 2 for 23 projects.

The Grant Scheme was supported by technical assistance. The Scheme ended on 30 November 2005.

7.7.2 TDGS 2002 FM

The Slovak Government has identified tourism as an area of the economy with significant growth potential. Tourism is an important source of regional development mainly in the mountain areas, and at the same time is a sector where alternative employment and improvement of the balance of payments can be achieved. The National Programme for Tourism Development established for 2002-2005 key strategic objectives for this industry, defined the sectors with the best potential and designed the main activities for realizing this potential.

New investments into tourist activities, services and facilities are necessary to produce a diversified product, create an enhanced package of offering for tourists and establish a new image of Slovakia as an attractive and lively destination with a number of opportunities for spending free time. Heavy investment is also required to increase the quality of existing facilities to an international level, if Slovakia is to be successful in the market against competitors who are constantly becoming stronger. Enterprises active in the tourism sector should take advantage of the challenges resulting from these opportunities. A majority of these firms have less than 250 employees, and therefore can be classified as small and medium-sized enterprises (SMEs).

The chief aim of the Tourism Development Grant Scheme from the 2002 Financial Memorandum was to support small and medium-sized enterprise growth and performance in the area of tourism and improve tourist industry competitiveness in Slovakia (Component 1) and support activities oriented toward creating the strategic, political, infrastructural and market conditions to support successful and effective investment by small and medium-sized enterprises in tourism and increase tourist industry competitiveness in Slovakia (Component 2).

The Tourism Development Grant Scheme financed from the 2002 Financial Memorandum was launched by call for projects on 2 September 2003 and consisted of two components.

In Component 1, small and medium-sized businesses could apply for a grant, where support was centred on building new accommodation facilities, raising the level of, or reconstructing existing accommodation facilities, creating new facilities or raising the level of existing ones that provide tourist services and developing tourist attractions.

In Component 2, non-profit and non-government organizations whose activities are in the area of tourism, tourist industry associations, municipal governments and cities were entitled to apply. Support within Component 2 focused on strategic planning in tourism, tourism marketing and advertising, providing information on possibilities for

utilizing tourism facilities, non-profit investments into infrastructure, media support for tourism, participation in tourism exhibitions, etc.

Total funds allocated for Component 1 were 3,300,000 EUR and for Component 2 2,200,000 EUR. Within TDGS project implementation, 108 projects out of 110 were supported and the total paid out was 4,937,909 EUR for both components. Of these figures, Component 1 paid out 2,896,828 EUR to 35 out of 37 projects and Component 2 paid out 2,041,081 EUR to 73 out of 73 projects.

The Grant Scheme was supported with technical assistance.

7.7.3 INTEG – 2002 FM

The Innovation and Technologies Development Grant Scheme (INTEG) financed from the 2002 Financial Memorandum was successfully completed in November 2005. Its priority objective was support for innovative and technological transfer by means of technology incubators and the initiation of cross-border economic cooperation with Austria.

Technology incubators were formed for two project beneficiaries: the Slovak Technical University in Bratislava and the city of Sládkovičovo. The City of Sládkovičovo's technology incubator was opened on 11 November 2005 and the university technology incubator at STU in Pionierska Street in Bratislava opened its doors on 28 November 2005. Funds paid out to the recipients totalled 2,644,846 EUR.

The projects were supported by technical assistance that focused on training incubator employees, institutional development and a promotional campaign. Through such technical assistance, a transfer of knowledge and experience between similar institutions in Austria and other European countries was secured and conditions for future mutual cooperation between institutions was created. Staff of other Slovak incubators was involved in education.

At the same time, a venture capital fund was created to support innovative projects from tenants in the technology incubators. The fund is administered by Seed Capital Company, s.r.o. and has capital amounting to 800,000 EUR at its disposal.

7.8 PHARE – 2003 FM

7.8.1 TDGS 2003

The 2003 Tourism Development Grant Scheme is financed from the 2003 Financial Memorandum. It comprises two components, Component 1 and Component 2, where the total amount designated for the scheme is 4.57 million EUR.

Component 1 – Grant Scheme for Small and Medium-sized Enterprises

The programme's objective is to support small and medium-sized enterprise growth and performance in the area of tourism and increase tourist industry competitiveness in Slovakia. The minimum grant available to C1 applicants is 35,000 EUR and the maximum amount that an applicant can obtain is 100,000 EUR, while the grant cannot exceed 50% of the total operating cost of the project. The scheme is designated for applicants who must be doing business in the Slovak Republic, be small or medium-sized enterprise with activities in the tourist industry and legal entity or small trade licensee registered in the Slovak Republic and defined in accordance with Sec. 2 par. 2 of the Commercial Code.

An application for a grant can be made for the following activities:

1. Construction of new accommodation facilities
2. Raising the quality or reconstructing existing accommodation facilities
3. Constructing new facilities or raising the quality of existing ones that provide tourist services in existing tourist centers

Component 2 - Grant Scheme for Non-profit Organizations with Activities in Tourism

The program's objective is to support activities oriented toward creating the strategic and market conditions that underlie the success of associations and non-government organizations oriented toward tourism and increasing the competitiveness of the tourism industry in Slovakia. The minimum grant available to C2 applicants is 10,000 EUR and the maximum 50,000 EUR. Required co-financing of the grant cannot exceed 75% of the total operating costs for the project.

In Component 2, the applicant must be registered as a non-profit legal entity or a non-government organization with activities in tourism (a minimum of one year) or an tourist industry association (a minimum of 1 year), have its registered office in the Slovak Republic, be directly responsible for preparing and managing the proposed project and may not act as an intermediary.

An application for a grant can be made for the following activities:

1. Strategic development in tourism
2. Marketing and promotion
3. Tourist information center and office services

A call for projects launching the scheme was made on 1 March 2005 and the deadline for applications was 2 May 2005. As of the deadline, there were 420 applications registered. 58 applicants obtained a grant, of which 46 were assigned within Component 1 and 12 within Component 2. Implementation of the project will be completed by 30 September 2006.

7.8.2 SISME – 2003 FM

The Support of Innovative Small and Medium-sized Enterprises Grant Scheme financed from the 2003 Financial Memorandum is tied to the Industrial Development Grant Scheme from the 2002 Financial Memorandum and was launched by call for projects on 12 January 2005, with a deadline for accepting grant applications on 15 March 2005.

The overall goal of the SISME Grant Scheme is to restructure the Slovak manufacturing sector toward a knowledge-based economy, increase its productivity, support the systematic development of the SME sector and enhance competitiveness in the EU market through innovation.

