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Using Financial Instruments in the Slovak Republic in the 2014-2020 Programming Period

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List of acronyms

AFMA(s)	Access to Finance Market Assessment(s)
AFC	Association of Factoring Companies
ALCSR	Association of Leasing Companies of the Slovak Republic
ASFEU	The Agency of the Ministry of Education, Science, Research and Sport of the Slovak Republic
BIDSF	Bohunice International Decommissioning and Support Fund
BA(s)	Business Angel(s)
BIC	Business and Innovation Centre
CAGR	Compound Annual Growth Rate
CCB	Central Coordination Body
CEE	Central and Eastern Europe
COLSAaF	Central Office of Labour, Social Affairs and Family
CP	Cohesion Policy
CPR	Common Provisions Regulation
CSF	Common Strategic Framework
CSG	Community Strategic Guidelines
DG REGIO	Directorate General for Regional and Urban Policy of the EC
EAFRD	European Agricultural Fund for Rural Development
EBF	European Banking Federation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EEAR	European Environment Agency Report
EIB	European Investment Bank
EIF	European Investment Fund
EIO	Eco-Innovation Observatory
EMFF	European Maritime and Fisheries Fund
EMN	European Microfinance Network
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EU ETS	European Union Emissions Trading System
EU SILC	European Union Statistics on Income and Living Conditions
EVCA	European Private Equity and Venture Capital Association

FDI	Foreign Direct Investment
FEI(s)	Financial Engineering Instrument(s)
FI(s)	Financial Instrument(s)
FoF	Fund of Funds
FOSFOR	The Fund of Social Development Capital Funds
FTE	Full-time equivalent
GAFMA	Guidelines for SME Access to Finance Market Assessments
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
ICT	Information and Communication Technologies
IPO	Initial Public Offering
IPOoSR	Intellectual Property Office of the Slovak Republic
IT	Information Technologies
JEREMIE	Joint European Resources for Micro to Medium Enterprises
KET	Key Enabling Technologies
LBO	Leveraged Buy-Out
LFM	Limerock fund Managers
MA	Managing Authority(ies)
MFI	Microfinance Institution(s)
MLSAF	Ministry of Labour, Social Affairs and Family
MMCE	Mezzanine Management Central Europe
MTCRD	Ministry of Transport, Construction and Regional development
MS	Member State(s) of the European Union
NADSME	National Agency for Development of Small and Medium Enterprises
NBS	National Bank of Slovakia
NEEAP	Slovak National Energy Efficiency Action Plan
NPL	Non-performing loan
NRP	National Reform Program
NSRF	National Strategic Reference Framework
OECD	Organisation for Economic Co-operation and Development
OP(s)	Operational Programme(s)
PA SR	Partnership Agreement of the Slovak Republic 2014 – 2020
PE	Private Equity
PIS	Proposed Investment Strategy
PPP	Purchasing Power Parity
PPS	Purchasing Power Standards
RES	Renewable Energy Sources

RPIC	Regional Advisory and Information Centre (*RPIC* in Slovak)
R&D	Research and Development
SARIO	Slovak Investment and Trade Development Agency
SBA	Slovak Business Agency
SBA Fact Sheet	Small Business Act Fact Sheet
SBAN	Slovak Business Angels Network
SF(s)	Structural Funds of the European Union (ERDF and ESF)
SIH	Slovak Investment Holding
SKK	Slovak crown
SLOVSEFF	Slovak Energy Efficiency and Renewable Energy Finance Facility
SMAF	SME Access to Finance Index
SME(s)	Small and medium-sized enterprise(s) as per European Commission Recommendation 2003/361
SMER SD	Direction Social democracy
SO	Specific Objective(s)
s.r.o.	Ltd.
SR	Slovak Republic
SZRB	Slovak Guarantee and Development Bank
SZRF	Slovak Guarantee and Development Fund
TO	Thematic Objective(s)
VAT	Value Added Tax
VC	Venture Capital
VFG	Viable Financing Gap
VUC	*Vyšší územný celok*

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1 Executive Summary

The present report under the title "Volume II, using financial instruments in the Slovak Republic in the 2014-2020 Programming Period" is part of a wider ex-ante assessment for the use of Financial Instruments (FIs) in the new programming period covering various Operational Programmes (OPs) and sectors such as infrastructure, urban development, and energy efficiency in private and public buildings. Volume II of this ex ante assessment is specifically focusing on Small and Medium-sized Enterprises' (SME) financing while Volume I is focusing on the other sectors mentioned above.

In order to arrive to a Proposed Investment Strategy (PIS) for the use of FIs, the analysis was based on an SME Access to Finance Market Assessment (AFMA) for the Slovak Republic which conducted a thorough analysis of the existing market environment for SMEs, including lessons learned from existing FIs in the country and has implemented a methodological approach, aiming at defining the existing financing gaps regarding SMEs and their access to finance. Financing gaps have been identified across different financial products and across three categories of SMEs according to their size, namely micro-enterprises (0 to 9 employees), small (10 to 49) and medium-sized enterprises (50 to 249). As a result of these findings, the market assessment drew conclusions reflecting the reality of the SME environment in the Slovak Republic and provided recommendations upon which the Proposed Investment Strategy for Financial Instruments in the framework of the Operational Programme (OP) under the ESI Funds was structured.

SMEs dominate the Slovak market, representing almost the entire population of enterprises in the country: around 99%. Among these SMEs, approximately 93% are micro-enterprises. The presence of micro-enterprises has been gradually increasing as a result of the crisis. While medium-sized enterprises are proving resilience to the crisis, small enterprises seem to have difficulties adapting to a changing economic environment.

Following a difficult economic year in 2009, the Slovak economy was able to gradually recover but this process had an impact on SMEs. The Slovak economy is an industrial economy which attracts FDI and remains competitive in foreign markets, leading also to relatively strong exports rates. However, the industrial sector, once a strong engine of the economy, seems to be in decline. This seems to have an effect on SMEs in the country which have traditionally been dependent on industrial activities and were securing their operations and their liquidity through this supply chain. On the positive side, domestic demand is slowly but steadily recovering, and exports remain a strong. However, the majority of SMEs is not able to attract FDIs and has a limited innovation capacity, particularly in sectors outside in manufacturing.

On the supply side, the financial sector is dominated by commercial banks. Despite the fact that the Slovak banking sector is well-capitalised and generally sound, the overall percentage of the loans-to-GDP ratio decreased since 2007 from 24.5% to 19.5% in 2013, far below the Euro Area average of 42%. Despite the low and stable ratio of non-performing corporate loans to outstanding loans (5.3% for all corporate loans and 9.2% for SME loans in April 2014), banks maintain a highly conservative approach toward SME lending, contributing considerably to a financing gap.

The analysis in the present report also highlights the various forms of public Financial Instruments that have contributed, and keep contributing, to the improvement of SMEs' access to finance in the Slovak Republic during the current programming phase. Overall it has to be concluded, that the

existing Financial Instruments supported by public interventions have not created sufficient impact on the financing conditions and environment, mainly due to:

- Insufficiently defined products which create confusion and competition on the market;
- Low leverage of private sources and low involvement of financial intermediaries; and
- Low visibility.

The present AFMA report concludes that the impact of existing Financial Instruments could be considerably increased with the use of ESI Funds into existing or new Financial Instruments. This use would provide more funding to existing financial institutions that face increasing demand for financing, increasing deal flows and limited resources to maintain their internal processes as well as limited resources to service SMEs.

On the demand side, the three size categories of SMEs were analysed in order to provide insight on their needs. At the Managing Authority (MA)'s request, special attention was also given to SMEs operating in the social economy and those engaged in energy efficiency.

Micro-enterprises in the Slovak Republic (representing 95% of all SMEs) are experiencing problems in accessing the banking system, which is the main source of funding in the country. While these enterprises have access to leasing and short-term loans to a certain degree, general access to banking products is limited to micro-enterprises that have larger turnovers and suitable assets for collateral use. The lack of clearly branded micro loans and microfinance institutions increases financing difficulties particularly for newly established and 0 employee enterprises. Hence, the later relies heavily on informal (family and friends) contributions and own funding sources. There is, therefore, a clear need for institutional improvement to encourage the development of microfinance institutions.

Small enterprises represent a smaller segment of the SME population than micro-enterprises (3.5% of all enterprises). Their total number further decreased since the crisis as many small enterprises had to downsize in order to cope with the economic slowdown. Despite their relatively easier access to banking finance, barriers also exist for this category of SMEs. Unlike micro-enterprises, small companies rely on banking finance to a larger extent, since they lack the alternative of obtaining finance informally due to greater financing needs. Moreover, the high level of collateral requested by commercial banks creates high obstacles to their development. Especially loan products with a medium or long-term maturity are difficult to access for small enterprises, but essential for long-term investments.

Medium-sized enterprises represent a very small segment of the Slovak SME population (less than 1% of all enterprises). The crisis seems to have affected their prospects the least, and numbers have remained nearly constant. Their more robust asset base gives them the easiest access to banking products, particularly to leasing and short-term loans, although access to medium and long-term loans is more difficult.

Following the description of the Slovak economic and business context, and the dynamics of the supply and demand for SME financing, computations described in the report were able to quantify the supply and demand for the main financing products, per category of SME size for 2014 (deemed representative for 2015 and 2016 also). The quantification of the potential demand for finance from SMEs has been based primarily on their future needs expressed in an online survey conducted for

this AFMA study. Financing gaps, consisting of the difference between demand and supply were calculated Recognising that not all potential financing needs will translate into actionable, good quality demand for financial institutions, the analysis also provides a computation of financing gaps based on the viable demand[1] (referred to as Viable Financing Gaps[2] or VFGs). These provide a more helpful quantum to inform policy as they represent those SMEs which are viable but are failing to access to finance.

The following paragraphs summarise the findings and conclusions per financial product, and present high level recommendations for the formulation of a future investment strategy.

Microfinance

Demand for microfinance covers both existing SMEs and people currently unemployed and/or at risk of poverty who see themselves as potential business creators if their access to finance were facilitated (referred to as social inclusion). In the case of the Slovak Republic, the potential financing gap for existing micro-enterprises in 2014 ranges between EUR 744m and EUR 822m. Concerning microfinance for social inclusion, a financing gap has been estimated at EUR 587m. Following that, a total financing gap for microfinance may be considered between EUR 1,331m and EUR 1,409m.

Table 1: Potential financing gap for microfinance for micro-enterprises in 2014, including social inclusion

	Financing gap for existing micro-enterprises (EUR Mil.)	Financing gap for social inclusion (EUR Mil.)	Total financing gap for microfinance (EUR Mil.)
Microfinance	**744 - 822**	**587**	**1,331 - 1,409**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

There is a very clear need for short-term financing expressed by micro-enterprises (see next headed paragraph), but the way the financial market is structured and confusion among SMEs about the nature of microfinance, means that companies may be seeking inappropriate finance.

Existing Financial Instruments have to be further enhanced since demand for microfinance products by existing and newly created micro-enterprises is expected to further increase beyond 2014 due to the growing number of micro-enterprises.

Short-term loans, overdrafts, credit lines

Securing day-to-day business is the second most important use of financing and SMEs of all sizes have needs for working capital financing. On the supply-side, commercial banks not only seem to implement a conservative approach towards financing SMEs, but they also seem to have difficulties finding bankable companies with business plans that conform to their preferred risk profile.

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1 In order to estimate the viable demand, the percentage of viable companies (SMEs defining their financial situation as good or very good but unsuccessful in obtaining loan finance) was calculated and then multiplied by the average loan amount sought by a single company in 2014. In doing so, the proportion of viable micro-enterprises unsuccessful in obtaining loan finance has been estimated at 13.3%. The respective percentage of small and medium-sized companies taken together has been estimated at 6.3%.

2 Each VFG was based on the division of the sample into a lower and an upper segment, corresponding to lower and higher financing needs of the SMEs. As a result each VFG is presented with two figures where the first figure represents the financing gap of the lower segment for the specific SME-size category and financial product. The second figure is the total financing gap of both segments.

The findings of potential financing gaps reveal difficulties for all three categories of SMEs to access short-term financing. Financing gaps are however higher for small and medium-sized companies due to their larger amount generally required.

The calculation of viable financing gaps for all size categories of SMEs is provided in the table below. Contrary to the total potential gaps, there is little difference between the VFG for micro-enterprises and the VFG for small and medium-sized enterprises. Financial stakeholders suggest that this is because managers generally lack financial skills.

Table 2: Viable financing gaps for short-term loans, overdrafts and credit lines in 2014

	Viable financing gap for micro-enterprises (EUR Mil.)	Viable financing gap for small and medium-sized enterprises (EUR Mil.)	Viable financing gap for SMEs (EUR Mil.)
Short-term loans, bank overdrafts and credit lines	**118 – 130**	**157 - 174**	**275 - 304**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

Medium- and long-term loans

All sizes of SMEs use medium and long-term debt financing in the Slovak Republic. These loans are sought to finance investment and business expansion and are crucial for the enterprises' future development and sustainability. In 2014, and presumably also in the next years, according to positive economic forecasts, micro-, small and medium-sized companies intend to continue investing in their equipment and machinery as well as launch new activities.

According to the analysis, the reluctance of the banking sector to support SMEs contributes considerably to the financing gap. Micro- and small enterprises are more constrained, because of their difficulty in meeting collateral requirements, medium-sized still face similar difficulties. While a large part of investment needs is currently supported by leasing, further bridging these gaps in medium to long-term loans would stimulate investment and job creation in the long-term.

Table 3: Viable financing gaps for medium and long-term loans in 2014

	Viable financing gap for micro-enterprises (EUR Mil.)	Viable financing gap for small and medium-sized enterprises (EUR Mil.)	Viable financing gap for SMEs (EUR Mil.)
Medium and long-term loans	**163 - 181**	**218 – 241**	**381 - 422**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

Leasing

The analysis concerning leasing products has highlighted a strong use of this product among SMEs. Leasing products are used by all sizes of enterprises, particularly by small and medium-sized enterprises. Leasing products allow SMEs to investment in machinery and equipment without calling upon long-term debt.

Calculations show a financing gap based on potential demand for micro-enterprises between EUR 451m and EUR 498m. A financing gap ranging between EUR 102m and EUR 113m for small and

medium-sized enterprises has also emerged from the calculation. These calculated ranges translate into a potential financing gap for leasing products from EUR 553m to EUR 611m for all SMEs. This financing gap demonstrates that there is considerable opportunity for a Financial Instrument supporting leasing products.

Table 4: Potential financing gaps for leasing in 2014

	Potential financing gap for micro-enterprises (EUR Mil.)	Potential financing gap for small and medium-sized enterprises (EUR Mil.)	Potential financing gap for SMEs (EUR Mil.)
Leasing	**451 - 498**	**102 – 113**	**553 - 611**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

Equity

The equity market in Slovakia is underdeveloped. Despite the inflow of FDI in the country, private investors tend not to be active in business angel (BA), venture capital (VC) or private equity (PE) investing. Particularly since the beginning of the crisis, raising capital for investment in Slovakia remains one of the most important barriers to developing this market. Funding is mainly provided by funds from institutional investors, namely through the Slovak Business Agency (SBA), while the launch of the JEREMIE funds is expected to substantially improve the equity financing environment and, importantly, leverage in private funds.

The analysis highlighted that equity financing in the Slovak Republic is characterised mainly by:

- Weak demand and supply;
- Low level of awareness on the benefits of equity financing among SMEs and consequently lack of knowledge and experience in interacting with equity funds across all sizes and all maturity stages.

For 2014, estimates of supply of equity financing to SMEs in the country have been computed as between EUR 31m and EUR 35m. While numbers for BA investment do not exist, VC funds provide between EUR 15m and EUR 17m and PE funds provide between EUR 16m and EUR 18m. The table below presents the financing gap for 2014 across al SME sizes.

Table 5: Potential financing gap for equity financing for all SMEs in 2014

	Financing gap for equity financing (EUR Mil.)
Equity financing	138 – 643

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

Social Economy

The promotion of social economy and the support of the social economy sector are among the main priorities for the potential use of Financial Instruments. Social economy can be supported through the support of companies that have a social mission or through policies and instruments focusing on reducing unemployment and social inclusion.

As demonstrated by the findings of the survey, social enterprises are mainly micro-companies with similar needs than the general population of SMEs. The creation of a social fund that would design and implement FIs for the support of such companies would greatly benefit the social economy sector. The support scheme should be focused both on legal entities including enterprises, NGOs and non-profit organisations and people as final beneficiaries. Currently the activities of the sector are very limited, but according to the survey, companies that self-identify as social enterprises highlighted the need to access financing both for working capital and investment purposes.

Overall, the social economy sector remains underdeveloped. On the one hand, companies involved in the social economy sector do not have access to existing FIs while on the other hand, social inclusion instruments and mentoring have not been used to a great extent despite their availability, hence not leading to any valuable market impact being realised in recent years.

Energy efficiency

SMEs implementing investments to improve their energy efficiency are mainly microenterprises at a mature development stage, but the share of small and medium-sized enterprises is increasing. On the other hand, most of the enterprises, particularly micro- and small enterprises, do not see an early return on such investments and would need to access long-term debt financing in order to realise energy efficiency projects. The inability to access long-term lending seems to prevent these companies from implementing such projects.

As a result, the number of energy efficiency projects undertaken is still limited, despite being a government priority, continuing to negatively impact energy costs and the environment. The government commitment to the EU 2020 targets, particularly for renewable energy sources, will further increase demand in this sector, but also the need to establish adequate support instruments.

Recommendations

The Slovak Republic has developed a range of revolving financial instruments in the past, including microfinance and equity instruments. Despite this experience developed by state owned institutions such as the Slovak Guarantee and Development Bank (SZRB) and the SBA, it seems that these instruments do not engender the leveraging of private funds and do not involve private institutions in. For instance SZRB provides direct loans to SMEs while SBA has created equity funds which mainly use public funds[3]. Moreover, some of these instruments lack a clear label and a targeted approach thus failing to create an impact in the market.

The relatively recent launch of the JEREMIE instrument will play a crucial role in the transition period of the Slovak economy and will also support the development of a new approach towards FIs (focusing on the revolving and leverage attributes of FIs). Overall, the promotion of FIs is an important factor to support the growth of SMEs and the creation of jobs, and to tackle the

[3] It has to be noted that for funds established before the start of the Risk Capital Programme (2006) no private investors were involved. Today all equity funds operated by SBA include private investments with a varying share of between 1% and 37.5%.

unemployment that remains a main concern for the Slovak society.

The key recommendations from the analysis conducted in the present AFMA report are detailed below:

a. Consider the design and implementation of FIs through a well-defined strategy, a more targeted approach and the restructuring of existing public institutions involved in the process.