SISME consists of two parts. The first part supports projects that focus on developing specific products, production capacity and quality, and activities supporting research and development and to increase awareness of the positive impacts of innovation. The second part focuses on increasing accessibility to special purpose financial instruments (venture capital) for rapidly developing industrial enterprises. The implementing institution for this part is Seed Capital Company, s. r. o. (SCC). After SCC analyzes successful SISME Grant Scheme and FM 2002 Industrial Development Grant Scheme applicants, it addresses the successful candidates and offers them supplementary financial resources for implementing projects from the Innovation Fund.

Funds allocated to the Grant Scheme total 3.6 million EUR, where financing from PHARE pre-accession assistance amounts to 2.7 million EUR and 900,000 EUR is guaranteed in the state budget as national co-financing. Within the scheme, 79 projects totalling 3,594,522 EUR have been implemented. The scheduled end of the project is 30 September 2006.

8. Evaluation of SOP IS Measures Implemented by NADSME Financed from Structural Funds and the State Budget

8.1 NADSME as the Implementing Agency for Structural Funds

In accordance with the Authorization Agreement to the Sectoral Operational Programme Industry and Services between the Ministry of Economy of the Slovak Republic and the National Agency for the Development of Small and Medium Enterprises of 23 March 2004, as amended by valid supplements, NADSME as the implementing agency carries out the role of intermediary body under the Managing Authority for SOP IS in regard to the following Measures:

SOP IS Measure 1.1 – Support for the Development of New and Existing Enterprises and Services and SOP IS Measure 1.2 – Support for the Building and Reconstruction of Infrastructure – for activities supporting the construction of incubators, technology parks and research and development centres and for national projects whose goal is modernization and interfacing scientific, academic and technical libraries with business practice, building Small Business Institute and achieving an optimal network of trades.

The call for projects for Measure 1.1 “Support for the Development of New and Existing Enterprises and Services” was announced on 15 June 2004 by the SOP IS Managing Authority in cooperation with NADSME and includes eligible activities for supporting new enterprises and stabilizing the development of existing enterprises, support for manufacturers using domestic raw materials, support for consulting services related to implementing a modern management system and organizing a business and consulting services.

The call for projects for Measure 1.2 “Support for Constructing and Reconstructing Infrastructure” was announced on 7 April 2004 by the SOP IS Managing Authority in cooperation with NADSME and focuses on support for developing small and medium-sized enterprises in the area of industry and services, increasing employment and the quality of life in the regions through the public sector.

The enormous interest in Slovak regions can be visually illustrated by the following numbers: there were 416 grant applications received in response to the call for SOP IS Measure 1.1, of which the commission approved 50; in response to SOP IS Measure 1.2, there were eight grant applications approved out of 17 received.

8.2 Measure 1.1 – Support for the Development of New and Existing Enterprises and Services

Measure 1.1 “Support for the Development of New and Existing Enterprises and Services” focuses on support for business development in the area of industry and services, increasing employment and the quality of life in the regions through the private sector and facilitating participation of SMEs in international cooperation and accession into the EU market, i.e. by means of developing small and medium-sized enterprises to contribute to regional development.

From 12 November 2004 to 21 January 2005, the Evaluation Commission considered 330 grant applications, of which they approved the assignment to 50 applicants. Total costs of the approved projects were 2,457,045 Sk, while the amount of grants asked was 1,321,212 Sk and the amount of grants approved was 1,205,996 Sk, which in the case of completed contracts represented full drawing of funds allocated to SOP IS Measure 1.1 for the programming period of 2004 – 2006.

The Evaluation Commission approved, in the case of withdrawal from a contract, non-acceptance of conditions by the beneficiary or supplementary release of funds, the establishment of a reserve list of nine projects, whose total costs were 180,821,000 Sk. The amount of grants asked was 103,337,000 Sk, while after reduction totalled 100,999,000 Sk

Based on a mandate from the Ministry of Economy of the Slovak Republic, NADSME informed the applicants in March 2005 of the results of the evaluation process and subsequently began preparing the agenda for contracts to extend grants with successful applicants. As of 31 October 2005, 50 signed contracts to provide grants totalling 1,201,934 Sk had been signed by final beneficiaries.

Contracted projects within Measure 1.1 “Support for the Development of New and Existing Enterprises, broken down by region:

Region	Number of contracted projects	Amount of contracted grants
Banská Bystrica	3	47 517 568 Sk
Košice	6	106 893 296 Sk
Nitra	8	112 704 719 Sk
Prešov	11	404 864 973 Sk
Trnava	8	228 701 156 Sk
Trenčín	7	185 245 058 Sk
Žilina	7	116 007 519 Sk
Total	50	1 201 934 293 Sk

In 2005, NADSME received 106 applications from beneficiaries within Measure 1.1 for payment totalling 511,211 million Sk, of which 41 applications for payment totalling 242,123 million Sk were refunded.

Measure 1.1	
Number of submitted applications for payment as of 31/12/2005	106
Total submitted applications for payment in Sk	511 211 077 Sk
% of submitted applications for payment from contracted funds	42,3 %
Number of applications for payment accepted	41
Total applications for payment accepted in Sk	242 123 002 Sk
% drawn from total contracted funds	20,1 %

As of 31 December 2005, 13 projects implemented according to grant contracts within SOP IS Measure 1.1 and totalling 87,128 million Sk had been completed. This represented 26% of all Measure 1.1 projects and a drawing of approx. 7.2% of contracted funds.

The amount and number of contracted grants within Measure 1.1 by regions is shown in Graph No. 26 in Appendix No. 1.

8.3 Measure 1.2 - Support for the Building and Reconstruction of Infrastructure

Eligible activities within this measure which are within the mandate of NADSME, focus on support for building incubators, technology parks and research and development centres and represent support mechanisms, through which the public sector allows small and medium-sized enterprises to commence operations, expand their production, stabilize their position in the market and innovate their products and manufacturing processes and in this way improve their competitiveness. A component of this measure is also implementation of national projects aimed at establishing a network between academic, scientific and specialized libraries and building a Small Business Institute.

In reference to formal check and technical evaluation of the projects, the Evaluation Commission approved in November 2004 eight applications for grants totalling 269,379 million Sk, with total operating costs for the project amounting to 283,557 million Sk. 5% co-financing from the final beneficiaries, amounting to 14,177 million Sk, was also ensured.

Based on a mandate from the Ministry of Economy of the Slovak Republic, NADSME informed the applicants for grants in March 2005 of the results of the evaluation process and subsequently began preparing the agenda for grant contracts with the successful applicants. As of 31 August 2005, 8 signed grant contracts totalling 266,695 million Sk had been signed by the final beneficiaries. Of the eight projects, six were focused on building a business incubator and two on building a

research and development centre. As of 31 December 2005, seven signed contracts had come into force.

Contracted projects within Measure 1.2 “Constructing and developing infrastructure” broken down by region:

Region	Number of contracted projects	Amount of contracted grants
Banská Bystrica	2	95,509,169 Sk
Košice	4	112,307,933 Sk
Nitra	0	0 Sk
Prešov	0	0 Sk
Trnava	0	0 Sk
Trenčín	1	37,571,930 Sk
Žilina	1	21,306,634 Sk
Total	8	266,695,667 Sk

In 2005, ten applications for pre-financing were submitted for Measure 1.2 to NADSME by final beneficiaries, totalling 30,028 million Sk, of which one application for payment valued at 3,666 million Sk was settled and subsequently cleared by the final beneficiary within the set period. A relatively low percentage of drawn funds within Measure 1.2 is due to implementing public sector projects and the date when the related contract enters effect depends on having a public procurement carried out, as well as the nature of the projects, with emphasis placed on the construction phase and the seasonality of the related work.

Measure 1.2	
Number of submitted applications for payment as of 31/12/2005	10
Total submitted applications for payment in Sk	30 028 585 Sk
% of submitted applications for payment from contracted funds	11,3 %
Number of applications for payment accepted	1
Total applications for payment accepted in Sk	3 666 671 Sk
% drawn from total contracted funds	1,4 %
Number of applications for payment cleared	1

The amount and number of grants contracted within Measure 1.2 by regions is shown in Graph No. 27 in Appendix No. 1.

A component of SOP IS Measure 1.2 “Support for the Building and Reconstruction of Infrastructure” is the implementation of the following national projects.

On 28 October 2004, the Minister of Economy of the Slovak Republic launched call for the submission of a national project “Building a Small Business Institute and attaining an optimal network of trades”. In response to this call, the Slovak Trade Institute, based in Žilina, submitted the national project to NADSME on 31 March 2005. A formal check was carried out on the project, including clarification, and technical assessment was made. At present, the project is being considered at the

Ministry of Economy of the Slovak Republic for the purpose of preparing a summary opinion.

On 25 November 2005, the Minister of Economy of the Slovak Republic launched call for the submission of a national project “Establishing an information network between scientific, academic and specialized libraries, including modernization” where the Slovak National Library was addressed. The deadline for submitting the project to NADSME was 30 December 2005. NADSME received the national project on 30 December 2005 and ensured for it registration and a formal checking process for it.

9. Support from Other Sources

9.1 PSO – The Dutch Programme for Cooperation with Countries of Central and Eastern Europe

Bilateral Slovak-Dutch project “Further Enhancing the Business Environment for SMEs in the Slovak Republic”

In the course of 2005, NADSME implemented project “Further Enhancing the Business Environment for SMEs in the Slovak Republic”, which was part of the PSO programme financed by the Government of the Netherlands. The project’s objective was to adapt the experience of carrying out a Business Impact Assessment (BIA) from the Netherlands, which has had in this area many years of experience for conditions in the Slovak Republic. The project’s main purpose was to design a BIA methodology based on the most recent information from EU countries. As a pilot study, an analysis was made of Act No. 395/2002 Coll. on Archives and Registries, supplementing other acts, as amended by Act No. 515/2003 Coll., where this methodology was tested.

At the conclusion of the project, NADSME organized a conference and workshop for representatives from the state administration and business associations in Bratislava on 9-10 November 2005, with the goal of introducing the methodology and pilot testing. Together with the Ministry of Economy of the Slovak Republic, the system for implementing this methodology in Slovakia was proposed.

The purpose of the assessment is to evaluate whether any negative impacts of new legislation, in the form of an additional administrative burden or forced expenses on businesses, serve the purpose that the new regulation is supposed to ensure. Quantifying the impacts makes it possible for alternative solutions to be considered and the most advantageous ones to be implemented. In view of the rapid adoption of new legislation in relation to the transformation of the economy and Slovakia’s accession into the EU, attention has not been paid to date on these issues. Systematically considering the impact of legislation on the business environment during the process of drafting legislation may significantly contribute to enhancing the business environment and stabilizing the legislative framework.

9.2 Global Opportunities Fund

Bilateral Slovak-British project “Designing a Venture Capital System for SMEs”

The goal of the project “Designing a Venture Capital System for SMEs”, financed by the British Government through the Global Opportunities Fund is to create a draft venture capital system for start-up, innovative and fast-growing SMEs in Slovakia. The project began in 2005 and will also continue through 2006. The project’s main activities are a comparative analysis of Great Britain and Slovakia in the area of supply and utilization of venture capital and the system of government support in this area, an analysis of legislative barriers to investing venture capital in Slovakia, a survey focused on considering the ability and interest of Slovak firms to absorb venture capital, suggested means of government support for venture capital, a proposed information campaign for businesses and training sessions for potential recipients of venture capital.

9.3. ESTER

6th Framework Programme Project “ESTER - Establishing seed and venture capital funds for small Eastern European countries based on the YOZMA model and the technology incubator programme”

This project was designed as part of the 6th Framework Programme for 2003-2005. The main project partner was the University of Pavia in Italy. The project’s objective was to draft a proposal for establishing a venture capital market in central and eastern European countries, including Slovakia, based on experiences in western European countries and Israel. During the project, conditions for applying progressive financing methods were analyzed, especially for innovative small and medium-sized firms. As a deliverable, there was a plan prepared for initiating a venture capital market, as well as support vehicles for successfully starting it. The results of the project were presented on 15 December 2005 at a conference in Bratislava and provided to Ministry of Finance for utilization in preparing the National Strategic Reference Framework for structural funds for 2007-2013.

10. Conclusion

The report submitted on the state of small and medium-sized enterprises provides a comprehensive picture of their development, the types of support and the evolution of their business environment in 2005, including problems that exist and proposals for their addressing.

After having seen significant transformation of the legislative environment in the past years, particularly characterized by the introduction of a new tax system, accelerating and simplifying the registration of businesses and changes in applying the active labour market policy, in 2005 the most substantial changes, besides further modifications of the tax and social and health insurance systems, have been the approval of the new Act on Bankruptcy and Restructuring, Act on Illegal Labour and Illegal Employment and amendments to the Construction Act. The new Act on Public Procurement has also been drafted.

From the point of view of SMEs, we have in the past year registered positive trends in the main indicators monitored, such as employment, creation of added value and profitability. The number of small and medium-sized enterprises, both natural persons and legal entities, continued to grow. In 2005, the ratio of staff employed in small and medium-sized business to total employment reached almost 71 %, which is a historical high.