The Financial Instruments currently available in the country are implemented by public institutions which often try to substitute the private sector instead of working collaboratively. It is important to design a clear strategy for the design and implementation of FIs with the aim to increase private sector leverage and the involvement of private institutions. These principles should be further applied to the newly created holding fund that will manage different sub-funds with the goal to complement, rather than compete with the private sector.

Coordinated communication should be implemented in order to raise awareness among SMEs for the existence of specialised institutions and FIs.

b. Support and expand the implementation of JEREMIE.

The implementation of JEREMIE will greatly benefit the promotion of FIs in the Slovak Republic. While the preparation time for this initiative has been long and financing products have not reached a critical mass of beneficiaries, it should be further supported and could also become a part of the holding fund. The JEREMIE instrument's principal approach, with its revolving nature and focus on leveraging private funds, will create valuable experiences for the design of other Financial Instruments. Especially the equity funds could become a stepping stone for the development of a private equity financing market and the birth of an active Business Angel community. Greater cooperation between the JEREMIE Holding Fund and the intermediaries through which it invests should be sought to reduce perceived bureaucratic burdens. As the current JEREMIE programme will have to stop investing at the end of 2015, the procedures for the extension of the JEREMIE funds should be initiated without delay.

c. Consider developing specific guarantee products or complementing the existing products to facilitate access to short-term debt for working capital purposes and long-term debt for investment purposes.

SMEs need financing for working capital, improving their cash-flow and sustaining their day-to-day operations. In parallel, SMEs in Slovakia are showing an intention to invest in their business over the coming years. But financing gaps exists for both short term and longer term needs. The main barrier for the access to debt financing for SMEs, and especially micro-enterprises, is related to the collateral requirements made by the banks. In order to support the needs for both working capital and investment financing, Financial Instruments in the form of guarantees and other risk-mitigation products to support SMEs without collateral could be developed or could complement existing guarantee products.

Specific instruments targeting specific groups of SMEs according to their priorities, size or maturity could help increase the impact of these instruments and their visibility in the market. A special attention to small companies could also be envisaged, since these enterprises are currently more

impacted by the crisis thus adding to the unemployment problems in the country and reducing the pool from which medium-sized companies could emerge.

d. Create the conditions for the development of an environment that will support equity financing and an active Business Angel community.

The equity market and Business Angel environment in Slovakia are non-existent, with consequences in particular for young, high growth potential companies. The JEREMIE instruments as well as the experience of institutions such as the SBA should be used in order to cultivate a new business mentality and raise awareness among SMEs on the benefits of equity financing, but also in order to raise the confidence levels of potential investors. Experience in other countries has shown that equity investments in SMEs through public assistance schemes tend to attract private investors and BAs, especially in countries where capital-raising remains a challenge.

e. Support the provision of microfinance for existing and potential entrepreneurs.

The supply of microfinance in the Slovak Republic is not clearly defined and is usually provided in the form of standard bank loans of up to EUR 50,000. The design of a genuine microfinance facility to support existing and potential entrepreneurs should be considered. This facility should ideally be implemented through a specialised vehicle or through a risk sharing scheme with commercial banks. In this last case however, a clear distinction with bank loans should be made and thus the participating banks should be given the necessary incentives not to request collateral. Furthermore, a mentoring component should also be provided due to lack of technical skills of new and existing business owners.

f. Consider the use of grants and FIs to support social economy, mentoring, and to motivate businesses to retain their employees.

The promotion of social economy and the support of the social economy sector have been understood to be among the main priorities for the potential use of Financial Instruments. As demonstrated by the findings of the survey, companies in the social economy sector are dominantly micro-companies, with similar needs to access both working capital and investment needs. The creation of a social fund that would design and implement FIs for the support of such companies could greatly support the further growth of the small social economy sector. The design of FIs in the form of guarantees (to reduce collateral requirements) and risk sharing loans (to reduce interest rates) would help these companies support their day to day operations and acquire the necessary equipment. Finally, the support scheme should be designed to support both legal entities including enterprises, NGOs and non-profit organisations and people as final beneficiaries.

However, entrepreneurs lack financial knowledge and managerial best practice in areas as business development, and business plan preparation to enhance their access to finance. It is, therefore, strongly recommended for the next programming period to deploy a suitable Technical Assistance facility to finance mentoring and technical support to SMEs. Such a facility would leverage the existing networks and initiatives implemented at national level to support the SMEs in their development strategies.

Furthermore, SMEs and in particular small enterprises face difficulties to retain their employees and a current trend regarding the tendency of SMEs to use self-employed people in order to avoid costs related to social benefits and social security can be observed. In this context, the design of an FI in

the form of a subsidised interest rate loan with a purpose to cover such costs could motivate companies to retain their employees and should be considered.

g. Consider the design of specialised FIs to support the provision of leasing and export credits.

The analysis defined two important characteristics concerning SME financing in Slovakia. First, it was shown that leasing products are popular among SMEs and supported their investments in recent years and will probably do so in the future. This positive reputation of leasing products should be further supported through a specialised FI in the form of guarantees for leasing or in the form of a risk sharing facility that would reduce the cost of leasing, tailored to specific size groups.

A second point that emerged through the analysis is the strong tradition of the Slovak economy toward export activities. Although the main share of exporting activities is generated by large companies, this tradition is also explored by SMEs and could help companies redirect their goods and services to new markets. Despite this exporting tradition, specific products to accommodate exporting companies are very scarce. The design of a FI in the form of a guarantee specialised in promoting export credits or bank guarantees would highly benefit these companies and would also motivate banks and other financing institutions to develop products to support exports.

h. Consider designing a FI to promote energy efficiency.

The survey conducted for this report revealed that most SMEs that have implemented or are planning to invest in improving their energy efficiency are micro-enterprises at a mature development stage. It can be assumed that the reason for this is the limited management bandwidth within start-ups or companies in their growth phase to consider investing in energy efficiency despite the fact that such investments would reduce their costs. It was also mentioned in interviews that the cost of lending for SMEs is perceived as being higher than the anticipated return of such investments. The design of a FI in the form of an interest free loan would help to close this gap, motivate SMEs in all development stages and sizes to implement energy efficiency projects and pave the way for achieving EU 2020 targets.

Proposed Investment Strategy

Based on the findings of the market assessment and the recommendations deriving from the analysis, a PIS is provided for the use of FIs in the new programming period. This PIS takes into account the priority of the Slovak government to establish a Fund of Funds (FoF) called the Slovak Investment Holding (SIH). In order to illustrate this government priority, the PIS provided an overview of advantages and disadvantages for the use of a FoF and for other governance structure options.

On the basis of the market failure analysis (while adjusted through existing experience with financial instruments) and pursuant to the priorities established in the Slovakia Partnership Agreement and the Operational Programmes, the following FIs are proposed to be deployed in the new programming period in Slovakia.

Table 6: Financial Instruments – Programming Period 2014-2020 – The Slovak Republic

Financial Instrument	Proposed contribution EURm	Funding Source
Early-stage equity funds (Accelerator & seed fund and/or technology transfer fund)	15m	**OP Research and Innovation** PA 3 "Enhancing the Competitiveness and Growth of SMEs" PA 4 "Developing competitive SMEs in the Bratislava Region"
SME portfolio guarantee instrument	60m	
SME interest subsidy risk-sharing instrument*	100m	
SME equity fund for growth stage	25m	
Social impact investing instrument in support of social SMEs	15m	**OP Human Resources** PA 2 "Employment" PA 3 "Social Inclusion" PA 4 "Integration of marginalised Roma communities" PA 5 "Technical facilities in municipalities with presence of marginalised Roma communities", IP 5.2. "Support for social enterprises"
Social microfinance interest subsidy risk sharing instrument*	10m	
Social microfinance guarantee instrument	10m	
SME energy efficiency portfolio guarantee instrument	10m	**OP Quality of Environment** PA 4 "Energy efficient low-carbon economy in all sectors"
TOTAL[45]	**245m**	

Source: EIB

Under a structure of FoF, based on the table above, two sub-funds could be created that would be relevant to SME financing. One sub-fund for SMEs with a total envelope of EUR 210m and a sub-fund for Social Economy with EUR 35m.

The target final recipients of the proposed FIs are:

- **SMEs**: for all financial instruments proposed here, with a particular focus on microfinance for the instruments to be financed from the Human Resources OP. For the avoidance of doubt, proof-of-concept projects would also be covered in the context of pre-seed or

4 Alternatively, the SME interest subsidy with grant element can be used

5 Management costs impact not considered in the total

intellectual property based funding for Technology Transfer investment vehicles, seed and accelerator funds.

- Regarding microfinance, the proposed FIS also target people who are unemployed or on the verge of poverty in order to support them in the creation of a business or self-employment.
- Provide funding for all sectors eligible from the state-aid and ESIF point of view.
- For microfinance, eligibility criteria would apply to ensure compliance with the definitions of micro company and microcredit, and with the social impact envisaged under the instrument.

The PIS is attempting to cover the existing and future financing needs as were identified by the market assessment and optimize the potential value added from the use of FIs in the country based on past experience and lessons learnt. As such, the following leverage effect of the proposed FIs is projected.

Table 7: Projected leverage effect for the proposed instruments

Financial Instrument	Proposed contribution EURm	SME impact EURm	Leverage
SME early-stage equity fund(s) (Accelerator & seed fund and/or technology transfer fund)	15	16	1.0x
SME portfolio guarantee instrument	60	300	5.0x
SME interest subsidy risk-sharing instrument[6]	100	200	2.0x
SME equity fund for growth stage	25	35	1.4x
Research and Innovation OP leverage	**200**	**551**	**2.8x**
Social impact investing instrument in support of social SMEs	15	15	1.0x
Social microfinance interest subsidy risk sharing instrument*	10	20	2.0x
Social microfinance guarantee instrument	10	25	2.5x
Human Resources OP leverage	**35**	**60**	**1.7x**
SME energy efficiency portfolio guarantee instrument	10	50	5.0x
Quality of Environment OP leverage	**10**	**50**	**5.0x**
TOTAL LEVERAGE	**245**	**661**	**2.7x**

Source: EIB

An important additional benefit to the leverage effect calculated above, while difficult to estimate in advance, consists in the revolving nature of the current (JEREMIE) and future ESIF FIs. Even with the assumed losses in the guarantee and loan subsidy instruments, the revolving resources, which will need to be again targeted towards SMEs, will add further value in the form of further "rounds" of SME financing.

[6] Alternatively, the SME interest subsidy with grant element can be used (leverage to be determined)

2 Introduction

Finding appropriate ways to finance Small and Medium-sized Enterprises (SMEs) is a priority for the European Union (EU)[7]. Since the early 1990s, policy recommendations at global, European, national and regional level have highlighted the need for the adoption of a coherent approach to improve SMEs' access to finance. In the EU's 2007-2013 programming period, structural funds support to SMEs was provided via Financial Engineering Instruments (FEIs) in addition to grant finance. DG REGIO's Summary Report 2012 reported that, FEIs for enterprises had invested in more than 160,000 SMEs across Europe[8].

The 2014-2020 programming period foresees an increased use of Financial Instruments (FIs) for all Thematic Objectives (TO) and across all sectors[9]. The objective is to move away from grant mechanisms towards Financial Instruments, namely revolving funds focused on productive investment that also allow for greater participation of the private sector. Furthermore, there is a wide interest in ensuring the strong commitment of private sector financial intermediaries in taking the role of implementing bodies for FIs, in order to increase efficiency in the delivery of funds and leverage the amount of funds made available through private participation.

In the current economic situation, commercial financial intermediaries are limited by solvency constrains and by the need to apply strict risk management standards. This may increase the difficulties for SMEs to comply with the conditions for access to finance. Thus, the preparation of ex-ante assessments becomes necessary, and according to the relevant regulation also mandatory, to assess the conditions and existing barriers SMEs have to face.

For the Slovak Republic, the use of FIs has been a priority for several years and numerous instruments have already been designed and implemented. Nonetheless, in a constantly changing environment, an updated and further detailed analysis of the SME environment is necessary in order to improve, adjust and produce new policies and instruments catering to the needs of SMEs.

The present report assesses the existing supply and demand of funds supporting SMEs in the Slovak Republic, analyses if and to what extent weaknesses and financing gaps exist in particular markets for SME finance, and proposes high-level recommendations to address these gaps and weaknesses given the proven market failures, suboptimal investment situations and financing needs. Through this process a particular focus is provided for the sector of social economy, energy efficiency and environmental matters. Finally, a PIS is presented for the use of FIs in the new programming period.

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7 Think Small First - A Small Business Act for Europe (COM(2008) 394 of 23.6.2008).

8 European Commission, Summary of data on the progress made in financing and implementing financial engineering instruments reported by the MAs in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006. Programming period 2007-2013 (situation as at 31 December 2012).

9 European Commission, Factsheet - Financial Instruments in Cohesion Policy 2014-2020.

2.1 Objectives and scope of the study

The present report provides the assessment of the existing supply and demand for SME financing in the Slovak Republic. It aims to identify and - where possible - quantify the market failures or suboptimal investment situations and investment needs of small and medium-sized enterprises in Slovakia. It also takes into account the innovation sector in the Slovak Republic, in conformity with the "Guidelines for SME Access to Finance Market Assessments" (GAFMA)[10]. Aligned with the preamble of the Common Provisions Regulation (CPR) adopted on 17 December 2013, it is meant to establish "*evidence of market failures or sub-optimal investment situations and the estimated level and scope of public investment needs, including types of Financial Instruments to be supported*"[11].

Following the GAFMA methodology[12], a set of recommendations are provided to support the design of an investment strategy for the use of FIs in the future.

According to the Partnership Agreement, the Government Office of the Slovak Republic is responsible for the coordination of the use of the EU funds. The preparation of the PA SR for 2014 – 2020 is ensured by the Central Coordination body falling under the authority of the Deputy Prime Minister for Investments. In this context, the present analysis could contribute in:

- Improving the Financial Instruments at the disposal of the SMEs in the country in order to support them in achieving their financing and development objectives;
- Supporting the Slovak Republic in making optimal use of the opportunities offered by the new legislation with regard to the use of Financial Instruments in the framework of the programming period 2014-2020;
- Considering potential complementarities and synergies with existing Financial Instruments implemented by the Slovak Republic.

2.2 Relevant regulation

The Common Provisions Regulation (CPR) adopted on 17 December 2013 lays down provisions for the European Structural and Investment Funds (ESIF). According to these provisions ESIFs may be used to support Financial Instruments under one or more Programmes to be implemented during the programming period 2014-2020. FIs are consequently becoming necessary tools for the successful implementation of Common Strategic Framework (CSF) policies as well as for achieving the Europe 2020 Strategy objectives for smart, sustainable and inclusive growth. They are seen as a valuable complement to traditional grant schemes and are meant to leverage existing experience with the use of Financial Engineering Instruments (FEIs) acquired during the programming period 2007-2013.

Starting from the new programming period 2014-2020, Member States (MS) and MAs will be allowed to use FIs for all the 11 Thematic Objectives (TO) covered by the CSF programmes and part

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[10] For this reason, the present study is in conformity with the recommendations of the European Court of Auditors aiming to base the future operations making use of ERDF funds on the sound analysis of market gaps, including the quantification of these gaps.

[11] See CPR, 17 December 2013, (Article 37 in Annex 1).

[12] European Investment Fund (2014). Guidelines for SME Access to Finance Market Assessments (GAFMA). Working Paper 2014/22.

of the future Cohesion Policy (CP) for 2014-2020. As a result, the structure of CSF Programmes will have to be aligned with the Thematic Objectives, including the third Thematic Objective which states that "*each CSF Fund shall support the following thematic objectives in accordance with its mission in order to contribute to the Union strategy for smart, sustainable and inclusive growth:* […] *enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and fisheries and aquaculture sector (for the EMFF)*"[13].

According to the adopted CPR for the future Cohesion Policy 2014-2020, FIs shall be set up on the basis of *ex-ante* assessments that address the local needs and potential of SMEs, as in the Slovak Republic.

2.3 Structure of the report

The present report (volume II) is structured so as to bridge the recent trends with the foreseeable developments in access to finance of SMEs in the Slovak Republic and draw specific conclusions on the market financing gaps so as to provide a suitable PIS. The report begins with the presentation of the methodology (Chapter 3) detailing the approach taken to the collection and analysis of the relevant data. The methodology is followed by a brief description of market environment in the Slovak Republic (Chapter 4). It consists of the overview of the economic situation and detailed description of the SME market, including a short snapshot of the institutional and legal framework. Annex 4 provides a more detailed view of the market environment. The report then describes the existing Financial Instruments available for SMEs in the Slovak Republic (Chapter 5) and provides the overview of the existing support schemes and the historical use of Structural Funds (SFs). Next, the report presents policy priorities of the Managing Authority (Government Office of the Slovak Republic) for SME financing for the next programming period 2014-2020 (Chapter 6).

Chapter 7 analyses the supply of SME finance per financial product and SME size. The size categories of SMEs are defined according to the number of employees taking into account the EU definition of an SME; from 0 to 9, 10 to 49 and 50 to 249 employees. This categorisation is important in order to highlight the several characteristics of the regional market such as the dominant presence of micro-enterprises. The categorisation per company size is an additional tool to distinguish between different problems and related needs occurring within the SME population in the Slovak Republic. Finally, Chapter 8 identifies and analyses the financing gaps for each of the above categories. It is done with the view to draw conclusions on the financing needs of SMEs and make recommendations for the Proposed Investment Strategy (PIS) which is presented in Chapter 9.

[13] See CPR, 17 December 2013 (Article 37 in Annex 1).

3 Methodology of the study

Various data sources were used and triangulated to draw conclusions as to the financing gaps in the Slovak Republic:

- Literature review, including the analysis of SME-specific indicators developed in former studies;
- Interviews with key stakeholders in SME finance in the Slovak Republic;
- Online survey conducted among a representative sample of SMEs in the country.

3.1 Literature review

The literature review aimed to gather the majority of the existing information on SME financing in the Slovak Republic with the view to identify and analyse:

- Information on the macroeconomic environment of Slovakia;
- Insights into policy priorities of the Managing Authority for the next programming period 2014-2020;
- Information on the regulatory environment relevant for SMEs and FIs in the Slovak Republic;
- Existing indicators and information on SME financing (on both the demand and supply sides);
- Insights into successes, failures and lessons to be learned from the past use of FIs.

3.2 Stakeholder interviews

In order to complement the literature review, interviews with stakeholders involved in SME financing in the Slovak Republic were carried out. Different groups were defined when selecting relevant stakeholders in order to fully cover the scope of the SMEs' access to finance in the region. Three groups of stakeholders were identified:

- Financial Institutions and supply side representatives;
- Policy makers; and
- Demand side representatives.

In total, 32 interviews were conducted and a more detailed list of the stakeholders interviewed is presented in Annex 5.