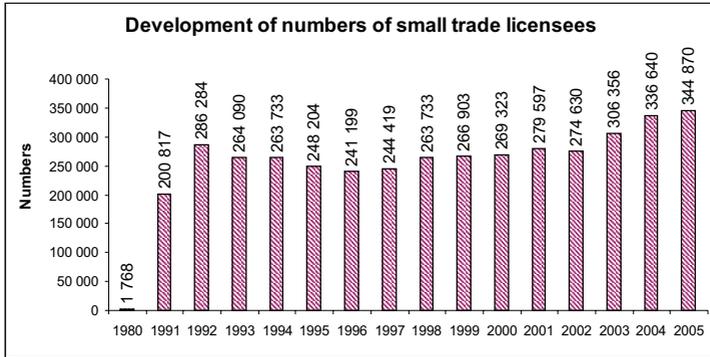
Despite the above favourable trends in the development of the small and medium-sized enterprises sector in 2005, there still remain relatively enough factors negatively affecting business activities. They are, in particular, complicated and frequently amended legislation, administrative burdens of doing business, high costs of employing staff, weak enforcement of law, a level of regulated prices and corruption. Furthermore, there is an absence of an integrated conception of SME development in the medium term that would indicate further direction in the area of support measures, institutional guarantees for them and modifications in the legal framework of the business environment.

Reserves remain in the area of drafting legislation and the impact of such legislation on the business environment. Despite the efforts of NADSME and the MoE SR, in 2005 there failed to be put in place a requirement for legislation proposer to analyze its impact on the business environment according to a generally binding methodology. Another of the important aspects for improving the business environment is a sufficient degree of participation by SME representatives already in the initial stages of drafting legislation. In this area, there has been positive movement seen toward establishing a Business Environment Council, which would act as the technical advisory body for the MoE SR, thereby generating a platform for regular and permanent dialogue between the Government and businesses. However, solving the problems in the business environment requires a broad and coordinated approach and therefore the Council should in the future obtain a status between or above government departments.

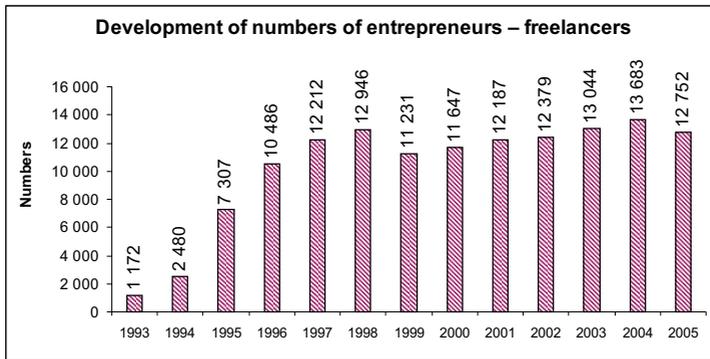
As a result of the level attained in the business environment, the report submitted contains comprehensive proposals for further improvement, the implementation of which would contribute to the dynamic development of SMEs in Slovakia.