3.3 Online survey

An online survey[14] among SMEs in the Slovak Republic was conducted between May 12th and June 6th 2014. A questionnaire was sent to a sample covering more than 24,000 SMEs in the Slovak

[14] A note on the sampling methodology used for the online survey is provided in Annex 2.

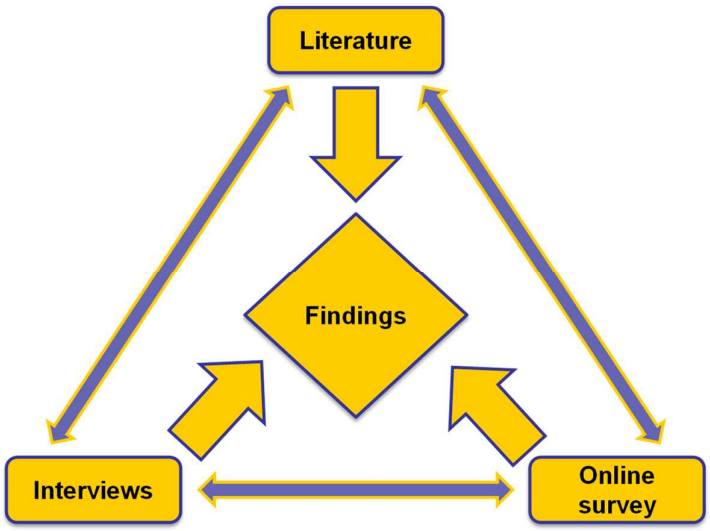
Republic and representing approximately 6% of the SME population of the country. Overall, 375 companies gave valid responses to the online survey. Distribution of respondents is aligned with the overall SME population in the Slovak Republic to the largest extent possible[15]. The questionnaire used for the online survey included 25 questions. The questionnaire used for the online survey is presented in Annex 8.

3.4 Data analysis

All the data and information collected through literature review, stakeholder interviews and the online survey were used and assessed in order to validate the findings of the study. The methodology used is based on the principles of triangulation ensuring that all the findings presented in the present report are supported, to the largest extent possible, by evidence from these three data sources. The pieces of information obtained through these data sources were compared with each other so as to identify trends or contradictions in the findings.

The principle of triangulation is illustrated in Figure 1 below.

Figure 1: Principle of triangulation



Source: PwC.

The above-mentioned approach enabled the identification of tendencies in access to finance of SMEs in the Slovak Republic.

[15] Some over-representations in the size groups are highlighted in Annex 2.

4 The Market Environment

When the economic crisis took hold in Europe, fiscal consolidation emerged as the main policy tool taken by governments across EU Member States to tackle soaring public budget deficits, and a general sense of austerity took hold across society. This also applied to Slovakia which was affected by the crisis, most acutely in 2009. As a result of this trend and a plummet in consumer confidence, there was a fall in both exports and domestic demand in 2009, which led to a 4.9% reduction in economic output for that year, also to large extent influencing the industrial sector - the main engine of the economy in Slovakia. However, as the European economy returned to health, output quickly picked up and returned to prior levels.

Despite this relatively fast recovery, marks from the crisis where left on the sustainability and adaptability of SMEs in the country. The decline in the industrial sector affected the sustainability of SMEs which have been traditionally dependent on larger companies and traditionally remained specialised in the smaller stages of production in various areas, such as in the car industry and electronics, in particular.

The conditions experienced in recent years, have had a considerable effect on the structure of the Slovak SME sector. It has been reported that although medium-sized companies have demonstrated resilience to the crisis, small companies have had problems coping. As a result, a swift increase of micro-enterprises has been observed and especially of 0 employee companies, with the belief that companies are merely avoiding hiring personnel and are using freelancers instead. This tendency is already causing concerns regarding access to finance and should be taken into account by policy makers in the design of FIs.

Research compiled in the course of this study indicates that the Slovak banking system is well capitalised and commercial banks are able to sustain their operations through capital deposits rather than relying on financial markets. With regard to Monetary Policy, the ECB's base rate has been held at very low levels since the onset of the crisis, at less than 1% since 2012, thus providing time and favourable conditions for financial institutions to on-lend to each other and consolidate balance sheets, enhancing liquidity. In this context, financial institutions should be in a strong position to increase their lending.

However, access to finance has been an underlying concern in Slovakia as it has been for SMEs across Europe. According to the SME Access to Finance[16] (SAFE) survey conducted by the European Commission and the European Central Bank, conducted over the second half of 2013, 42.4% of SMEs perceive access to finance as an "extremely pressing" problem. These answers among Slovakian enterprises are much higher than the EU-average of 13.8%. Given the fragile financial position or relatively low returns of many micro-enterprises in comparison to larger enterprises, commercial banks have been reluctant to provide finance to businesses on a micro- scale. This has reinforced the systemic barriers to entry that SMEs already face when competing in the business environment. Given their comparably small size and lack of incumbent economies of scale and established contracts, it is particularly difficult for SMEs to gain a foothold in the manufacturing

[16] ECB, 2013. Survey on the access to finance of small and medium-sized enterprises in the euro area, April 2013 to September 2013.

supply chain, a key sector of Slovakia's economy and one dominated by larger firms. A culture of adaptation and innovation is necessary to overcoming these challenges.

Innovation is a key component for SMEs and especially micro-enterprises to become competitive with respect to export activities and FDI inflows, but the environment is not very conducive. The International Union Scoreboard 2013 rates the performance of Slovakia as well as the Czech Republic and Hungary as 'moderate innovators', which is below the EU average. The share of national GDP comprised of R&D expenditure reached EUR 302m in 2012, representing 0.82% of GDP. This is markedly below the EU28 average (2.06%) and significantly far from the targeted 3% as set out in the Europe 2020 Strategy[17]. The weak R&D and innovation policy framework is the main reason for a barely existing eco-innovation market in the country.

Slovakia is a major recipient of FDI which is the second driving force of the economy, after exports. This is because Slovakia has a favourable geographical location, low taxes and low labour costs. The Bratislava region, which contains the capital city, is central to the country's economic infrastructure receives around 73% of the total inflow of FDI. Further consideration should be made to the economic geography of the country to support SME activity in more deprived regions and municipalities. In addition to this, FDI is heavily focused towards larger firms that enjoy greater market power, presenting a barrier to SMEs.

Exports are the main driving force behind Slovakia's robust growth, having doubled in the past ten years (from around 55 per cent of GDP in 1995 to 95 per cent in 2012) allowing Slovakia to outpace most EU economies in this regard. However, given the scale of the downturn and the dominant role played by the manufacturing, auto and electrical sectors, the economy has remained fragile. This is of particular interest in the expansion of new markets where production and labour costs are lower, thereby increasing competition further.

Slovakia's changing demographics have an extensive influence over most domestic social indicators, and may have an important impact on the local business environment, and the development of SMEs in the long-run. On the one hand, the wide availability of an inexpensive labour force represents a competitive advantage for the country, serving as a lever to attract investment. On the other hand, the aging population, the strong competition for well-educated employees and the difficult legislative framework are causes for concern for the long-term prospects of SME development in the country.

SMEs in Slovakia have also experienced difficulty in the recruitment and retention of skilled labour. Despite the high unemployment rate (14.3% compared to the EU average of 11%) a significant number of survey respondents reported being concerned about the "loss of existing workers" and furthermore as to the "limited availability of suitable personnel". Another survey carried out by the Slovak Business Alliance in 2013 showed how the presence of high taxes and specific legal and administrative obstacles has a negative impact on job creation among employers.

The social economy sector in Slovakia is still underdeveloped - similar as in most of the new EU

[17] The Slovak Republic is aware of the current situation and approved the Research and Innovation Strategy for Smart Specialisation in November 2013 (RIS3, 2013). Its objective is to stimulate a structural change in the Slovak economy towards growth based on increasing innovation ability and excellence in research and innovation in order to support sustainable growth of incomes, employment and quality of life.

member states. Currently, the legal definition of social enterprises in Slovakia is narrow and does not cover the full scope of actors like private companies, associations, foundations and cooperatives. While their activities are indeed limited, positive examples like the NGO ETP or Coop Product Slovakia are contributing in developing the sector.

In summary, SMEs in the country have traditionally been depended on the industry sector and were securing their operations and their liquidity through this supply chain. The crisis has affected this environment of co-dependence and has altered the structure of the SME population in the country. On the positive side, domestic demand is still strong, allowing for positive prospects, while exports will also remain an engine for the economy. However, SMEs are still not able to attract FDIs, or become more innovative. A more detailed and elaborated analysis of the market environment in Slovakia is being provided in Annex 4 of the present report.

5 Existing SME Financing Instruments in the Slovak Republic

This chapter will present the existing Financial Instruments[18] in Slovakia and available support to SMEs through grants. In order to provide a more complete picture of available support to SMEs a description of existing public institutions will also be provided. In Slovakia the most important initiatives regarding access to finance for SMEs are initiated by the Joint European Resources for Micro to Medium Enterprises (JEREMIE) of the European Investment Fund (EIF) and by the Slovak Guarantee and Development Bank (SZRB). Specifically for SMEs, the use of FIs is still limited but their impact is slowly and gradually increasing. This chapter will conclude with the historical use of Structural Funds in the Slovak Republic.

5.1 Main public institutions in SME financing in the Slovak Republic

Public initiatives in Slovakia for the support of SMEs are implemented through state authorities and a few companies, whose role is concentrated mostly on recommending policies to the central government and designing and implementing FIs. At central government level, the Ministry of Economy is responsible among others, for the preparation and implementation of an SME business development strategy, and the overall improvement of the business environment.

SZRB is a specialised banking institution founded by the Slovak Republic and monitored by the Ministry of Finance. SZRB was one of the first banks in Eastern Europe specialising in the support of SMEs. The bank provides loans directly to SMEs, or cooperates with commercial banks in order to facilitate access to finance for SMEs. The bank also provides guarantees to SMEs, especially to those who cannot provide collateral to banks.

The Slovak Guarantee and Development Fund (SZRF) is a subsidiary of SZRB, created in March 2009, within the framework of the implementation of the JEREMIE initiative in Slovakia. The aim was to create a local state-owned entity with the participation of the EIF, through which to implement JEREMIE instruments. The operations of the company are carried out by the EIF independently under a separate management agreement, including the contracting of selected financial intermediaries.

Currently, the Slovak Republic and specifically the Ministry of Finance are setting up and resourcing a new subsidiary of the SZRB called Slovak Investment Holding (SIH). The SIH will be a fund of funds, and will manage several thematic sub-funds. The purpose of the SIH will be to implement FIs in the new programming period.

Another entity focusing on promoting the development and growth of SMEs in the Slovak Republic is the **Slovak Business Agency** (SBA) which was established as a joint initiative of the Slovak government and the European Union. The SBA identifies and analyses existing barriers to entrepreneurship and then proposes SME specific policies to the Ministry of Economy, to improve

[18] Only FIs that are backed by public funding, national and /or European are being considered.

conditions in the market for SMEs. The general director of SBA also holds the position of SME Envoy[19] in order to represent and promote legitimate demands of SMEs at national and European levels (European Commission, 2014). The SBA also has a long experience in Slovakia in implementing microfinance programmes for SMEs and equity programmes as well.

The Slovak Investment and Trade Development Agency (SARIO) is another entity under the auspices of the Ministry of Economy. The agency´s objective is to attract foreign investment while promoting Slovak SMEs in their effort to engage into exporting activities. SARIO focuses on:

- The support of Slovak SMEs and the promotion of exports;
- The improvement of the SME business environment; and
- The integration of SMEs into clusters.

5.2 Financial Instruments and grants available for SMEs in the country

This section presents the Financial Instruments and grants available for SMEs in the Slovak Republic. The FIs are designed and implemented by the SZRB and the JEREMIE initiative of the EIF (through the SZRF).

5.2.1 Financial Instruments for SMEs

Financial Instruments are financed through European and national funds.

5.2.1.1 Slovak Guarantee and Development Bank

The SZRB operates as a bank with a focus on SMEs, regions and municipalities, but is not in immediate competition with commercial banks. Quite the contrary: SZRB aims at cooperating with commercial banks and complement them by supporting SMEs that have been rejected for commercial loans. The main support from SZRB to SMEs is implemented through guarantees and direct loans. In the case of direct loans, the bank applies credit risk evaluations on SMEs which have been rejected by commercial banks and most of cases lack collateral. The target of the bank is to support SMEs that are viable but don't have access to finance. The bank is a sustainable institution but which uses state funds to support its operations and since it finances SMEs directly and not through commercial banks, there is limited possibility to generate substantial leverage of private funds. However, the guarantee products do generate leverage since they guarantee loans provided by commercial banks. SZRB provides the following support to SMEs:

Loans

SZRB offers various types of loans to various target SME groups in the Slovak Republic, for example:

- Direct loans are aimed at supporting the development of SMEs in the Slovak Republic, to fund investment and operational needs for loan beneficiaries. The Bank provides loans from

[19] Each member state of the EU indicates an SME envoy, in the context of the "Small Business Act". The SME Envoy is an active interface with the SME business community, considering their specific interests and needs in EU programmes and policies. The main objective of this function is to establish a close, direct link between the Commission, SMEs and their representatives. http://ec.europa.eu/enterprise/policies/sme/small-business-act/sme-envoy/index_en.htm.

EUR 6,500 with maximum maturity of 10 years. These loans are provided with a low interest rates (usually at EURIBOR rate without additional spread) and with no collateral requirements. A grace period is usually also provided.

- Loans for the financing of labour costs for SMEs are provided through a specific programme. The goal of the program is to support SMEs in maintaining their employment positions. These loans range between EUR 10,000 and EUR 350,000.
- Microloans to newly established and existing SMEs. The applicants for these loans benefit from swift procedures since they are informed on the success of their application within 3 days. These loans range between EUR 3,000 and EUR 50,000 with a maturity of 5 years[20].
- Loans for the support of women entrepreneurs. These loans range from EUR 3,000 to EUR 33,000 with a maturity of 5 years.
- Loans to support young entrepreneurs in creating a new business or developing their existing business. These loans range between EUR 3,000 and EUR 43,000.
- Loans to support working capital needs of companies that are applying for grants or other support schemes, especially concerning innovations projects and the development of the knowledge economy. The minimum loan amount is EUR 3,000.
- Loans to the agricultural sector for the purchase of agricultural land and equipment. The loan amounts range from EUR 3,000 to EUR 330,000 (with a requirement that SMEs also invest 20% of the project), with a maturity between 5 and 15 years.
- Loans to farmers who are eligible to receive direct payments in form of grants from the relevant agricultural payment agency in order to support their operations and working capital needs.

The bank also operates as an intermediary institution in cooperation with the European Investment Bank (EIB). In this context, SZRB provides investment loans called “INVEST Loans” with funding originating from the European Investment Bank. Loan beneficiaries are SMEs. Finally, the bank operates as an intermediate for the JEREMIE First Loss Portfolio Guarantee instruments (as will be described in the next section) thus stimulating the provision of guaranteed loans to SMEs.

Guarantees

SZRB offers various types of guarantees to various target groups in the Slovak Republic. According to the management of the SZRB, since 2011 the demand for guarantees from SMEs is decreasing while the demand for direct loans is increasing. It seems that SMEs prefer to deal with the SZRB directly than to take advantage of a guarantee that will need them to apply for a loan at a commercial bank. This is not surprising, since the search for finance can be very time-consuming and SZRB may be perceived as a more receptive funder due to its publicly funded nature. However, this situation is cause for concern as it may limit private capital flows.

[20] Note that the EU definition of microloans caps them at EUR 25,000

Table 8: Guarantees provided by the Slovak Guarantee and Development Bank

	2010	2011	2012	2013
Number of provided guarantees	869	1,034	868	400
Amount of provided guarantees in EUR	75,602,080	89,356,623	85,673,240	35,916,207
Amount of supported loans with provided guarantees (EUR)	151,204,159	178,713,245	171,346,480	71,832,414
Average amount of guarantees in EUR	86,999	86,418	98,702	89,791

Source: SZRB, 2014[21].

5.2.1.2 JEREMIE

SZRF, as described already, was set up in March 2009, within the framework of the implementation of the JEREMIE initiative in Slovakia. In 2007, the EIF conducted an ex-ante assessment of SMEs' access to finance so as to identify market failures in the Slovak SME environment[22]. The EIF study identified a need for improving SMEs' access to equity financing and a potential use of EUR 510m of Financial Engineering Instruments. Following the study, a framework agreement was signed with the EIF in December 2008. JEREMIE Slovakia has resources of EUR 100m; from which EUR 85m are funded by the European Regional Development Fund under the Operational Programmes (OP) presented in Table 9. Also, EUR 15m were allocated from national sources.

Currently three Financial Instruments are implemented, namely the First Loss Portfolio Guarantee, the Portfolio Risk Sharing Loan Instrument and the Risk Capital instruments. How these were funded by the different OPs is shown in the table below.

Table 9: Overview of Slovakia JEREMIE Holding Fund

Operational Programme (OP)	Risk capital instrument(s) (Bratislava region)	Risk capital instrument(s) (non-Bratislava regions)	Portfolio guarantees	Portfolio Risk-Sharing Loan
OP Bratislava Region	EUR 3.3m			
OP Comp. and Economic Growth			EUR 43.0m	EUR 20.0m
OP Research and Development	EUR 5.6m	EUR 22.1m		
Total	EUR 8.9m	EUR 22.1m	EUR 43.0m	EUR 20.0m

Source: EIF, 2014.

The First Loss Portfolio Guarantee provides guarantees for loans approved by commercial banks to SMEs. The goal of the instrument is to incentivise banks to decrease their price and collateral requirements and thereby improve lending conditions and access to finance for SMEs. The EIF launched the relevant call for expression of interest in August 2011 and approved the proposed transactions with the four participating banks (the Slovak Guarantee and Development Bank, Tatra

[21] Data are not officially available on the SZRB web sites.

[22] EIF, 2007. JEREMIE SME Access to finance in Slovakia, Evaluation study.

Banka, UniCredit Bank Slovakia a.s. and Slovenská sporiteľňa (SLSP)) in March 2012. These guarantee agreements allow the banks to provide up to EUR 245m of new loans to SMEs (EIF, 2014).

As compared to guarantee facilities, risk sharing facilities mostly concern SMEs that can provide collateral for loans but often cannot afford the cost. These sorts of instruments allow for a reduction in the interest rates of loan. The Portfolio Risk Sharing Instrument implemented by JEREMIE provides financing to one commercial bank so far which operates as an intermediary in providing loans to SMEs. As a result the commercial bank co-finances a new portfolio of eligible transactions allowing for the risk sharing on a loan-by-loan basis. So far, the EIF together with SZRF, have signed a portfolio risk-sharing agreement with the bank Sberbank Slovensko allowing the bank to provide up to EUR 16.6m of new loans to Slovak SMEs. In the following months, it is expected that a second agreement will be signed with a second bank. The banks will provide loans over the course of the next two years, with the loan products targeting all regions except for Bratislava (EIF, 2014).