Appendix No. 1

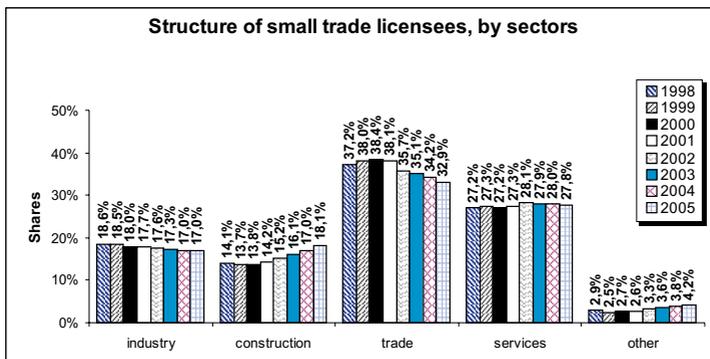
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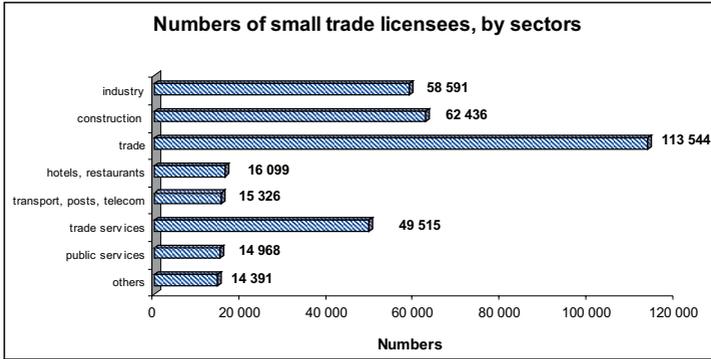
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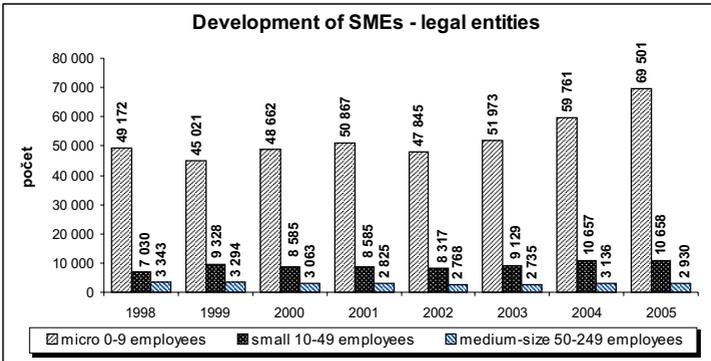
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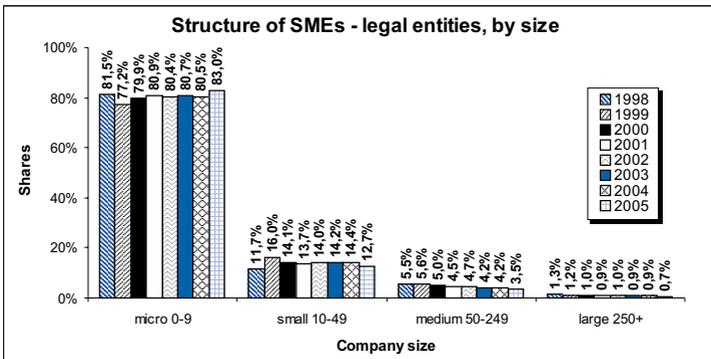
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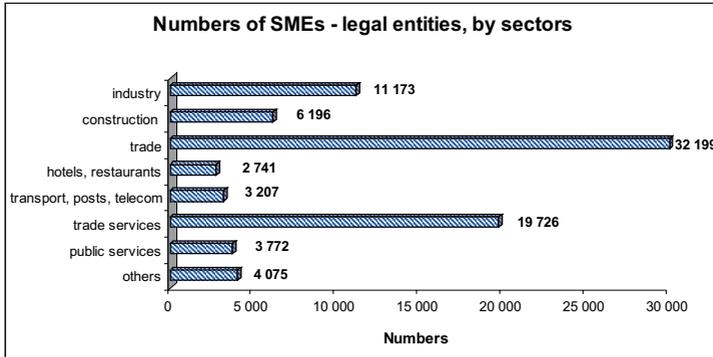
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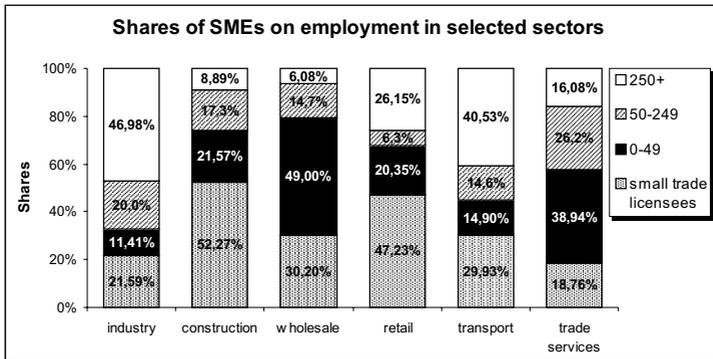
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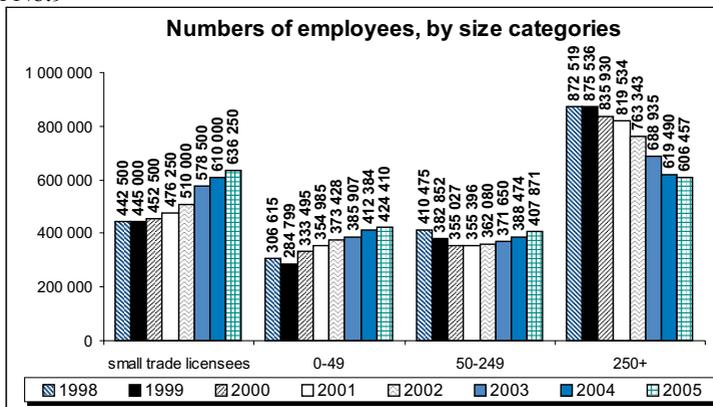
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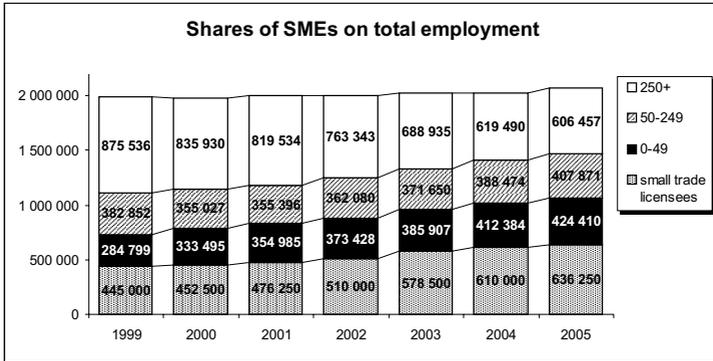
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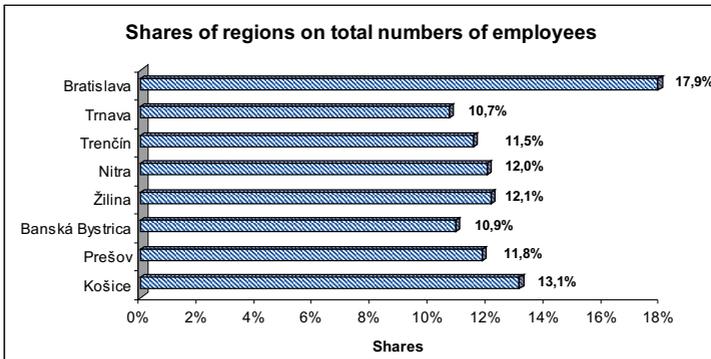
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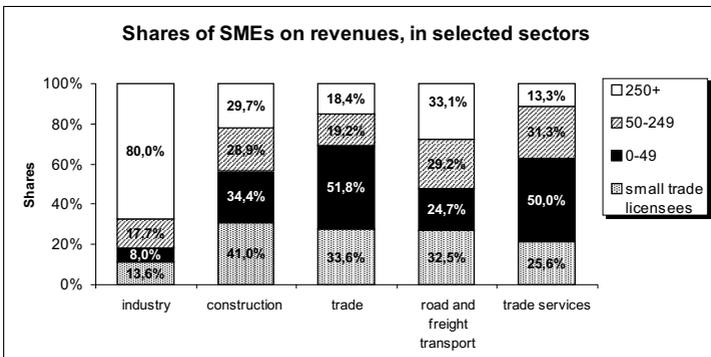
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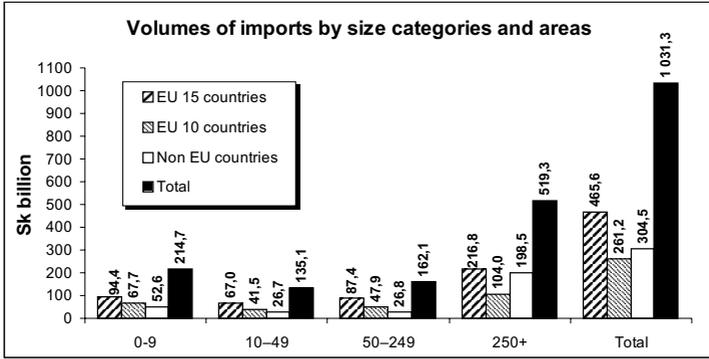
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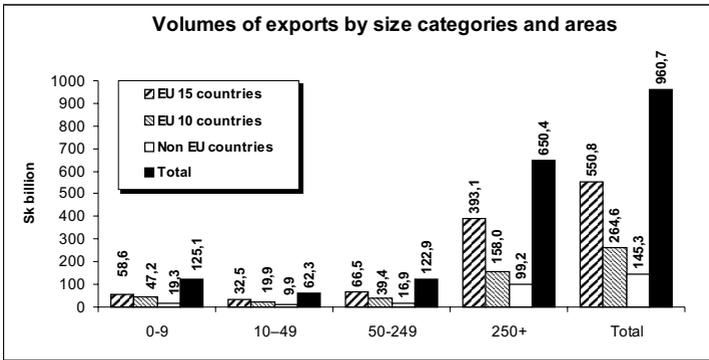
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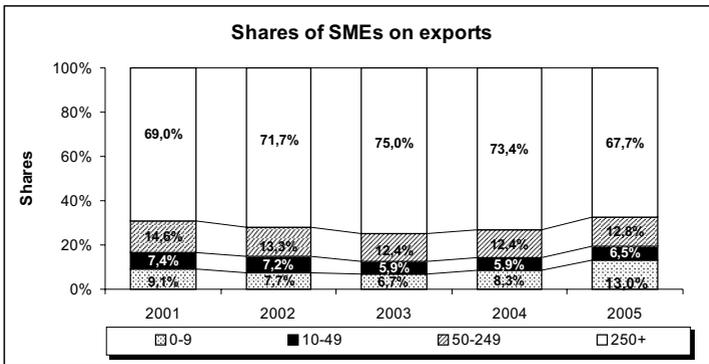
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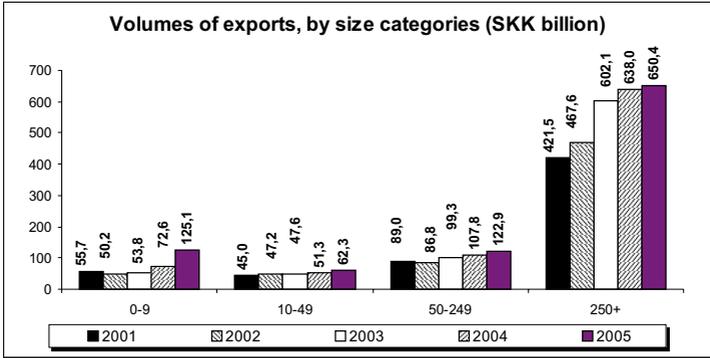
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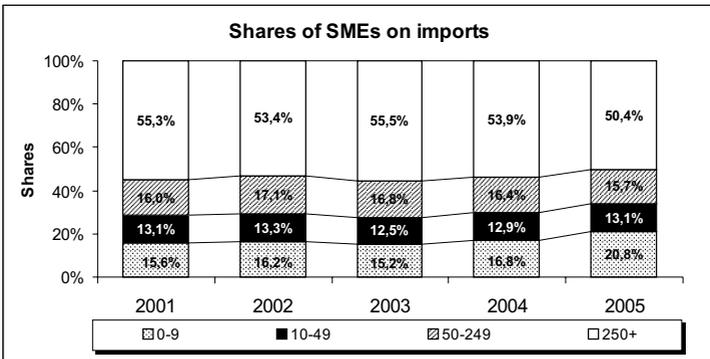
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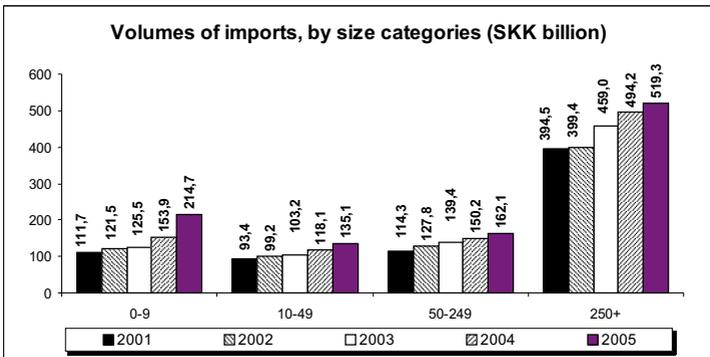
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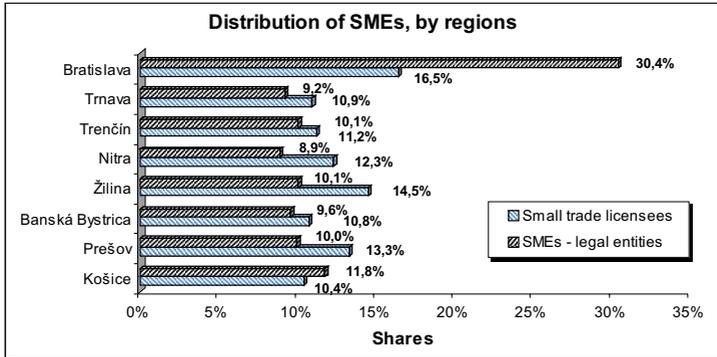
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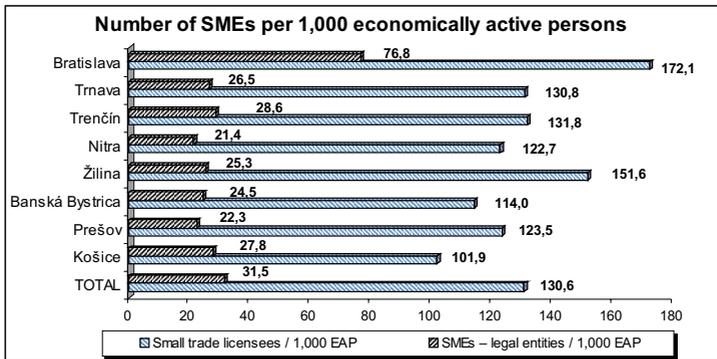
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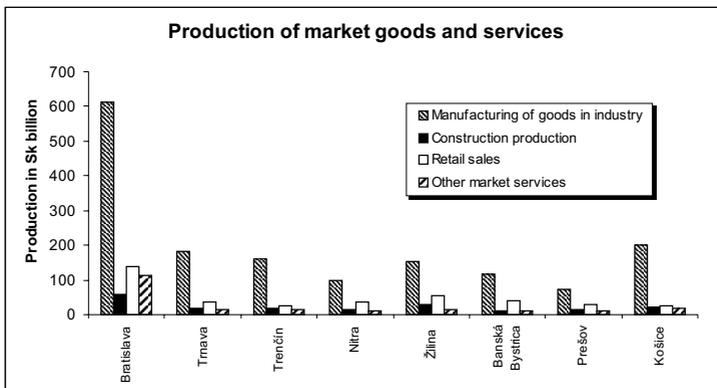
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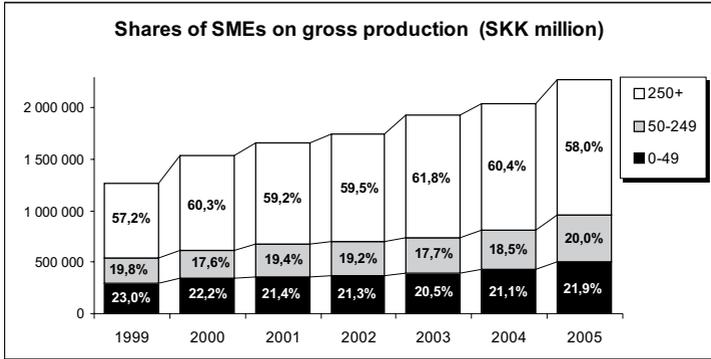
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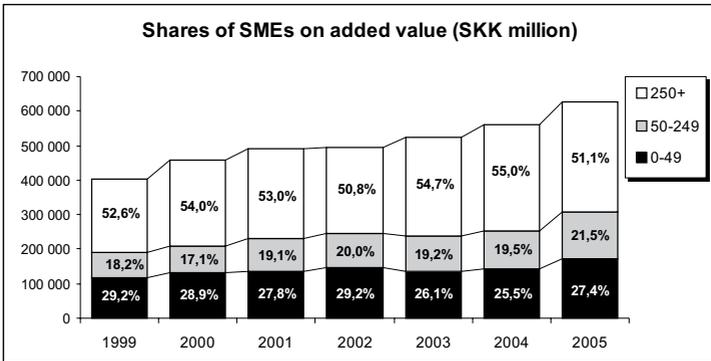
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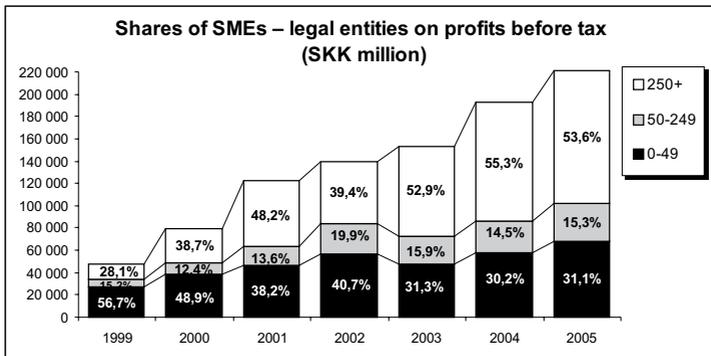
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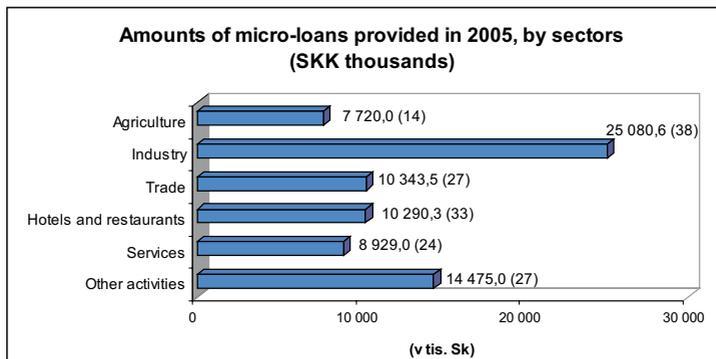
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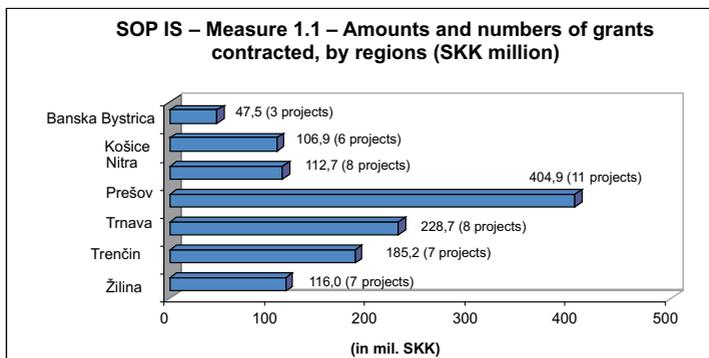
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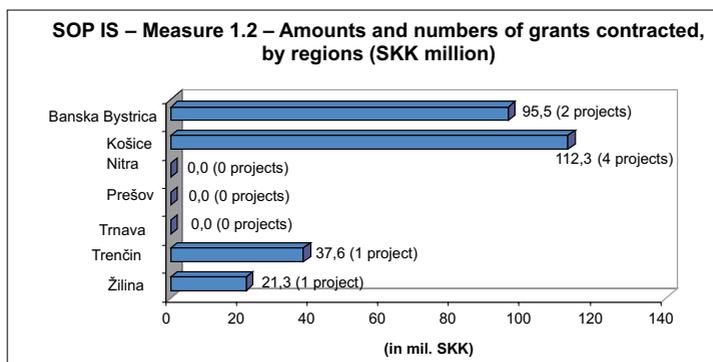
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Graph No.27