The Risk Capital Instrument designed by JEREMIE is intended to support equity financing for SMEs. This instrument can take the form of (i) seed funds, (ii) venture capital funds or (iii) co-investment funds. The participation of a private investor is always required (in the case of the Venture Capital fund and the Co-investment fund), thereby leveraging the JEREMIE allocation, which in Slovakia amounts to EUR 31m[23].

Under this instrument, the EIF is supporting high-potential SMEs and start-ups across Slovakia through capital commitments to three funds with 2 fund managers. Investments could reach up to EUR 50m (excluding the leverage effects) and support more than 50 promising Slovak SMEs (EIF, 2014). The fund managers are presented below:

- **Neulogy Venture (NV)** – is a newly created VC fund management company, set-up to manage 2 funds namely the Innovation Fund (seed fund) and the Slovak Entrepreneurs Fund (venture capital fund). Both funds are primarily focusing on the information and communication technology, new energy and medical diagnostics fields. NV is managing approximately EUR 23m. The JEREMIE commitment in these two funds reaches EUR 17.9m (EUR 10.6m and EUR 7.3m). Private investors contribute with EUR 5.5m.
- **Limerock Fund Managers (LFM)** – arising from a corporate finance company, this newly formed VC company manages the JEREMIE co-investment fund (growth capital). The fund will have EUR 12m for investment into attractive businesses in need of further capital to support their growth. LFM will invest alongside private investors, through its co-investment fund (total funding in excess of EUR 24m). LFM will target companies outside of Bratislava region (EIF, 2014).

The JEREMIE initiative in Slovakia is still in a very initial stage and it is not possible to draw conclusions on its implementation. It is bolstered by the involvement of the SZRB which is well known among SMEs.

[23] Part of the funds is dedicated to fees and thus does not appear in Table 7.

5.2.1.3 Slovak Energy Efficiency and Renewable Energy Finance Facility (SLOVSEFF)

The European Bank for Reconstruction and Development (EBRD) in cooperation with the Ministry of Economy has operated since 2007 the Slovak Energy Efficiency and Renewable Energy Finance Facility (SLOVSEFF). This facility was intended to provide credit lines to financial intermediaries in order to support projects in energy efficiency. The facility combines the provision of loans with grants and technical assistance. Loans range between EUR 20,000 and EUR 2m combined with grants ranging between 7.5% and 20% of the loan amounts and free technical assistance is available through participating banks. Currently, SLOVSEFF is working with five partner banks (Slovenská Sporiteľňa, VÚB, Tatra Banka, UniCredit and ČSOB) which provide loans to private companies to invest in the following projects:

- Industrial energy efficiency;
- Renewable energy; and
- Housing associations or building management companies that perform energy efficiency measures in multi-family buildings (blockhouses) (EBRD, 2014).

The grants are provided by the Bohunice International Decommissioning and Support Fund (BIDSF). The SLOVSEFF model is designed as a one-stop-shop for SMEs providing a fully integrated package of loans, grants and technical assistance in the energy efficiency area.

The initial commitment was EUR 60m to encourage Slovak enterprises and housing associations to enhance their energy efficiency. The available funds were extended by an additional EUR 90m in 2009 to meet the large demand for these loans. The second phase of the scheme (SLOVSEFF II) was also implemented with the total allocation of the EBRD's credit line of EUR 90m (and BIDSF with EUR 15m).

Both phases were supported by the Bohunice International Decommissioning and Support Fund (BIDSF). The contribution from BIDSF of EUR 30m was allocated for technical assistance, such as consultancy), and incentive payments. Both phases of SLOVSEFF aimed at compensation for a loss in electricity generation capacity as a result of the early closure of the Bohunice nuclear power plant (EBRD, 2013).

Overall, loans amounting to EUR 150m were signed by partner banks, which represented over 685 eligible projects and value of investment of more than EUR 188m.

According to the EBRD, the institution plans to launch the third phase of this facility ("SLOVSEFF III) with EUR 40m. The target is for SLOVSEFF III to create a self-sustaining market for investments in sustainable energy projects in Slovakia. Focus is shifted from investments in residential energy efficiency to investments in renewable energy and industrial energy efficiency, since in both previous phases, 61% of loans were signed for investment in residential energy efficiency. The focus will now be on reducing greenhouse gas emissions and is expected to prepare industries for emissions caps, if not already covered by the European Union Emissions Trading System (EU ETS).

5.2.1.4 Progress Microfinance

The European Progress Microfinance Facility (also called Progress Microfinance), was launched in 2010 by the EIF, and provides guarantees and funded instruments to microfinance intermediaries in EU Member States. The aim of the initiative is to increase the availability of microfinance, in order to set up or increase access to finance for micro-entrepreneurs[24], through selected intermediaries such as private or public banks; non-bank microfinance institutions and not-for-profit microcredit providers. The Progress Microfinance does not directly finance micro-entrepreneurs, but enables selected microcredit providers to increase lending, by:

- Issuing guarantees, thereby sharing the providers' potential risk of loss; and
- Providing funding to increase microcredit lending[25].

In the Slovak Republic, the EIF has signed a funding agreement with OTP Bank Slovakia in order to finance the bank with EUR 1.3m for Progress FMA for the year 2013[26]. This agreement between OTB Bank, the European Commission and the EIF enables easier access to finance to circa 600 local micro-enterprises through granting microloans to start-ups, SMEs, handicraft businesses and self-employed entrepreneurs. The launch of the Programme was postponed and was practically launched in February 2014.

5.2.1.5 Slovak Business Agency

Since 1997, the SBA has been providing microfinance in the Slovak Republic. Although all lending activities were suspended between 2010 and 2013, in March 2013, the institution re-launched its microfinance programme. Currently the institution is in the process of setting up a new microfinance facility in order to further develop support especially towards marginalised groups of entrepreneurs (e.g. women, young people, people over the age of 50, socially excluded people such as the marginalised Roma community, etc.). The initiative is funded by the Ministry of Economy with EUR 6.5m of operating capital and is planned to support approximately 400 SMEs and create about 6,000 jobs between 2013 and 2016. However, at present this fund is still not operational.

SBA has run equity financing schemes for SMEs since 2004 through a fund of funds. This fund finances specific sub-funds with respective objectives based on regional, sectoral or development stage criteria. However, these instruments do not seem to leverage any private funds in the process. The SBA equity instruments will be presented in Chapter 6 and will be included in the quantification of supply for equity.

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[24] Including also self-employment with a particular focus on female entrepreneurs, young entrepreneurs, entrepreneurs belonging to a minority group, entrepreneurs with a disability, sole traders etc.

[25] European Commission: Employment, Social Affairs and Inclusion. http://ec.europa.eu/social/main.jsp?langId=en&catId=836.

[26] http://www.eib.org/attachments/general/reports/st2013en.pdf.

Table 10: Existing Financial Instruments in the Slovak Republic

	Institution	Source of Funding	Scheme	Instrument Name	Instrument Type	Financial Intermediary	Initial Budget (EUR Mil.)	Leverage by Intermediary (EUR Mil.)	Total Available Funds (EUR)	Disbursement (EUR Mil.)	Targeted type of SMEs	Number of SMEs supported	Start Date
1	EIF	ERDF	JEREMIE	First Loss Portfolio Guarantee	Guarantee	SZRB	7	33	40	4.3	SMEs	16	2013
						Tatra Bank	10.5	49.5	60		SMEs		2013
						Unicredit	12.25	57.75	70		SMEs		2013
						SLSP	13.23	61.77	75		SMEs		2014
2	EIF	ERDF	JEREMIE	Portfolio Risk Sharing Instrument	Loan	Sberbank	8.3	8.3	16.6		SMEs		2014
3	EIF	ERDF	JEREMIE	Risk Capital Instrument	Equity	Neulogy Venture Capital Fund	10.6	5.5	16.1		SMEs at growth stage		2013
						Neulogy Seed Fund	7.3		7.3		SMEs at seed stage		2013
						Limerock Co-investment Fund	12	12	24		SMEs at growth stage		

	Institution	Source of Funding	Scheme	Instrument Name	Instrument Type	Financial Intermediary	Initial Budget (EUR Mil.)	Leverage by Intermediary (EUR Mil.)	Total Available Funds (EUR)	Disbursement (EUR Mil.)	Targeted type of SMEs	Number of SMEs supported	Start Date
4	SZRB	State funds	SZRB guarantee operations	SZRB guarantees for loans	Guarantee	CSOB, Prima Bank, OTP Banka, Postova Banka, PSS, Slovenska Sporitelna, Tatra Bank, Unicredit, Volksbank, VUB	290[27]	573[28]	573[29]	573	SMEs	3171	2010
5	EBRD	EBRD	SLOVSEFF I	Risk sharing instrument	Loan	Slovenska Sporitelna, VUB, Tatra Banka, UniCredit and CSOB	90	n.a	n.a	60	SMEs and municipalities	285[30]	2007-2010

27 This number refers to the amount of guarantees provided between 2010 and 2013, the total available budget is not available.

28 This number refers to the amount of loans provided with the support of the guarantees between 2010-2013.

29 This number refers to the total amount of loans provided between 2010-2013 and does not imply that the institution has no more available funds.

30 This number refers to the projects financed by the scheme with beneficiaries including municipalities and SMEs.

	Institution	Source of Funding	Scheme	Instrument Name	Instrument Type	Financial Intermediary	Initial Budget (EUR Mil.)	Leverage by Intermediary (EUR Mil.)	Total Available Funds (EUR)	Disbursement (EUR Mil.)	Targeted type of SMEs	Number of SMEs supported	Start Date
6	EBRD	EBRD	SLOVSEFF II	Risk sharing instrument	Loan	Slovenska Sporitelna, VUB, Tatra Banka, UniCredit and CSOB	90	n.a	n.a	90	SMEs and municipalities	400[31]	2010-2013
7	EIF	EIF/EC	Progress	Progress microfinance	Microfinance	OTP	1.3	n.a	n.a		Entrepreneurs, unemployed		2014
8	SBA	Public funds	Microfinance	Microfinance	Microfinance	Partners of SBA	n.a	n.a	n.a	0.9	SMEs	24	2010
9	SBA	Public funds	Equity	PE and VC investments	Equity		n.a	n.a	n.a	59,5	SMEs	130	2007[32]

Source: The office of the SR Government, 2013; State housing and Development Fund, 2014; EBRD, EIF, 2013.

[31] This number refers to the projects financed by the scheme with beneficiaries including municipalities and SMEs.

[32] The programme has started since 2004, however data is available since 2007.

5.2.2 Grants

During the first programming period after the country's accession to the EU, most supporting programmes involved grants. Specifically for SMEs, several grant schemes are available, mostly from the OP Competitiveness and the OP Employment. As will be presented in the next section, the implementation of these programmes has been slow and absorption rates remain low. SMEs often do not have the knowledge and the trust in the system to apply for such programmes, as will also be described later on in the report.

The main problem linked to implementation seems to be the lack of experienced institutions or state owned companies to handle the implementation of grant programmes. Currently, all the aspects of design and implementation are handled by the Ministries in charge of the OPs. SMEs are reluctant to apply for grant programmes while relevant stakeholders flag the deficiencies of the implementation procedures. As presented in the table below, approximately 1000 SMEs have benefited from grant support since 2007, out of more than 400 thousand SMEs, leaving large room for improvement in the implementation mechanism of the country.

Importantly, all of the grant programmes described in Table 11 have now come to an end.

Table 11: Grants available to SMEs

	Operational Programme	Ministry	Public Financing	EU Financing (m EUR)	Name of the Programme[33]	Financial intermediary	Total contracted funds (m EUR)	Target beneficiaries	Policy target	Number of SMEs supported	Start date	End date
1	Employment and social inclusion	Ministry of Labour, Social Affairs and Family	115.6	654.9	Grant programme for the support of employment in SMEs	MLSAF	88.1	SMEs	Employment	420	1.1.2007	31.5.2014
2	Employment and social inclusion	Ministry of Labour, Social Affairs and Family	30.7	174.2	Grant programme for social inclusion in SMEs	MLSAF	0.8	SMEs	Social inclusion	5	1.1.2007	31.5.2014
3	Employment and social inclusion	Ministry of Labour, Social Affairs and Family	10.1	57.5	Grant programme for the support of employment in SMEs in the Bratislava region	MLSAF	0.0	SMEs	Employment	0	1.1.2007	31.5.2014
4	Competitiveness and Economic Growth	Ministry of Economy	1450		Grant programme for the support of innovative SMEs	MoEc / SIEA	264.5	SMEs	Innovation and technology transfers	424	12. 3. 2008	31.5.2014
5	Competitiveness and Economic Growth	Ministry of Economy	318.5		Grant programme for the support of innovative SMEs	MoEc / SIEA	33.9	SMEs	Support of innovation activities in enterprises	43	19. 12. 2008	10. 6.2013[34]

[33] In Slovakia the grant programmes are described with codes. In this table the names of the programmes refer to the description provided for each programme.

[34] End of the last call for applications.

	Operational Programme	Ministry	Public Financing	EU Financing (m EUR)	Name of the Programme[33]	Financial intermediary	Total contracted funds (m EUR)	Target beneficiaries	Policy target	Number of SMEs supported	Start date	End date
6	Competitiveness and Economic Growth	Ministry of Economy	271.1		Grant programme for the support of SMEs to improve their energy efficiency	MoE	104,4	SMEs	Increasing energy efficiency	88	12. 3. 2008	22. 8. 2013[35]
7	Competitiveness and Economic Growth	Ministry of Economy	1114.7		Grant programme for the support of SMEs in the tourism industry	MoE	142	SMEs	Support of business activities in tourism	100	12. 3. 2008	22. 8. 2013[36]
8	Education	Ministry of Education, Science, Research and Sports	7.5		Grant programme for Continuing Education in selected sectors	ASFEU[37]	2.5	Persons and SMEs	Training	6	12.8.2009	13.10.2009
9	Education	Ministry of Education, Science, Research and Sports	12		Grant programme for Continuing Education in tourism	ASFEU	3.17	Persons and SMEs	Training	8	31.5.2010	2.8.2010
10	Education	Ministry of Education, Science, Research and Sports	2		Grant programme for Continuing Education in industry	ASFEU	1.57	SMEs	Training	15	27.8.2013	28.10.2013

Source: Ministry of Labour, Social Affairs and Family, Ministry of Economy, 2014.

35 End of the last call for applications.

36 End of the last call for applications.

37 The Agency of the Ministry of Education, Science, Research and Sport of the Slovak Republic for the Structural Funds of EU (Agency), was founded by the Ministry of Education, Science, Research and Sport of the Slovak Republic on January 1, 2007. Its main objective is to provide assistance for the implementation process of EU Structural Funds, in the program period 2007 – 2013.

5.2.3 Historical use of Structural Funds in the Slovak Republic

Slovakia accession in the EU took place in 2004. For the initial two years the country benefited from European funding but the first complete programming period was the period 2007 – 2013. During this programming period, the funds allocated to Slovakia, amounting to EUR 11bn, were divided among Operational Programmes described in the table below, according to the county's National Strategic Framework Programme (NSFP). The three targets defined in the NSRF were, convergence, Regional competitiveness and employment, and European territorial cooperation.

Table 12: Financial allocations of Structural Funds in programming period 2007–2013

NSRF		
Operational Programme	**Fund**	**ES Contribution (EUR current prices)**
Regional OP	ERDF	1,445,000,000
OP Environment	ERDF	1,800,000,000
OP Transportation	ERDF	3,206,904,595
OP Informatisation of Society	ERDF	993,095,405
OP R&D including transfer to R&D	ERDF	1,209,415,373
OP Competitiveness and economic growth	ERDF	772,000,000
OP Healthcare	ERDF	250,000,000
OP Technical assistance	ERDF	97,601,421
OP Bratislava region	ERDF	87,000,000
OP Employment and social inclusion	ESF	881,801,578
OP Education	ESF	617,801,578
All the NSFR funds 2007-2013	11,360,619,950	
Total ERDF	5,962,278,231	
Total ESF	1,499,603,156	
EAFRD	1,969,418,078	
EFF (European Fisheries Fund)	13,688,528	

Source: NSRR, 2008.

The funds were allocated as shown in the table below according to the three main priorities.

Table 13: Allocation of financial means for individual EU cohesion policy targets

EU cohesion policy targets	Financial allocation for the Slovak Republic in EUR (current prices)
Convergence	10,911,601,421
Regional Competitiveness and employment	449,018,529
European territorial cooperation	227,284,545
Total	**11,587,904,495**

Source: NSRR, 2008.

Regarding the Convergence target, funds were primarily focused on the regions whose gross domestic product per capita during the last three years before the adoption of the new regulations was less than 75% of the EU average. In the case of Slovakia, this applied to the entire territory with the exception of the Bratislava region which was eligible to draw financial support from funds allocated to Regional competitiveness and employment targets.

These targets are to strengthen competitiveness and make the Bratislava region more attractive by anticipating economic and social changes and supporting innovation, the knowledge-based society, the business environment, environmental protection, support for employees and development of the labour markets oriented on the social inclusion.

5.2.4 Priorities set out in programming period 2007-2013

Based on the strategy of the Slovak Republic, the NSRF strategy had been defined on the basis of three strategic priorities and that should be achieved during the programme period 2007 – 2013 (Table 14).

Table 14: Strategic priorities of NSRF in PP 2007-2013

Strategic Priority	Target of the strategic priority
Infrastructure and regional availability	Increasing the infrastructure density in the regions and enhancing the effectiveness of the related public services
Knowledge-based economy	Development of the sustainable economic growth resources and increase of competitiveness in industry and services
Human resources	Enhancing employment, increasing the labour force quality for the needs of the knowledge-based economy and enhancing the social inclusion of risk groups

Source: NSRR, 2008.

In parallel, the NSRF strategy also defined the horizontal priorities affecting the NSRF targets in four areas. The purpose of each of the horizontal priorities was to ensure achieving the target defined for a particular priority, related to more NSRF priorities. Therefore, it could not be provided only through one operational programme, but it requires a coordinated approach across more specific priorities or projects. Depending upon their character, the horizontal priorities were applied in relevant operational programmes (Table 15).

Table 15: Horizontal priorities of NSRF 2007-2013

Horizontal priority	Horizontal priority target	Application of horizontal policy
Marginalised Roma communities	Increasing employment and educational level of MRK population and improving their standard of living	Global approach (integration of projects from more OP)
Equal opportunities	Provide equal opportunities for everybody and prevent all forms of discrimination	Principle applied for each project
Sustainable development	Providing environmental, economic and social sustainability of economic growth	Principle at the level of the NSRF strategic goal
Information society	Development of inclusive information society	Integrated approach (interoperability of public administration information systems and introducing e-services in operational programmes)

Source: NSRR, 2008.