Appendix No. 2

Average number of employees for approved projects within SOP A-RD in 2005

Table No. 1

Measure	Total number of approved projects for the given measure	Total approved grants from SOP A-RD in thousands of SKK	Average number of employees as of the date when the application was submitted								
			1-10			11-50			51-250		
			n.a.p.	n.a.	Grant	n.a.p.	n.a.	Grant	n.a.p.	n.a.	Grant
Meas. 1.1	48	244 003	25	25	95 513	16	16	106 210	6	6	31 095
Meas. 2.1.1	47	153 754	26	26	74 098	17	15	70 740	4	3	8 916
Meas. 2.1.2	79	253 784	47	40	87 738	18	17	86 527	4	3	62 850
Meas. 2.2.1	6	34 135	0	0	0	2	2	4 813	3	3	24 664
Meas. 2.2.2	14	56 585	9	7	50 328	1	1	1 429	4	2	4 828
Meas. 2.3.2	72	601 004	44	32	403 086	18	13	148 827	10	10	49 092
Celkom	266	1 343 265	151	130	710 763	72	64	418 546	31	27	181 444

Explanatory notes for the tables:

Data on the average number of employees is drawn from applications for grants only for those measures related to the business environment – support for small and medium-sized enterprises.

Meas.1.1 - Investment into agricultural enterprises

Meas.2.1.1 - Investment for improving and rationalizing cultivation and forest protection (profitable forests)

Meas.2.1.2 - Public service investments (non-profit forests), for applicants from the public sector – average number of employees as of the application date is not being observed.

Meas. 2.2.1 -Fish processing and promotion of fish products

Meas. 2.2.2 - Aquaculture

Meas. 2.3.2 - Diversification of agricultural activities

n.a.p. - Number of approved projects

n.a. - Number of applicants (KP/PP), whose project(s) had been approved

Grant - Approved contribution from SOP A-RD in thousands of SKK

Average number of employees for approved projects within the Rural Development Plan in 2005

Table No. 2

Measure	Total number of approved projects for the given measure	Total approved contribution from RDP in thousands of SKK	Average number of employees as of the date when the application was submitted								
			1-10			11-50			51-250		
			n.a.p.	n.a.	Grant	n.a.p.	n.a.	Grant	n.a.p.	n.a.	Grant
Meas.1	60	412 528	16	15	51 715	27	21	188 299	17	12	172 514
Meas.4.1	4	10 555	0	0	0	3	3	7 545	1	1	3 010
Meas. 6	12	80 312	1	1	2 031	1	1	5 424	6	2	56 306
Meas. 10	1	3 056	0	0	0	0	0	0	1	1	3 056
Total	77	506 451	17	16	53 746	31	25	201 269	25	16	234 885

Explanatory notes for the tables:

Data on the average number of employees is drawn from applications for grants only for those measures related to the business environment – support for small and medium-sized enterprises.

Meas. 1 - Investment into agricultural enterprises

Meas.4.1 - Meeting standards

Meas. 6 - Improving the processing and salability of agricultural products

Meas. 10 - Diversification of agricultural activities

n.a.p. - Number of approved projects

n.a. - Number of applicants (KP/PP), whose project (s) had been approved

Grant - Approved contribution from RDP in thousands of SKK

Guarantees extended under the guarantee programmes implemented by SZRB, by regions

Table No. 3

Region	Accepted loans – cumulative (in thousands of SKK)		Accepted loans – 2005 (in thousands of SKK)	
	Number	Amount	Number	Amount
Bratislavský	408	1 851 788	30	160 120
Trnavský	553	2 154 166	15	24 170
Trenčiansky	293	1 044 702	38	176 440
Nitriansky	906	2 796 059	40	201 560
Žilinský	281	1 335 888	36	244 640
Banskobystrický	561	1 675 206	67	181 120
Prešovský	531	1 599 660	23	147 090
Košický	360	1 206 956	27	76 850
Spolu	3 894	13 664 425	276	1 211 990

Guarantees extended under the guarantee programmes implemented by SZRB, by sectors

Table No. 4

Sector	Guarantees extended – cumulative (in thousands of SKK)		Guarantees extended – 2005 (in thousands of SKK)	
	Number	Amount	Number	Amount
Manufacturing	414	3 609 504	43	307 350
Commerce	342	1 492 163	80	161 930
Services	481	1 115 876	94	240 030
Tourism	97	488 719	5	29 640
Agriculture	2 393	5 343 366	22	185 570
Others	167	1 614 800	32	287 470
Total	3 894	13 664 426	276	1 211 990

Loans extended by SZRB, by regions

Table No. 5

Region	Accepted loans – cumulative (in thousands of SKK)		Accepted loans – 2005 (in thousands of SKK)	
	Number	Amount	Number	Amount
Bratislava	237	2,340,302	91	684,940
Trnava	236	1,486,543	82	523,020
Trenčín	235	989,719	86	272,120
Nitra	298	1,439,299	112	388,660
Žilina	259	1,578,952	90	756,060
Banská Bystrica	443	1,906,985	141	473,290
Prešov	240	1,433,017	56	446,150
Košice	299	1,189,378	115	350,390
Total	2,247	12,364,196	773	3,894,630

Loans extended by SZRB, by sectors

Table No. 6

Sector	Accepted loans- cumulative (in thousands of SKK)		Accepted loans – 2005 (in thousands of SKK)	
	Number	Amount	Number	Amount
Manufacturing	506	3,862,572	131	1,075,250
Commerce	290	1,416,500	93	21,780
Services	194	1,228,304	186	572,350
Tourism	262	1,062,417	82	341,950
Agriculture	765	2,475,989	298	1,099,120
Others	230	2,318,414	83	588,160
Total	2,247	12,364,196	773	3,894,630

Classified loans extended by SZRB, as of 31 December 2005

Table No. 7

Classified loans	Number	Amount (in thousands of SKK)	Amount of unpaid principal (in thousands of SKK)
from loans extended	662	1,992,173	629,039
from guarantees extended	118	179,124	179,124
Total	780	2,171,297	808,163

Contributions provided to SMEs under individual grant programmes by SZRB

Table No. 8

Program	Period	Tourism	Combined transport	SAD	OZON	Alternative sources	START	EXPORT	WOOD	Others	TOTAL
Number of applications received for financial contributions	Y	0	0	0	0	0	0	0	0	0	0
	C	1,378	5	47	13	19	41	11	67	694	2,275
Number of financial contributions promised	Y	0	0	0	0	0	0	0	0	0	0
	C	874	3	44	9	14	19	0	37	518	1,518
Amount of financial contributions promised in thousands of SKK	Y	0	0	0	0	0	0	0	0	0	0
	C	723, 070	43,218	53,542	3,405	31,976	17,866	0	58,954	548,776	1,480, 807
Amount of financial contributions paid in thousands of SKK	Y	27, 953	0	0	0	3,355	0	0	0	1,050	32,358
	C	738, 746	30,784	46,286	3,062	27,834	1, 508	0	57,979	519,780	1,441, 979

Y – 2005

C – cumulative over the entire duration of the programme

Contributions provided by SZRB, by regions

Table No. 9

Region	Financial contributions promised - cumulative (in thousands of SKK)		Financial contributions promised – 2005 (in thousands of SKK)	
	Number	Amount	Number	Amount
Bratislava	163	162,867	0	0
Trnava	149	123,537	0	0
Trenčín	103	104,600	0	0
Nitra	202	195,814	0	0
Žilina	242	223,057	0	0
Banská Bystrica	252	274,085	0	0
Prešov	248	209,378	0	0
Košice	159	187,469	0	0
Total	1,518	1,480,807	0	0

Contributions provided by SZRB, by sectors

Table No. 10

Sector	Financial contributions promised - cumulative (in thousands of SKK)		Financial contributions promised – 2005 (in thousands of SKK)	
	Number	Amount	Number	Amount
Manufacturing	174	377,508	0	0
Commerce	21	17,481	0	0
Services	25	14,008	0	0
Tourism	768	619,930	0	0
Agriculture	378	251,827	0	0
Others	152	200,052	0	0
Total	1,518	1,480,807	0	0

Eximbanka, Export promotion in the SME sector as of 31 December 2005

Table No. 11

By Sectors	
Sector	Trade volume
Light industry	123,138,988
Electro-technical industry	253,673,667
Wood-processing industry	273,607,007
Other industries	187,936,124
Chemical industry	29,802,839
Food processing industry	151,146,841
Building industry	90,093,260
Engineering industry	366,060,542
Total	1,475,459,268
By Areas	
Area	Trade volume
European Union	897,241,171
Former Commonwealth of Independent States	477,560,840
Southeast Asia	66,544,954
Others	10,346,472
Near and Middle East	24,765,831
Total	1,475,459,268
By SITC	
Type of exported goods	Trade volume
Raw materials	314,710,728
Oils and fats	9,844,918
Foods	88,384,169
Industrial products	369,011,501
Machinery and equipment	336,020,551
Market products	357,487,401
Total	1,475,459,268