5.2.5 Financing of SMEs in the programming period 2007-2013

Support to SMEs was a main priority in the programming period 2007-2013, in particular in the OP Competitiveness and Economic growth and the OP Research and Development. The main objective of these OPs was to ensure sustainable economic growth and support of employment, through actions such as the transfer of innovative technologies, increasing innovation activities in enterprises and application of R&D in the innovation process, strengthening the cooperation between companies with research and development institutions and universities. As described earlier in this chapter, the support to SMEs was mostly expressed through grant programmes and some Financial Instrument initiatives.

The absorption rates of the funds remained low and failed to meet expectations[38] (as shown in Table 16). According to stakeholders, common key deficiencies are linked to a complicated and non-transparent implementation system, including the need for public procurement. A particularly problematic area, which impaired the effectiveness of support, was the definition of strict rules under the OP Research and Development which do not facilitate the funding of projects with commercial purposes focusing instead on academic research.

Table 16: Progress report for priority axes 1 and 2 for OP Competitiveness at 2013

Priority Axis	Committed funds (EUR)	Funds verified and paid out (EUR)	Disbursement
Research and development	1,209,415	552,675	45.20%
Employment and social inclusion	941,302	574,804	61.06%
Competitiveness and economic growth	968,250	469,737	48.26%

Source: ICAP Ministry of Finance, 2014[39].

Specifically regarding innovation, the main problem of Slovakia lies in the low performance of the public R&D institutions and their detachment from the needs of the market, low degree of internationalisation, and insufficient legislative framework for the protection of intellectual

[38] It has to be noted that the programmes will finish in 31.12.2015 and the final evaluation of the absorption will be made at the end

[39] http://www.monitoringfondov.eu.

property. Other problems include insufficient cooperation between the academic and private sectors, low level of private investments in innovation, low impact on the economy, low level of financing, and fragmented focus in terms of substance.

In the area of R&D, the establishment of various types of research centres (centres of excellence, competence centres, university science parks, research centres of national importance) was promoted in the 2007-2013 programming period.

Stakeholders interviewed pointed out that the main barriers for SMEs to use grants and especially for the smaller sizes of companies are related to the administrative burden linked to the application procedures.

Key factors which delay implementation are:

- Repeated delays in the preparation and execution of public tenders;
- Shortages in the evaluation and selection of projects;
- Shortages in monitoring the procedures; and
- Shortages in invoices and accounting documents etc. (Government Office of the Slovak Republic, NSRF, 2013).

In conclusion, during the current programming period 2007-2013, the largest part of the Operational Programmes has been provided through grant programmes and procedures to receive grants are considered complex by SMEs. In contrast, some Financial Instruments have already been developed and implemented through the banking system with some visible results.

6 Priorities and policies of the Managing Authority for SME financing

The Government Office of the Slovak Republic is responsible for the coordination of EU funds and the preparation of the Partnership Agreement (PA) for the programming period 2014 – 2020 is ensured by the Central Coordination Body (CCB). The latte is falling under the authority of the Deputy Prime Minister for Investments (PA, 2014). The Government Office coordinates its activities through the following working groups:

- Government Council for Partnership Agreement 2014-2020 working group: coordination, advisory and initiative body of the Government on issues related to the PA preparation;
- "Partnership for the Cohesion Policy" working group: an expert platform for exchanging experience and views on EU Cohesion Policy beyond 2013;
- Working groups for the fulfilment of ex-ante conditionalities: established at the individual central government authorities responsible for EAC fulfilment in accordance with the Government Resolution No. 305/2012;
- Working groups for the preparation of future operational programmes: established at individual responsible authorities in accordance with the CCB guideline for the preparation of OPs for 2014 – 2020; and
- The working group for the drafting of the Territorial Agreement between the SR Government, regional self-government and local self-government for 2014-2020.

Relevant partners involved in the preparation of the PA were selected, in accordance with Article 5 of the Regulation (EU) No. 1303/2013 of the EP, and of the Council and the Delegated Act on the European Code of Conduct on Partnership, to implement the partnership and multi-level governance principle throughout the entire process. The CCB issued the guideline for the preparation of OPs for 2014-2020 for future Managing Authorities, along with a proposal for a uniform statute for working groups involved in the preparation of individual Slovak OPs.

6.1 Subject and priorities of the Partnership Agreement of the SR for the years 2014 – 2020

The Partnership Agreement of the Slovak Republic for the programming period 2014-2020 is aligned with the objectives of the Europe 2020 Strategy for smart, sustainable and inclusive growth. More specifically, the PA follows five national priorities:

- Innovation-friendly business environment;
- Infrastructure for economic growth and employment;
- Human capital growth and improved labour market participation;
- Sustainable and efficient use of natural resources; and
- Modern and professional public administration.

National Priority 1: Innovation-friendly business environment

Despite the Slovak Republic being one of the fastest growing economies in the European Union, it belongs to the group of so-called moderate innovators with the second lowest innovation performance within the EU, according to the European Innovation Scoreboard 2013. As result of low R&D levels, the competitiveness and innovation performance of industries across Slovakia, particularly outside of the Bratislava Self-Governing Region, remain weak. On the basis of the PA, the innovation environment of the Slovak Republic needs to be improved in five main areas:

- Research development and innovation potential;
- Competitiveness of Small and Medium-sized Enterprises;
- Making the full use of Information and Communication Technology potential;
- Human resources; and
- Modern and professional public administration.

National Priority 2: Infrastructure for economic growth and employment

According to the PA, the Slovak Republic has an infrastructure of insufficient technical quality, which has negative impacts on the economy, on the reduction of greenhouse gas emissions and on energy efficiency. This fact represents a barrier to mobility and impairs the attractiveness of the country among investors. Therefore, in the programming period 2014-2020 following problems need to be addressed:

- Removing key bottlenecks in the priority section of the transport network; and
- Ensuring accessible, high-quality and maintainable network infrastructure in the whole territory of the Slovak Republic.

National Priority 3: Human capital growth and improved labour market participation

As a result of the economic crisis, the problems of unemployment, poverty, social exclusion or overall standards of living of the Slovak population are continuously worsening. The most vulnerable group in the labour market are people with insufficient skills and qualification. The quality of training and education is not on the same level with labour market needs and falls short of producing a skilled workforce. Under these circumstances, the key challenges for Slovakia in the next programming period are:

- Restructuring the education system with a view to increasing employment and labour mobility;
- Activating people at risk of poverty and social exclusion to ensure their inclusion, including marginalised Roma communities;
- Reconciliation of work and family life; and
- De-institutionalisation of social services together with social and legal protection of children and social guardianship and integration of marginalised Roma communities.

With regard to these two priorities, the Government of the Slovak Republic has expressed sustained interest in developing and sustaining social economy through the creation of social enterprises and targeted financial instruments, such as microfinance. The major aim of these priorities is boosting

SME creation and development, with particular focus on the Roma and other socially excluded, marginalised or disadvantaged communities, through the proposed Fund of Social Development Capital Funds (FOSFOR). Support for the de-institutionalisation of social services might be conceivably provided through FOSFOR as well, including such innovative financial instruments as social equity and/or social bonds. However, to achieve this objective, institutional capacity of equity providers would need to be strengthened, particularly in equity fund management.

National Priority 4: Sustainable and efficient use of natural resources

The Slovak Republic is adjusted with the objective of the Europe 2020 Strategy dealing with the support for sustainable and efficient use of resources as one of the most important economic and environmental challenges. This national priority stimulates economic growth while ensuring that the quality of this growth leads to a sustainable future (PA, 2014). The key requirements in this area are:

- Transition to a low-carbon economy in all sectors;
- Promoting climate change adaptation;
- Risk prevention;
- Management and protection of the environment; and
- Promoting resource efficiency.

National Priority 5: Modern and professional public administration

Public administration creates the regulatory environment and policies that affect the quality of life of Slovakia´s population and, at the same time, it is the largest employer and owner of the largest amount of long-term assets in the economy (PA, 2014). Currently, the intensity and quality of the cooperation between the public and private sector and economic partners, the civil society and partners at the local level in ensuring effective performance of public services in selected areas is inadequate. The oversight by the civil society of the performance of public services needs to be reinforced. Based on the public finance long-term sustainability indicator at unchanged policies, the current position of the Slovak Republic is considered to be unsustainable (Council for Budget Responsibility, 2012). In order to ensure that debt does not rise above the upper limit in the forthcoming decades, structural changes need to be implemented and the Slovak Republic needs to ensure a sustained increase in revenues, while reducing public finance expenditure. This can be achieved only through fundamental and comprehensive reform of public administration, which will be based on increased institutional capacity and efficiency of public administration and the introduction of e-government.

The Partnership Agreement is based on these five national priorities which are additionally divided into Thematic Objectives (TO) defined at the European level, which we are explained in the following section.

6.2 Objectives of the Partnership Agreement of the SR for the years 2014 – 2020

The Partnership Agreement of the Slovak Republic concentrates on TOs and priority areas to support individual geographical territorial units which create good conditions for eliminating

regional disparities.

TO 1: Strengthening research, technological development and innovation

By 2020, also in line with the Europe 2020 strategy, the Slovak Republic intends to increase the share of expenditures on RD&I to at least 1.2% of GDP in order to bring the ratio between public and private funds to 1:2 (PA, 2014). To meet this target, it will be necessary to increase private investments in RD&I by strengthening cooperation between the research centres and businesses, as well as to consolidate and expand the existing R&D investment infrastructure through smart specialisation, adopt indirect stimulating measures of support for R&D in the business sector, and make work in the field of research more attractive in terms of remuneration.

TO 2: Enhancing access to, and use and quality of Information and Communication Technology (ICT)

The Europe 2020 strategy credits the ICT sector with a 50% share in EU economic growth for the past 15 years and considers the Digital economy the main driving force of the European economic activity (PA, 2014). This has driven the use of ICT, substantially enhancing labour productivity in the workplace, as well as of mobility and leisure time quality. In the first half of 2012, the digital economy sectors in the Slovak Republic employed 2.5% of total employment, of which more than two thirds work for the SMEs. In the past years, Slovakia belongs to one of the leaders in terms of the GDP growth dynamics driven by the digital economy sectors and is the fastest growing exporter of ICT services (OECD Factbook, 2011)[40]. Nevertheless, the Slovak Republic still falls behind the countries within the most advanced digital economics such as U.S., Norway, Singapore, as well as its EU neighbours, Czech Republic, Austria (Global Innovation Index, 2012). The parameters in which Slovakia lags behind are for instance low level of broadband penetration, particularly in rural areas; relatively low engagement of public administration and companies in the delivery of online services; low penetration of digital technologies; and low level of R&D investments.

TO 3: Enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF)

The evaluation of competiveness of individual euro area countries and its development between 1999 – 2010 shows a widening gap in Slovakia between the costs and productivity of the so-called traded (in terms of foreign trade) and non-traded sectors of the economy (ECB, 2012). This dichotomy was caused by the dramatic decline in the competitiveness of the SME sector as a consequence of:

- Loss of SMEs innovation potential due to insufficient cooperation, missing development of skills and a low degree of adoption of innovations and new trends;

[40] OECD Factbook (2011), Economic, Environmental and Social Statistics.

- Limited possibilities for SMEs financing, particularly in micro- and small enterprises under the influence of conservative attitudes of traditional commercial lenders (banks) and the absence of alternative forms of financing;
- Insufficient motivation of the population to start up business activities and the prevailing perception of 'doing business' as a necessity and not as an opportunity;
- Lacking motivation/courage of SMEs to expand lines of business beyond conventional products and services;
- Loss of economic activity in many sectors relevant to SMEs under the influence of the global economic downturn, obstacles in the business environment and their slump in the category of micro-enterprises.

TO 4: Supporting the shift towards a low-carbon economy in all sectors

In line with the new European energy efficiency legislation, the national indicative target has been adjusted, stating that the Slovak Republic should achieve, by 2020, 23% energy savings in the final energy consumption. Despite the energy efficiency improvements, the SR still has the fifth highest energy intensity, which is circa three times higher than of the EU-27 average. Pursuant to the Directive in Energy Efficiency (2012/27/EU), the Slovak Republic fixed its national indicative energy savings target expressed as the reduction of final energy consumption at 130,690 TJ for the 2014-2020 programming period, which represents the aforementioned 23% reduction in the consumption of primary energy sources (NRP, 2013).

TO 5: Promoting climate change adaption, risk prevention and management

Despite the fact that the SR is not included among regions most vulnerable to climate change (EEAR, 2012)[41], in recent years increasingly extreme weather events have been observed, such as torrential rains and droughts. In order to minimise the risks and negative effects of climate change on the quality of life and economic growth, a set of adaptation measures have to be applied. Slovakia is working on the Strategy for Adaptation to the Adverse Effects of Climate Change and the Methodology for Assessment of Selected Risks at the National Level, which will be put into context with other strategic documents. The key issues are:

- Investment for adaptation to climate change in the areas of agriculture, forestry, water management, biodiversity, transport, the energy sector, geology, and natural resources;
- Addressing specific risks, ensuring disaster prevention, readiness and resilience and developing disaster management systems;
- In the area of climate change, the labour market and the education system should play a supportive role, in particular in relation to the need for adapting the labour market towards sustainability, focus on creating green jobs or making existing jobs greener (PA, 2014).

TO 6: Preserving and protecting the environment and promoting resource efficiency

The key issue in this area is inadequate protection and unbalanced use of water, insufficient

[41] European Environment Agency Report (2012), Climate Change, impacts and vulnerability in Europe in 2012.

recycling and energy recovery of waste, insufficient appreciation of cultural and natural heritage, inadequate protection of biodiversity, air quality issues, and the existence of contaminated sites.

TO 7: Promoting sustainable transport and removing bottlenecks in key network infrastructures

The identification of barriers to the development of public transport services and the measures for their elimination is based on detailed sectorial analyses of individual transport modes, on the Strategic Plan for Transport Infrastructure Development in the SR until 2020 and on the Strategic Plan for Regional Roads Development and Maintenance (MTCRD, 2014)[42]. The key problems which need to be eliminated in the programming period include:

- Lack of quality road infrastructure;
- Low quality of the railway transport infrastructure;
- Low quality of the infrastructure for intermodal transport terminals;
- Low quality of the inland water transport infrastructure;
- Inefficient public transport services;
- Non-functioning integrated transport; and
- Outdated infrastructure for non-motorised transport.

Within the TEN-T network, it is essential to continue building the missing sections of motorways and expressways, upgrading the railway corridors and improving the navigability of the Danube River. Specific attention also needs to be paid to modernisation of customs border crossing in order to enhance permeability of the flows of goods through customs border crossings on the external EU border with Ukraine.

TO 8: Promoting sustainable and quality employment and supporting labour mobility

At present, there are large groups of the population which are cut off from the labour market, and this problem will likely continue in the future without the involvement of communities and the development of an inclusive market. It is necessary to continue the social dialogue activities by building administrative capacities in the areas of social dialogue, business environment and employment support. The key problems of the labour market in the years ahead include:

- High unemployment rate and low employment rate (in particular with regard to women, older and low-skilled workers);
- Long-term unemployment;
- Youth unemployment;
- Ineffective active labour market policy; and
- Weak domestic labour mobility.

TO 9: Promoting social inclusion and combating poverty and any discrimination

According to EU SILC 2012, a total of 1,108,965 of Slovaks were at risk of poverty or social exclusion

[42] Ministry of Transport, Construction and Regional development, (2014), Ex-ante conditionality for PP 2014-2020.

which accounts for 20.5% of the total population (EU SILC, 2011). These are in particular children, young people, single parents, households with depended persons, people with a migration background and persons with disabilities. Moreover, there is also a gender gap, with women being more at risk than men.

TO 10: Investing in education, training and vocational training for skills and lifelong learning

The key challenge in the education sector is to match the educational content with labour market requirements by increasing the quality of education at all stages from pre-primary education through to the tertiary education, including lifelong learning, with a focus on the inclusive dimension of provided education, in particular for the marginalised Roma communities. It is imperative that marginalised groups have equal access to education and job opportunities offered by the labour market.

TO 11: Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration

Based on an analysis of the World Bank assessing the quality of public administration (World Bank, 2012), the Slovak Republic is one of the least developed countries of the EU. The SR lags significantly behind in the areas of control of corruption (ranked 66 out of 100 countries) and efficiency of public administration (76 of 100), which have the tendency to stagnate or deteriorate. These are the two most important areas that reflect the overall standard and financial intensity of public administration services (PA, 2014).

The indicative financial allocation by individual thematic objectives for each European Structural and Investment Funds is demonstrated in the table below.

Table 17: The indicative allocation of support by the EU by thematic objectives at national level for each of the ESI Funds (EUR)

	ERDF	ESF	CF	EAFRD	EMFF	TOTAL
1.Strengthening research, technological development and innovation	2,027,702,755			57,211,858		2,084,914,613
2.Enhancing access to, and use and quality of, ICT	841,016,752			20,239,949		861,256,701
3.Enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and	454,573,782			426,317,997		880,891,779

aquaculture sector (for the EMFF)						
4. Supporting the shift towards a low-carbon economy in all sectors	929,895,517			138,201,228		1,068,096,745
5.Promoting climate change adaptation, risk prevention and management	402,379,517		449,346,261	627,603,903		1,479,329,681
6. Preserving and protecting the environment and promoting resource efficiency	88,328,116		1,411,766,000	15,250,000		1,515,344,116
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures	1,224,489,455		2,307,139,166			3,531,628,621
8. Promoting sustainable and quality employment and supporting labour mobility		929,452,950		62,156,925		991,609,875
9. Promoting social inclusion, combating poverty and any discrimination	829,082,333	400,171,400		138,778,971		1,368,032,704
10. Investing in education, training and vocational training for skills and lifelong learning	263,000,000	325,676,689		3,492,665		592,169,354
11. Enhancing institutional capacity of public authorities and stakeholders and efficient public administration		267,311,313				267,311,313

Technical assistance	466,565,238	78,244,645		55,521,624		600,331,507
TOTAL	**7,527,033,465**	**2,000,856,997**	**4,168,251,427**	**1,544,775,120**	**0**	**15,240,917,009**

Source: Partnership Agreement of the Slovak Republic, 2014.

It has to be mentioned that a full presentation of the allocation of funds by Operational Programmes is presented in Annex 11.

7 Market analysis and findings

This chapter aims to identify the existing supply and potential demand of selected financial products available in the Slovak Republic for, micro-, small and medium-sized enterprises.

Section 7.1 presents the methodology used to calculate the supply of the main financial products available in the Slovak Republic. This methodology has been applied for the calculation of all financial products unless stated otherwise.

Section 7.2 provides an overview of the current supply of main financial products. This overview focuses on supply trends observed in recent years. The section will then present a quantification of the estimated potential annual supply of these financial products in 2014. With the exception of equity finance, where the JEREMIE initiative falls away end 2015, the 2014 numbers can be considered indicative for the anticipated supply in 2015 and 2016.

Section 7.3 presents the methodology used to quantify the demand of financial products among SMEs. The analysis is carried out by describing the demand needs of companies according to their size (defined by number of employees) and answers provided in the online survey carried out within the scope of this study. The methodology which will be described has been applied for the calculation of the potential demand of all financial products unless stated otherwise. Where data from other surveys and studies is available, it has been used for triangulation.

Sections 7.4 to 7.7 present the demand for financial products as expressed by SMEs according to their size category. Each section includes the quantification of the estimates for demand for financial products in 2014, which is expected to be indicative of demand in 2015 and 2016 also[43]. It should be noted that the demand for equity financing will not be divided in categories of SME size, due to its limited application, but rather will be provided for the total population of SMEs.

Section 7.8 looks at the potential demand for equity finance in 2014.

Section 7.9 highlights the demand for financial products expressed by the SMEs working in social economy and section 7.10 investigates the demand for financial products expressed by SMEs willing to develop energy efficient projects.

Throughout the analysis, both supply and demand of financial products are presented in ranges, unless more accurate figures are achievable.

Finally, Chapter 8 summarises the results of the analysis. The demand for financing from 'viable' SMEs meaning those that are growing but have failed to secure finance will also be taken into consideration in order to provide a quantification of the existing gaps, and to summarise the main considerations for the definition of the proposed investment strategy presented in Chapter 9.

7.1 Methodology used to compute supply

The anticipated annual supply of the main financial products available to SMEs in 2014 has been calculated based on numerous sources of information, market trends and projections. While

[43] Experience with other similar AFMA studies has shown that, especially for the demand side, business owners provide similar amounts when asked to provide their financing needs for the next three years.

specificities have been highlighted for each product, including where additional factors have been used, the general approach for the calculation of supply is described in the following steps:

- First the analysis considers all the amounts provided to SMEs in the Slovak Republic for the products where data is available for recent years. The supply information used only concerns SMEs, excluding large companies.
- Within the supply of financial products to SMEs, amounts provided to each size category: (1) micro, (2) small and (3) medium-sized companies are also estimated. This is done by using information provided by both the literature and stakeholder interviews.
- For supply in 2013, when figures are not available, the amounts are determined by projecting figures provided by financial institutions for the latest available year.
- The amounts to be provided in 2014 are then determined by taking into account:
  - Trends observed during the period 2009-2013, for each financial product;
  - Available data for 2014. When data are available for the first months of 2014, assumptions have been made to compute the total supply of financial products for the whole year of 2014;
  - When data are not available for 2014, the real GDP growth forecasts for the Slovak Republic for 2014 provided by the European Commission as of May 2014 (+2.2%) has been used;
  - The market dynamics as perceived by market stakeholders, for the future, for each market has been used in order to define high and low scenarios.

This trend analysis is a necessary component of the methodology since the development of the future supply of financial products depends to some extent on the supply characteristics in the past. Unless there are known or assumed reasons to believe there will be a discontinuity This is also valid for the supply of finance where the past trends should be taken into account, unless specific elements that could cause a discontinuity in the historical trend (e.g. exceptional growth in financial intermediaries due to market liberalisation, strong new industry development, and shocks) can be identified or predicted. Economic growth is also taken into account as an important indicator of the economic performance of the Slovak Republic[44].

Finally, the perception of market stakeholders is a more subjective element. Insights from relevant financial institutions have been used to estimate the growth of their finance offer.

7.2 Supply side analysis

The analysis of the supply side is divided into two parts. The first part presents an overview of the current supply of various financial products. The second part presents the quantification of the anticipated supply of key financial products in 2014 in the Slovak Republic.

[44] Data on economic growth for the future at the regional level are not available.

7.2.1 Overview of financial product supply

This section presents an overview of supply of the following financial products in the Slovak Republic:

- Microfinance;
- Loans (including short-, medium- and long-term loans, credit lines and overdrafts);
- Leasing;
- Export credit;
- Factoring/credit insurance;
- Mezzanine; and
- Business angels, venture capital and private equity.

7.2.1.1 Microfinance

The EU definition describes microfinance as loans up to EUR 25,000, offered specifically to micro-enterprises, entrepreneurs and other individuals who encounter difficulties when applying for a conventional loan. However, in the Slovak Republic, the maximum amount of microfinance offered by the Ministry of economy of the Slovak Republic, performed by the Slovak Business Agency is EUR 50,000 (SBA: Microfinance, 2013). Microfinance is, therefore, an important incentive to encourage the development of micro-enterprises as well as job creation. Moreover, the efficient provision of microfinance plays a crucial role in mitigating the effects of financial and economic crises.

The microfinance market (conducted at national level) in the Slovak Republic is quite underdeveloped and often overlaps with market for traditional loans. The Microfinance products on offer in Slovakia do not fully fit the definition of the EU (capped at EUR 25,000) because they can reach up to EUR 50,000. However, as microfinance has a double bottom line philosophy that distinguishes it from commercial banks, it is appropriate to treat also those microfinance loans above EUR 25,000 in this section in order to maintain an appropriate classification of financial instruments locally. Moreover, the micro loans above EUR 25,000 are in fact very rare.

The main microfinance providers in Slovakia are SBA, VOKA and SZRB, and their products are described below.

SBA

Microfinance was first introduced in 1997 by the National Agency for Development of Small and Medium Enterprises (NADSME) which changed its name to the Slovak Business Agency (SBA) in March 2014.

Currently, the amounts provided range between EUR 2,500 and EUR 50,000. The maturity of the micro-loans is from 6 months to 4 years with an optional grace period up to 6 months. Since 1997, 1,827 micro-loans have been provided totalling EUR 31,195,825 and close to 3,000 jobs have been created and 5 000 jobs retained (SBA, 2014).

SBA has more competitive interest rates than the commercial banks. In fact, nominal annualised rates provided to SMEs by SBA range from 2.3% up to 10.2%, vs rates from 4.7% up to 15.3%

charged by the commercial banks. The SBA interest rate is calculated as the sum of the base rate of the European Commission published monthly, and a margin based on the scoring of the applicant and the level of collateral offered, in line with State Aid regulations. The application fee ranges from EUR 35 to 70, and the disbursement fee represents 1% of the loan amount. Transaction costs are low thanks to the use of bank transfers. Overall, 24 micro-loans with a total amount of EUR 836,863 had been provided in 2010 with an average micro-loan amount of EUR 34,869 (NADSME, 2010). Following a three year suspension of the microloan programme from 2010, the institution re-launched the programme in 2013 with amendments aiming at streamlining the implementation procedure.

SBA operates in cooperation with partners and is covering all the regions of Slovakia. Most of the loans are disbursed between three to eight weeks. However in some cases severe delays were reported by SMEs and were mainly caused by shortage of funds (NADSME, 2012).

Table 18: The overview of micro-loans provided by SBA partners

Centre	2010		Total from the beginning of the program realisation till 31.12.2010	
	Number of loans	Total in EUR	Number of loans	Total in EUR
Fond Fondov s.r.o. Bratislava	5	203,992	153	3,096,723
RPIC Dunajská streda	1	33,000	73	1,264,059
RPIC Komárno	0	0	132	2,265,433
RPIC Košice	0	0	49	1,288,657
RPIC Lučenec	0	0	97	1,861,587
RPIC Martin	3	191,869	93	1,733,370
RPIC Nitra	3	44,694	137	1,610,428
RPIC Poprad	1	49,791	27	978,407
RPIC Považská Bystrica	1	7,200	193	2,575,019
RPIC Prešov	5	172,790	211	3,422,880
BIC Prievidza	3	76,390	208	3,904,064
BIC Spišská Nová Ves	1	18,679	114	1,586,701
RPIC Trebišov	0	0	97	1,666,053
RPIC Trenčín	1	38,458	84	1,802,072
RPIC Zvolen	0	0	159	2,078,660
TOTAL	**24**	**836,863**	**1,827**	**31,134,113**

Source: NADSME, 2010.

VOKA

VOKA is translated into Village Organisation for Community Activities (*Vidiecka organizácia pre komunitné aktivity*) and has run a micro-lending Programme since 1999. The initial aim of the

program was to create the conditions for business development in rural areas by providing capital and promoting cooperation between companies' active citizens within the community. VOKA has implemented several micro-loan programmes through commercial banks in the past.

VOKA stopped its micro-lending activities in 2013 because of a lack of funding sources. The programme was re-launched in 2014 but no data had been available during the drafting of this study.

An overview of VOKA's supply of micro-loans during the last years is presented below.

Table 19: The evolution of micro-loans from VOKA

YEAR	Amounts provided (EUR)	Average microloan (EUR)	Number of loans
2008	78,337.65	5,222.51	15
2009	59,183	4,931.92	12
2010	47,280	5,910	8
2011	6,640	6,640	1
2012	68,900	6,950	10 incl. 2 non-profit organisations
2013	Provided by SBA		

Source: VOKA, 2014.

Slovak Guarantee and Development Bank (SZRB) [45]

SZRB provides micro-loans directly to SMEs developing business on Slovak ground. Micro-loans are aimed to support the development of small entrepreneurs in the Slovak Republic to allow for accessing credit sources to the newly established and also existing entrepreneurs, and to reduce the time period necessary for processing and executing the application.

The micro-loan is disbursed in a single amount or gradually, with a total between EUR 3,000 and EUR 50,000. The maximum maturity of the micro-loans is 5 years, with a recommended maturity up to 2 years in case of financing working capital. The loan is repaid in monthly/quarterly instalments with the maximum grace period for principal repayment of 6 months or 3 months. An interest rate for the micro-loan is fixed in accordance with State Aid regulations.

Since 2007, the Slovak Guarantee and Development Bank support the development of women entrepreneurs in the Slovak Republic, after the Integra foundation (a non-profit organization whose mission is to bring well-being to communities by creating opportunities for the vulnerable, supporting personal, economic, spiritual and social development) stopped implementing a support programme for women. In this context, SZRB offers loans to support the development of women entrepreneurs.

The loan terms are in line with other micro loans provided by SZRB but are capped at EUR 33,000.

[45] Slovenská záručná a rozvojová banka, a.s.

Commercial banks

Commercial banks are not involved in the microfinance segment of the market. As already mentioned, Slovak banks apply a conservative approach to SME lending. This business mentality is for instance entirely different than the banking system in France, where commercial banks are competing for the SME market segment and are strategically supporting SME financing.

However, commercial bank OTP signed recently an agreement with the EIF under the Progress programme and thus this potential supply of microfinance has to be taken into account in the computation of future supply.

Table 20: Synthesis of microfinance products provided in the Slovak Republic (by type of product and stakeholder)

Product	SBA (NADSME)	VOKA	SZRB	SZRB	Commercial banks/OTP Bank
Micro-loans	**Micro-loans** **Target**: (1) Small and existing micro-enterprises (2) Start-ups **Amount:** EUR 2,500 – 50,000	**Micro-loans** **Target**: (1) Start-ups without financial history (2) Unemployed people or people at risk of poverty **Amount**: EUR 1,000 – 6,640	**Micro-loans** **Target:** Entrepreneurs who perform their business activities pursuant to Act Nr. 513/1991 Coll. Commercial Code Art. 2, par. 2 as amended from time to time. **Amount:** EUR 3,000 – 50,000	**Micro-loans** **Target:** (1) Disadvantaged groups in obtaining business skills (2) Women as beginning and established entrepreneurs **Project:** Happy Hand project in 2007 substituted by Loan Podnikateľka of SZRB. **Amount:** EUR 3,000 – 33,000	**Micro-loans** **Target**: (1) Micro-enterprises (2) Young entrepreneurs in Slovakia Under European Progress Microfinance Facility. **Volume:** 600 local micro-enterprises.

Source: SBA, VOKA, SZRB, OTP Bank, 2014.

In order to summarise the supply of microfinance in the Slovak Republic, the following table presents the amounts provided by the different stakeholders over the last few years.

Table 21: Microfinance provided in the Slovak Republic (EUR) over 2010-2013

	2010	2011	2012	2013
SBA (NADSME)[46]	836,863	0	0	1,249,900[47]
VOKA	47,280	6,640	68,900	VOKA did not provide any micro-loans
SZRB	519,100	632,064	1,173,899	555,000
Total	**1,403,243**	**638,704**	**1,242,799**	**1,804,900**

Source: SBA, VOKA, SZRB, 2014[48].

7.2.1.2 Loans (short[49], medium, and long-term loans)

Currently 28 banks and branch offices of foreign banks operate in the Slovak Republic[50].

Short-term loans are defined as loans to be repaid in less than one year and most commonly used to finance working capital needs. In the present report, it is considered that short-term loans include credit lines and bank overdrafts. Credit lines are defined as maximum loan amounts approved by a bank to a company where interest is charged only to the used part of the loan. Overdrafts are an extension of credit from a bank when an account reaches zero thus allowing a company to continue withdrawing money even if the account has no funds. Medium and long-term loans are loans to be repaid over a period of more than one year.

Data on the level of debt financing provided exclusively to SMEs in the Slovak Republic is available only since 2012. The average percentage of loans allocated per category of size of SMEs has been estimated by banks' representatives interviewed for the present report and it is estimated that from the total short, medium and long-term loans disbursed to SMEs in the Slovak Republic, 25% were provided to micro-, 45% to small and 30% to medium-sized companies.

The table below provides the estimates based on the abovementioned elements.

46 The annual supply provided corresponds to the annual average supply of microloans between 2010 and 2013.

47 The programme was only active since April 2013.

48 Data are not publicly available.

49 In the present report it is considered that short term loans also include bank overdrafts and credit lines.

50 List of monetary financial institutions available at http://www.nbs.sk/_img/Documents/STATIST/MSPFI/ZPFI/201402A.pdf.

Table 22: Estimate of loan disbursements to SMEs in the Slovak Republic

Financial product	2012 (EUR Mil.)	2013 (EUR Mil.)
Short-term loans	**2,398.5**	**2,169.7**
Micro-enterprises (e)	599.6	542.4
Small enterprises (e)	1,079.3	976.3
Medium-sized enterprises (e)	719.5	650.9
Medium and long-term loans	**61.2**	**92.1**
Micro-enterprises (e)	15.3	23.0
Small enterprises (e)	27.5	41.4
Medium-sized enterprises (e)	18.4	27.6

Source: National Bank of Slovakia, PwC analysis, 2014.

As explained by banks' representatives, 75% of the loans provided to SMEs go to small and medium-sized enterprises which only account for 4.4% of the total population of SMEs in the country. Micro-enterprises receive 25% of the supply of debt finance, while they account for 95.6% of the SME population.

The supply of short-term loans to SMEs accounted for 95.9% of debt financing in Slovakia in 2013. It reduced by 9.5% between 2012 and 2013. In parallel, the supply of long-term loans represented 4.1% in 2013 but increased by 50.4% between 2012 and 2013. This illustrates that the large majority of the supply of loan financing addresses short-term needs of SMEs and that only a small part is related to investment and long-term financing. However, the share of long-term loan financing provided to SMEs has increased between 2012 and 2013 (from 2.5% to 4.1% of the total loan financing provided to SMEs). This illustrates that banks in Slovakia provide more investment financing than in the past.

7.2.1.3 Leasing

Leasing is a rental agreement between a company and a bank or a specialised establishment that concerns a good for a determined and irrevocable duration. Most of the time, at the end of the rental period, the SME may decide to acquire the rented good. It may also renew the leasing or restore the good to the leasing company. Financial leasing companies purchase the equipment and retain ownership while allowing the SME to use the equipment. The leasing companies are the legal owners of the equipment all along the lease agreement, but ownership of the equipment is conveyed to the lessee, who incurs all benefits, costs, and risks associated with ownership of this equipment (NBS, 2014; OECD Financing SMEs and Entrepreneurs, 2014).

The advantage for the SME is to avoid using own funds and to avoid looking for sufficient collateral for a loan. Moreover, leasing financing allows tax exemptions, thus improving financial statements of companies.

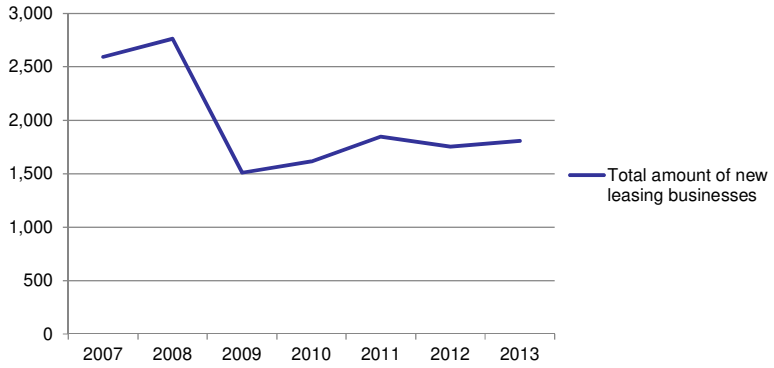
As highlighted by financial stakeholders in Slovakia, the further advantages of leasing products compared to loans are as follow:

- Leasing products may be provided to non-bankable SMEs;

- Contracts for leasing products allow more flexibility with regards to contract terms: possibility to benefit from new products and higher degree of tolerance in case of repayment delays;
- Default rate of leasing products may be lower than for loan products as it relates to the saleability of the equipment.

There are about 70 leasing companies in Slovakia. The financial crisis particularly affected leasing companies in 2009. Following a significant increase in 2007 and 2008, the leasing businesses experienced a downturn in 2009: the supply of leasing products to all companies decreased by 45.3% between 2008 and 2009 (Figure 2). Thereafter, the supply of leasing products increased in 2010-2011 and stabilised at EUR 1.8bn since 2011.

Figure 2: Annual supply of lease finance to all companies in the Slovak Republic over 2007-2013 (EUR Mil.)[51]



Source: Association of leasing companies of the Slovak Republic, 2014.

The National Bank of Slovakia and the Association of Leasing Companies of the Slovak Republic[52] (ALCSR) do not have data on leasing products provided exclusively to SMEs. Nevertheless, interviews with banks and leasing companies suggest that 17% of the supply of leasing products was provided to individuals (and consequently not companies) and that from the remaining supply, 80% was provided to SMEs. Moreover, it was suggested that of the total volume of leasing products provided to all Slovakian SMEs, 25% are provided to micro-enterprises, 45% to small enterprises and 30% to medium-sized enterprises. Based on this information, the historical provision of leasing products would be as follows.

Table 23: Estimate of supply of leasing products to the whole economy and SMEs

Amounts	2009 (EUR Mil.)	2010 (EUR Mil.)	2011 (EUR Mil.)	2012 (EUR Mil.)	2013 (EUR Mil.)
Total companies	1,422	1,494	1,695	1,756	1,747
	-45.7%	*5.1%*	*13.5%*	*3.5%*	*-0.5%*
Total SMEs (e)	944	992	1,125	1,165	1,160
Micro-enterprises (e)	236	248	281	291	290

[51] Supply amounts of leasing products provided in 2007 and 2008 were in SKK (Slovak currency prior to the use of euro). A fixed exchange rate of 30.216 SKK/EUR was used for the figure.

[52] The ALCSR covers approximately 99% of the Slovak leasing market.

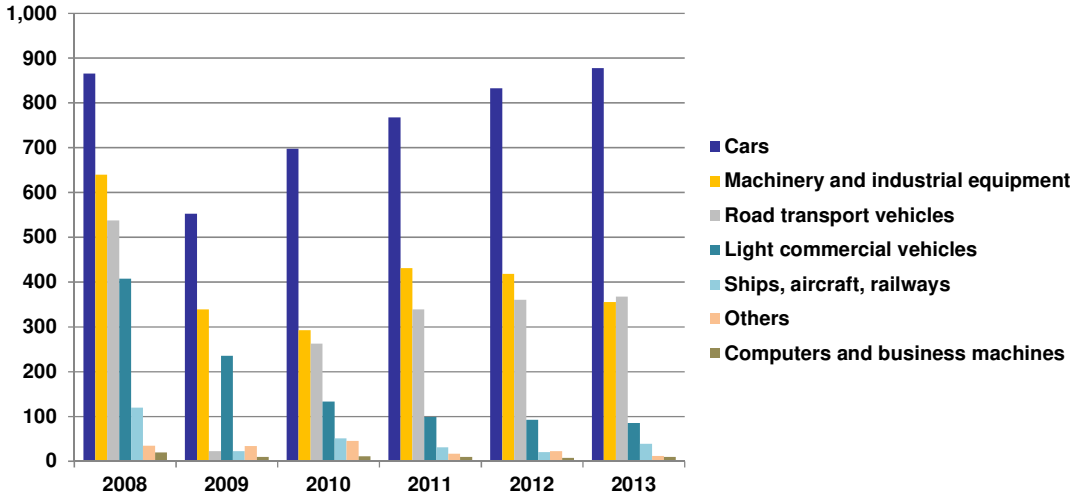
Amounts	2009 (EUR Mil.)	2010 (EUR Mil.)	2011 (EUR Mil.)	2012 (EUR Mil.)	2013 (EUR Mil.)
Small enterprises (e)	425	446	506	524	522
Medium-sized enterprises (e)	283	298	338	350	348

Source: Association of leasing companies of the Slovak Republic, PwC analysis, 2014.

According to the stakeholders interviewed, leasing companies are currently more cautious when providing leasing products, in comparison with the period before 2009. They particularly consider the purposes of the financing carefully.

Leasing for movable goods represents up to 96% of the leasing products provided in Slovakia. Leasing for cars represent the main product: 50% of the leasing products provided in 2013 to the whole economy (Figure 3). As illustrated in the figure below, the relative distribution of leasing products remained stable over time.

Figure 3: Distribution of leasing products in the Slovak Republic over in 2008-2013 (EUR Mil.)



Source: Association of Leasing Companies of the Slovak Republic, 2014.

The supply of leasing products decreased heavily in 2009. In addition, the increase in oil prices affected the supply of leasing products for (non-car) road transport vehicles, which correspond to 30% of the leasing market. For that reason, entrepreneurs that relied on leasing for transport vehicles were severely affected in 2009. Leasing products for machinery and industrial equipment were the second most affected by the crisis[53].

7.2.1.4 Export credit

An export credit is a specific loan used for financing export activities of companies. It could also take the form of an insurance, guarantee or financing arrangement for goods and services between parties in different countries.

The Slovak Republic despite being an exporting country lacks the supply of such products. Usually

[53] Association of Leasing companies of the Slovak Republic – report sheets. http://www.lizing.sk/www/index.php?option=com_docman&task=cat_view&gid=26&Itemid=93.

exports are initiated by large companies that have long experience in such activities and have long lasting relations with their trade partners and their preferred bank. There is however an export – import Bank of the Slovak Republic (EXIMBANKA SR)[54] which has been developing its export financing in the Slovak Republic since 1997. EXIMBANKA supports domestic exporters (having registered offices in or being resident in the SR) through a wide portfolio of products such as:

- **Financing** - direct export support credits, direct loans to finance investment abroad, buyer´s export credits, direct credits for the purchase and upgrade of technology and associated infrastructure, etc.
- **Insurance of export loans** - insurance of short-term credits, insurance of medium-term and long-term supplier´s credits, insurance of buyer´s export credits, etc.
- **Guarantees** - bid bond, performance bond, advance payment bond, retention money bond, etc.

However, data available to highlight credit exports and quantify the supply in recent years is not available.

7.2.1.5 Factoring/credit insurance

Factoring is the use of company receivables to finance current working capital needs. This instrument is used mostly in a supply chain environment by SMEs that suffer from delayed payments from clients.

According to the NBS statistics, factoring companies[55] are included in the company classification entitled "other financial intermediaries". According to stakeholders, in recent years, factoring is gradually becoming a more popular form of financing in Slovakia. Factoring is usually provided by banks and subsidiaries of banks[56]. There are however 5 factoring companies operating in the Slovak market with a stronger focus on SMEs[57]. These entities are members of the Association of Factoring Companies (AFC), which also makes efforts to support and promote the area of factoring in the Slovak Republic.

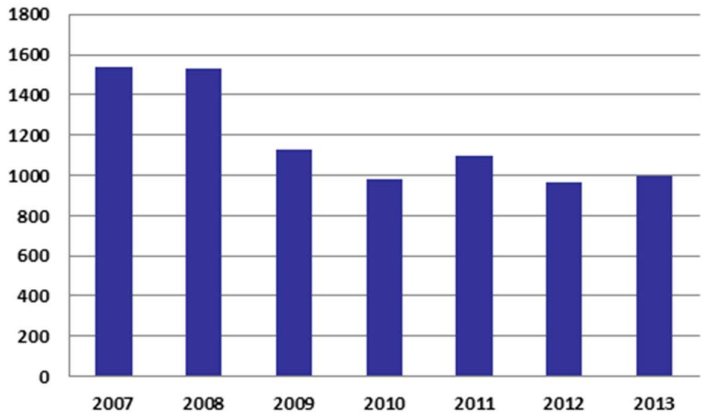
54 The Export-Import Bank of the Slovak Republic was founded under the Act No. 80/1997 Coll. on the Export-Import Bank of the Slovak Republic, as amended by the Act No. 336/1998 Coll., Act No. 214/2000 Coll., Act No. 623/2004 Coll., Act No. 688/2006 Coll., Act No. 659/2007, Act No. 567/2008 Coll. and Act No. 492/2009 Coll.

55 For the purposes of statistics it is understood that a factoring company is a legal entity, which within the frame of its business activity performs factoring as its main activity, and which is not a bank or a branch of foreign bank, nor a foreign bank.

56 www.nbs.sk.

57 http://www.nbs.sk/_img/Documents/STATIST/SOFS/FCL2014.pdf.

Figure 4: Evolution of the turnover of factoring companies from 2007 to 2013 (EUR 000's)



Source: Association of Factoring Companies, 2014.

The graph above presents the evolution of turnover of factoring companies in Slovakia since 2007, and it can be seen that following a drop of turnover in 2009, the companies have stabilised their turnover levels. More information is not available in order to quantify the actual supply of factoring for SMEs in Slovakia.

7.2.1.6 Mezzanine

Mezzanine financing is a term used to describe hybrid forms of financing most often bridging debt and equity financing. The most common form of mezzanine financing is the subordinated loan which is an unsecured loan with a lower ranking in case of bankruptcy compared to senior debt. Mezzanine financing can also take the form of participating loans which are normal loans, but rather than providing a fixed return, their remuneration is linked to the results of the business without affecting the ownership structure.

Mezzanine financing can also take the form of equity products that provide profit participation rights to the lender again without affecting the ownership or management structure of the company. In general, these products are flexible and the contractual documents could include sharing business decisions with the lender.

The overall characteristic of these products is that they can be structured flexibly in many different forms to suit all parties involved. On the one hand, companies have access to finance, they retain control of their business they have tax benefits (payments are deductible). On the other hand, providers can enjoy higher returns than traditional bank loans and chose their level of participation in the risk and the decision making of the company.

The barrier affecting the use of mezzanine financing in countries like Slovakia is the complexity of the products combined with the limited experience of companies in either equity or even debt products. Furthermore, mezzanine is often designed for larger SMEs which have high credit ratings and seek higher amounts.

Mezzanine financing is not developed in the Slovak Republic. Only very few projects have actually been financed using mezzanine mostly concerning large leverage deals. Two foreign companies

providing mezzanine financing for small and medium-sized enterprises have been active in the Slovak market:

- *RMS Mezzanine* (also known as RM-S Holding, Ltd.) is a Czech company that supports alternative form of financing in Central and Eastern Europe. It provides mezzanine financing for SMEs in cases where banks are not willing to support. The company also invests in minority and majority shares of companies where further development and growth is expected. Some projects have been financed in Slovakia in recent years[58].
- *Mezzanine Management Central Europe* (MMCE) is an investment firm which focuses on providing capital to businesses for expansions and acquisitions, management-led equity deals, recapitalizations and buy-outs.

Despite the presence of these two companies, data remains scarce on mezzanine financing in Slovakia to carry out quantification of financing supply.

7.2.1.7 Business Angels - Venture Capital - Private Equity

In Europe between 2007 and 2011 more than 20,000 SMEs[59] have benefited from equity investments made by Private Equity funds (PEs), Venture Capital funds (VCs) and Business Angel investors (BAs). These three categories of investors have different and specific goals, preferences and investment strategies; however, together they provide financing to companies in order to nurture expansion, new-product development, or restructuring of the corporate operations, management, or ownership. PE funds often target established and mature companies to invest in and at times they acquire majority stakes in these companies. PE Funds usually are generalist; therefore they are investing in various industry sectors, and/or various geographic locations. On the other hand, VC funds and BAs prefer to invest in young, growing or emerging companies, and rarely obtain majority control. In terms of sectorial orientation VC funds are usually specialist (specialising in a few industry sectors where the management of the Fund has expertise in or investing in only a limited geographic area) investors. Venture capital funds generally:

- Finance new and rapidly growing companies with scalable potential;
- Purchase equity shares, i.e. become shareholders in the underlying company;
- Invest in companies having innovative products or services and developing intellectual property (IP);
- Assist in the development of new products or services though their expertise, contacts and knowledge;
- Add value to the company through active participation alongside the senior management;
- Take higher risks with the expectation of higher rewards and thus are able to finance companies which banks would never consider; and
- Have a pre-defined period within which they want to liquidate their investment.

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58 Annual Report 2010 – 2011, RMS Mezzanine. http://www.rmsmezzanine.cz/userfiles/file/Informacni_povinnost_periodicke_spravy/AR_2011_NEW.pdf.

59 "The little book of private equity", European Venture Capital Association (EVCA), 2012.

The different types of equity financing, namely BA, VC, and PE can be categorised according to five stages of company development.

The seed stage of a company and expenses related for its first steps before operations can be referred to as seed funds. This stage is more often financed by Business Angels, family and friends of the entrepreneur. This stage can also be financed by microfinance lending from institutions supporting business start-ups (addressed in the microfinance section).

The actual start-up of a company is financed with start-up funds also provided by BA. This stage is generally also financed by Venture Capital funds covering the start of operations until its first success, but is not existent in Slovakia according to EVCA (European Venture Capital Association).

Following the start-up stage, once the company is established and operational, there is usually a first success stage where the company is seeking financing for take-off of operations in order to establish the product or service provided on the market.

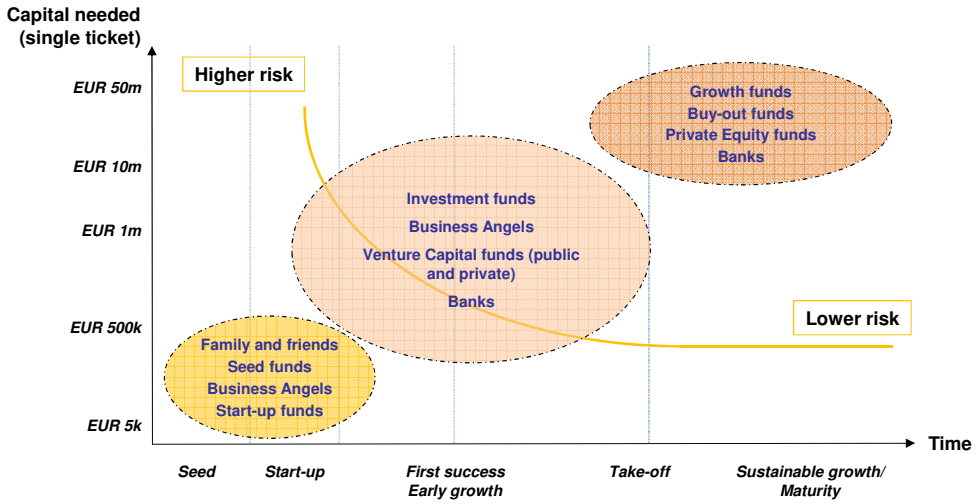
Following the first success, additional funding is then necessary for the development stage, referred to as growth capital, focusing on businesses targeting further development with new products or expansion to new markets. Growth capital is provided by both later-stage VC and PE funds and accounted for the whole amount of equity investment in 2012 in Slovakia (EVCA, 2013). In 2012, EUR 5.4m were invested in Slovakia.

Finally, buy-out capital intervenes when a company has increased in value and is sold for profit. Buy-out investments are not considered in this study.

The positioning of each type of capital with respect to the company lifecycle and needs is presented in

Figure 5 below. The range of amounts invested by each of the actors, the risk they are willing to take and the role they play in company development are also included.

Figure 5: The ladder of equity financing according to the development stage of companies



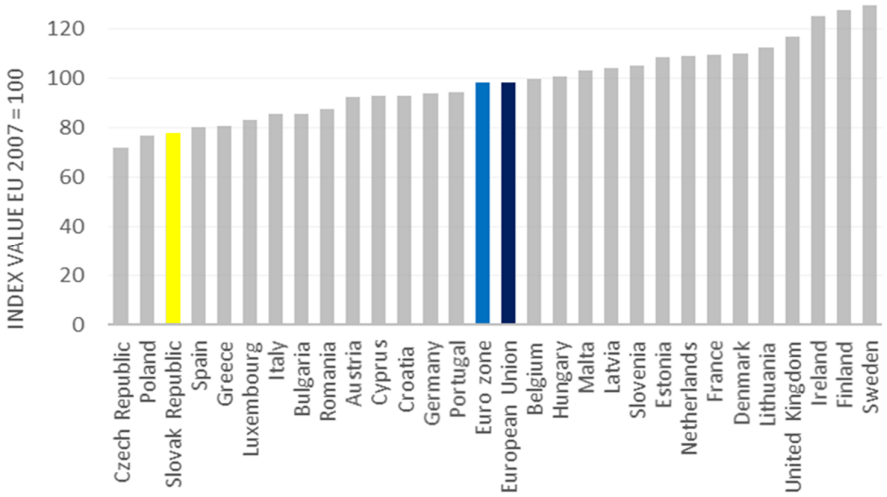
Source: North East Access to Finance[60], PwC Analysis, 2014

60 See: http://www.nea2fguide.co.uk/wp-content/uploads/2012/11/NEA2F-Guide-Funding-Ladder-for-illustrative-purposes.pdf.

According to the index created by the IESE Business School, the University of Navarra and in cooperation with EM Lyon, the equity investment sector in the Slovak Republic is comparable to those of Hungary or Slovenia[61]. Slovakia is ranked 42nd out of 118 countries for VC and PE financing. According to the findings, the main shortcoming is the lack of investor protection and corporate governance and the general economic activity.

According to the sub-index on access to equity finance of the SME Access to Finance Index, the Slovak equity finance environment ranks among the last three least favourable in the European Union. While the EU sub-index value is 98 in 2012, Slovakia reached only a value of 77, which is only higher than the score of the Czech Republic (72) and equal to Poland (77).

Figure 6: SMAF Sub-index on access to equity finance per country (2012)



Source: SME Access to Finance Index (SMAF), 2013[62].

With regard to absolute terms and according to 2011 figures from EVCA, Slovakia is far below the EU average of 0.326% and CEE average of 0.105% for Private Equity investments as a percentage of GDP (Slovakia: 0.013%)[63]. Regarding VC investments, these are in fact non-existent (0.00% in terms of investments as percentage of GDP), as shown in Figure 7.

The Business Angel environment in Slovakia is also almost non-existent. Some initiatives to create an organised network of BA have not yet been able to provide visible results. A few business angels in Slovakia created the Slovak Business Angels Network (SBAN) in 2011 with the support of SBA and the Young Entrepreneurs Association of Slovakia. The SBAN brings together Slovak investors and managers, who are willing to develop the area of business angels and support entrepreneurship. However, actual investments have not been reported (though 60 have been rejected) and SBAN is mostly providing mentoring and consulting support to potential entrepreneurs.

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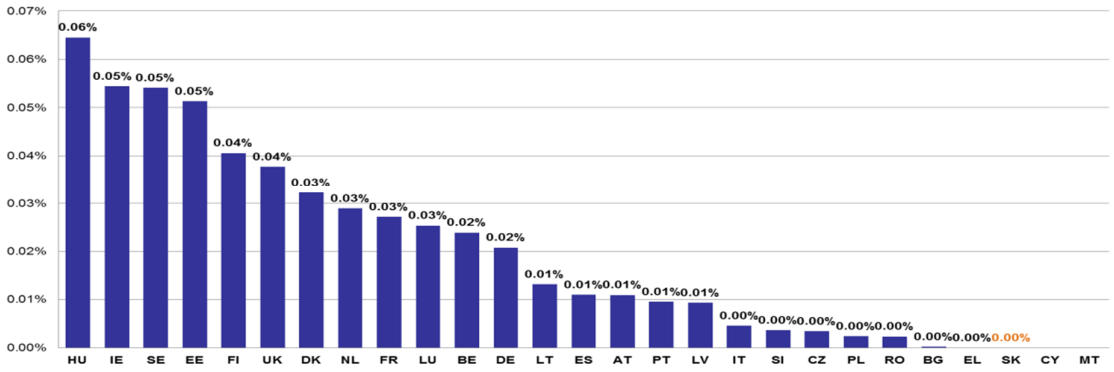
61 This index, updated annually, aims to determine the attractiveness of each country for Venture Capital and Private Equity financing. It determines the attractiveness of the country for a potential institutional investor. A set of socio-economic parameters is taken into account and divided into six categories: economic activity, depth of capital markets, taxation, investor protection and corporate governance, human and social environment and, lastly, entrepreneurial opportunities.

62 http://ec.europa.eu/enterprise/policies/finance/data/enterprise-finance-index/sme-access-to-finance-index/index_en.htm.

63 While EVCA statistics are available for 2012, a small number (six) of sizeable buyout transactions in 2012 biased the overall investment amounts, increasing the Private Equity investments to GDP ratio to 0.137%.

Figure 7: Total Venture Capital investment as percentage of GDP in the EU countries in 2012



Source: EVCA, European Commission, 2013.

Regarding PE and VC, these markets are present in Slovakia but without creating much of an impact in the creation, development and overall support of SMEs in the country. The most important barriers to developing these markets remains the lack of fund management companies in Slovakia as well as the limited fundraising success of Private Equity and Venture Capital managers throughout the whole CEE region since the beginning of the crisis[64].

According to EVCA, investors in Europe tend to focus first on their home market, especially in mid-market and buyout funds, due to the lower relative risk they represent. In terms of geography, investors are more interested in the Nordic Region, Germany and the United Kingdom, followed by France and Benelux.

Despite the higher growth potential, emerging markets are characterised by higher systemic risk factors, such as political and financial instability but also by specific issues such as proper assessment of fund managers' track record and capabilities in those markets. The upswing in fundraising in the first half of 2011 was swiftly halted by the uncertain economic prospects emerging in the second half of 2011. Persistent market volatility, growing concerns regarding the euro zone and financial markets' uncertainty were the main fears of CEE institutional investors throughout the entire 2012. As a result, investors became more risk-averse and started concentrating on later stage vehicles.

The only PE and VC funds established in the region including Slovakia have been backed by institutional investors such as the EIF or other public assistance schemes. In Slovakia, the EIF has set up 3 funds to support equity financing for SMEs. The Innovation fund (seed fund) and the Entrepreneurship fund (start-up fund) are both managed by Neulogy and will provide up to EUR 23m in the next years, while the co-investment fund (growth fund) is managed by Limerock and will provide up to EUR 24m. These funds started operating in 2014 and will be added to future supply.

Before the establishment of the JEREMIE funds, the equity financing for SMEs in Slovakia was mostly provided by the SBA through a fund of funds (FoF) established in 1994. The long-term mission of the FoF is to stimulate the development of the SME sector in country. The FoF finances individual sub-

64 EVCA (2013). European Private Equity Activity.

funds that have specific respective objectives and priorities[65]. In 2012, the FoF covered 6 sub-funds (Start-up fund, regional start-up fund, SISME fund, Seed Capital Fund, Slovak Development Fund).

According to SBA, in the last two years, most of the investments concerned projects in the ICT and energy sectors.[66] The equity fund of funds of SBA does not seem to leverage private funds and is solely financed by the state budget. As a result, the investments made through SBA are not reported in EVCA. The two tables below present the supply of equity financing from SBA and EVCA separately. Concerning EVCA, the buy-outs are not included and due to lack of data, the assumption needs to be made that VC mostly concerns SMEs rather than large companies. However, one large private equity deal can skew national numbers.

Table 24: VC and PE investments by SBA over 2009-2012 (in EUR mil.)

	2009	2010	2011	2012	(e) 2013[67]
Seed (VC)	2.1	0.06	0.9	1.2	1
Start-up (VC)	3.9	10.9	4.8	0.2	2.5
Development (PE)	8.3	0.5	5.8	5.6	5
Total VC	6	11	5.7	1.4	6
Total PE	8.4	0.5	5.8	5.6	5.1
Total	14.4	11.4	11.5	7.1	11.1

Source: SBA, OECD, PwC analysis 2014.

Table 25: Equity investments from private actors in Slovakia since 2009 for all sizes of companies (EUR Mil.)

	Business Angels	Venture Capital	Private Equity	Total
2009	n/a	1.7	n/a	**1.7**
2010	n/a	2.1	9.3	**11.4**
2011	n/a	0	9.1	**9.1**
2012	n/a	0	5.3	**5.3**
2013 (e)[68]	n/a	1.0	7.9	**8.9**

Source: EVCA, PwC analysis, 2012.

In the table below the total amounts concerning VC and PE investments are provided by adding the figures provided by SBA and EVCA.

Overall, the equity financing market in Slovakia is mostly generated by public assistance schemes

65 http://www.sbagency.sk/sites/default/files/stav_msp_2011.pdf.

66 Reports on the state of play of SME (2011, 2012) – NARMSP.

67 Estimates for 2013 were calculated based on the average amount provided by each equity financing source over the 2009-2012 period.

68 Estimates for 2013 were calculated based on the average amount provided by each equity financing source over the 2009-2012 period.

through SBA while private initiatives are still limited and fail to create a substantial impact in the market. It has to be noted that for funds established before the start of the Risk Capital Programme (2006) no private investors were involved all, while at present all equity funds operated by SBA include private investments with a varying share of between 1% and 37.5%. Nevertheless, the total private investment amounts can further be increased and the newly established JEREMIE funds are very important in generating equity investments for SMEs but also in generating a higher leverage of private funds. The example of Bulgaria[69] where the JEREMIE seed fund was able to generate interest also from Business Angels in supporting projects, could also apply to Slovakia. JEREMIE funds will, longer term, be able to attract more private investment and potentially stimulate the creation of an active business angel community.

Table 26: Equity investments by SBA and private actors in Slovakia since 2009 for all sizes of companies (EUR Mil.)

	Business Angels	Venture Capital	Private Equity	Total
2009	n/a	7.7	8.4	**16.1**
2010	n/a	13.0	9.8	**22.8**
2011	n/a	5.7	14.9	**20.6**
2012	n/a	1.4	10.9	**12.3**
2013(e)[70]	n/a	7.0	11.9	**18.9**

Source: SBA, EVCA, PwC analysis, 2012.

7.2.2 Quantification of the expected supply of financial products in 2014

As described in Section 7.1, the quantification of the expected supply of financial products takes into account:

- The current supply trend of each product under consideration;
- Available data for 2014. When data are available for the first months of 2014, assumptions have been made to compute the total supply of financial products for the whole year of 2014;
- When data are not available for 2014, the real GDP growth forecasts for the Slovak Republic for 2014 provided by the European Commission as of May 2014 (+2.2%) has been used;
- The perception of the development of each market expressed by market stakeholders during interviews. These perceptions are used to define high and low scenarios for each financial product for the future;
- Any new funds in place such as for micro-finance and equity.

The table below provides a summary of the last years and for 2014. Based on these estimates, the

[69] EIF (2014). AFMA study for Bulgaria.

[70] Estimates for 2013 were calculated based on the average amount provided by each equity financing source over the 2009-2012 period.

supply of each financial product is further broken down by size of company. This split has been based on the information provided by stakeholders on their current supply to, micro-, small and medium-sized companies.

Table 27: Supply of financial products to SMEs in the previous years and estimate of the annual supply in 2014 in the Slovak Republic

Financial product	EUR (million)					
	2009	2010	2011	2012	2013	Estimate of annual supply for 2014
Microfinance	n/a	1.4	0.6	1.2	1.8	**3.6 – 4.0**
Short-term loans, credit lines and overdrafts	n/a	n/a	n/a	2,399	2,170	**2,066 - 2,284**
Medium- and long-term loans	n/a	n/a	n/a	61	92	**132 - 146**
Leasing	944	992	1,125	1,165	1,160	**1,187 - 1,312**
Business Angels	n/a	n/a	n/a	n/a	n/a	**n/a**
Venture Capital	7.7	13.0	5.7	1.4	7.0	**15.1 – 16.7**
Private Equity	8.4	9.8	14.9	10.9	11.9	**16.3 – 18.1**

Source: Multiple sources, PwC analysis, 2014[71].

7.2.2.1 Microfinance

The computation for the supply of microfinance in Slovakia for 2014 did not follow the methodology presented on Section 7. The reason for that is that the microfinance market was very volatile in the previous years in Slovakia (with a small intervention of SBA with the micro-loan programme and the end of supply of microfinance products provided by VOKA) and new sources of microfinance will intervene in 2014, namely the microfinance fund developed by SBA and the Progress initiative through the OTP bank.

The calculation of the supply of microfinance for 2014 in Slovakia mainly considers three sources of financing:

- SZRB;
- SBA with the microfinance fund; and
- Microfinance loans to be provided by OTP thanks to the Progress initiative.

The supply provided by SZRB for 2014 has been considered as the average amount provided over the previous years.

The supply provided by SBA through the microfinance fund stood at EUR 1.05m until the end of July 2014 and it is anticipated that the same amount per month (EUR 0.15m) will be provided until the end of the year (EUR 1.8m in total).

[71] PwC analysis, SBA, VOKA, SZRB and ETP, 2014 (microfinance), National Bank of Slovakia (short-term loans, medium- and long-term loans, leasing), 2014, SBA, European Venture Capital Association, (equity), 2014.

The new EUR 1.3m supply of microfinance to be provided by OTP through the Progress initiative is also added to supply.

In order to provide a reasonable approximation of the potential supply, a variation of -5% and +5% around the sum of the amounts of all the sources of microfinance is applied.

Based on this methodology, the total supply of microfinance for 2014 in Slovakia is estimated between EUR 3.6m and EUR 4.0m. The total of microfinance supply is expected to be provided only to micro-enterprises. In the analysis of the financing gap, microfinance will be considered separately from loans.

Table 28: Estimated annual supply of microfinance to SMEs in 2014 in the Slovak Republic

Supply of microfinance to SMEs	2014 (EUR Mil.)
Total supply to SMEs	3.6 – 4.0

Source: PwC analysis, 2014.

7.2.2.2 Short-term loans, overdrafts and credit lines

According to interviews with banking stakeholders, banks in Slovakia do not face liquidity issues but may experience problems finding credit-worthy projects. This is consistent with banking views across Europe.

This report considers only the loans to non-financial corporations.

Based on the computation methodology, the supply of short-term loans for 2014 will range between EUR 2,066.3m and EUR 2,283.8m. The computation has taken into account the trend of short-term loans supply between 2012 and 2013 (-9.5%) since the National Bank of Slovakia provides data on supply to SMEs only for 2012 and 2013. The calculation has also considered the supply of short-term loans to SMEs for January to April 2014. Since the supply of short-term loans to SMEs over the first four months of 2012 and 2013 represented about one third of the overall supply during each of these two years, the supply of short-term loans provided to Slovak SMEs between January and April 2014 was multiplied by three to estimate to total supply of this financial product for the whole year 2014.

Moreover, commercial banks in Slovakia commonly shared perception that there are no specific constraints foreseen in the future that could limit loan supply (either short, medium or loan-term loans). This perception has been translated in the calculation with a variation of the supply between -5% and +5%.

This supply of short-term loans for SMEs has been broken down into supply for micro-enterprises on the one hand and for small and medium-sized companies on the other hand, using information provided by the National Bank of Slovakia and commercial banks. Since the National Bank of Slovakia does not provide a split between the three sizes of companies, interviews with commercial banks explained that 25% of short-term loans are provided to micro-enterprises, 45% of these loans are provided to small companies and that 30% of them are provided to medium-sized companies.

Table 29: Estimated annual supply of short-term loans to SMEs in 2014 in the Slovak Republic[72]

Supply of short-term loans to SMEs	2014 (EUR Mil.)
Total supply to SMEs	**2,066 – 2,284**
Total supply to micro-enterprises	517 - 571
Total supply to small enterprises	930 - 1,028
Total supply to medium-sized enterprises	620 - 685

Source: PwC analysis, 2014.

7.2.2.3 Medium and long-term loans

The estimate of supply of medium and long-term loans in 2014 has been calculated by applying the same approach as for short-term loans. The computation is based on the supply provided in 2013, the trend in supply of medium and long-term loans from previous years and the supply of medium and long-term loans provided between January and April 2014. Also, to translate the lack of specific constraint to supply of medium and long-term loans perceived by bank stakeholders, a variation of the supply between -5% and +5% has been applied. In so doing, the estimate of supply of medium and long-term loans in Slovakia takes into consideration of the important increase of the supply of this financial product in 2013. An increase of medium and long-term loans is consequently to be estimated for 2014.

The range for medium and long-term loans supply for SMEs in Slovakia in 2014 may be estimated from EUR 132m to EUR 146m. Similar to short-term loans, the supply of medium and long-term loans to SMEs has been broken down into supply for micro-, small and medium-sized enterprises.

Table 30: Estimated annual supply of medium and long-term loans to SMEs in 2014 in the Slovak Republic[73]

Supply of medium and long-term loans to SMEs	2014 (EUR Mil.)
Total supply to SMEs	**132 - 146**
Total supply to micro-enterprises	33 - 36
Total supply to small enterprises	59 - 66
Total supply to medium-sized enterprises	40 - 44

Source: PwC analysis, 2014.

7.2.2.4 Leasing

The estimate of supply of leasing in 2014 has been calculated by applying a different approach than for the supply of loans.

Based on the supply of leasing products calculated for the SME population and for each size of SMEs

[72] Differences between the sums of supply provided to micro-, small and medium-sized companies and the total supply provided to SMEs result from rounding errors.

[73] Differences between the sums of supply provided to micro-, small and medium-sized companies and the total supply provided to SMEs result from rounding errors.

detailed in the previous section, an average growth rate over 2009-2013 was calculated (5.4% on average per year). This growth rate was applied to the supply of leasing products provided to each size of SMEs on 2013. The GDP growth forecast of 2.2% for Slovakia for 2014 was then applied. Finally, similarly to commercial banks, leasing providers have a common perception that there are no specific constraints that could limit leasing supply in the future. This perception has been translated in the calculation with a variation of the supply between -5% and +5%.

As a result, the range for the total supply of leasing for SMEs in Slovakia in 2014 may be estimated at between EUR 1,186.9m and EUR 1,311.8m.

Table 31: Estimated annual supply of leasing to SMEs in 2014 in the Slovak Republic [74]

Supply of leasing to SMEs	2014 (EUR Mil.)
Total supply to SMEs	**1,187 - 1,312**
Total supply to micro-enterprises	297 - 328
Total supply to small enterprises	534 - 590
Total supply to medium-sized enterprises	356 - 394

Source: PwC analysis, 2014.

7.2.2.5 Equity

The estimate of supply for Business Angels, Venture Capital and Private Equity in Slovakia in 2014 is based on a different approach than for microfinance, debt financing and leasing products. The choice of using a different method is based on the fact that supply of equity financing is less consistent than for other financing products because it relies more heavily on the size of worthy projects being submitted. As such, this quantification is mostly based on amounts that describe where supply meets demand rather than the total available funds in the market. The equity market mainly depends on the capacity of demand to meet supply, implying communication and networks between entrepreneurs and BAs or investment funds.

Following that, the estimated supply for the three types of equity financing in 2014 was computed with the following method:

- An average amount was computed for each type of equity financing based on historical amounts provided by SBA and EVCA;
- A variation of 5% was computed to estimate a potential range of financing[75].

However, the equity market in Slovakia has to be treated differently than other products since a new component has to be taken into account which will alter the supply in 2014. This component relates to the JEREMIE supply of equity through 3 funds. The supply of equity financing through JEREMIE has been computed with the following assumptions:

[74] Differences between the sums of supply provided to micro-, small and medium-sized companies and the total supply provided to SMEs result from rounding errors.

[75] Despite the fact that for JEREMIE funds the amounts are known, the variation has been kept for consistency purposes.

- The Innovation fund and the Slovak Entrepreneurs fund are considered as VC funds;
- The co-investment fund is considered as PE fund;
- Only the amounts provided by JEREMIE are considered[76] without including the funds invested by private investors. The private funds are available at the same time but experience with similar JEREMIE funds has shown that the JEREMIE funds are invested first;
- The JEREMIE funds are divided by two to obtain the annual supply for 2014.
- Because of their near 2 year investment period, it is assumed that half of the total JEREMIE funding will be invested in 2014.

The estimated ranges of supply of equity financing are provided in the table below.

Table 32: Estimated supply of equity financing to SMEs in 2014 in the Slovak Republic

Supply of equity financing	2014 (EUR Mil.)
Business Angels	**negligible**
Venture Capital	**15.1 – 16.7**
Private Equity	**16.3 – 18.1**
Total supply of equity financing	**31.4 – 34.8**

Source: PwC analysis, 2014.

In comparison to previous products where the supply is estimated up to 2016, the case of equity funding has a difference in the fact that the JEREMIE funds could potentially not exist after 2015. In this case the supply of equity funding in 2016 would extremely decrease.

7.2.2.6 Summary of expected supply of financial products

All the estimates made for the supply of finance in Slovakia for 2014 are summarised in the table below and used in the next sections so as to analyse - and when feasible quantify - the financing gaps of SMEs in the country.

[76] The current supply of JEREMIE equity instruments include both the contribution of the JEREMIE funds and of the private investors. However the private funds are not included in the computation of supply in order to provide a more realistic level of annual supply of equity financing. As mentioned in the present section, experience from other countries has shown that the JEREMIE funds are used up front.

Table 33: Estimate of the annual supply of financial products in 2014 in the Slovak Republic

Financial product	Estimates of annual supply in 2014 (EUR Mil.)			
	Total SME	Micro-enterprises	Small enterprises	Medium-sized enterprises
Microfinance	**3.6 – 4.0**	3.6 – 4.0	Not relevant for small and medium-sized enterprises	
Short-term loans, overdrafts, credit lines	**2,066 - 2,284**	517 - 571	930 - 1,028	620 - 685
Medium- and long-term loans	**132 - 146**	33 - 36	59 - 66	40 - 44
Leasing	**1,187 - 1,312**	297 - 328	534 - 590	356 - 394
Business Angels	**n/a**	Split by category size is not relevant		
Venture Capital	**15.1 – 16.7**	Split by category size is not relevant		
Private Equity	**16.3 -18.1**	Split by category size is not relevant		
Total	**3,420 - 3,781**	**-**	**-**	**-**

Source: PwC analysis, 2014.

The amount of the future supply for SMEs is estimated between 4.7% and 5.2% of the GDP of the Slovak Republic (consistent with 4.8% currently).

7.3 Methodology to quantify the demand for finance

A questionnaire was provided to a sample of regional SMEs according to sector and with a breakdown by size into micro, small and medium-sized companies[77]. The SMEs consulted reported their financing experiences in the past and needs for the future (in euros)[78]. They provided information for various financial products, including: microfinance, short-term loans, medium and long-term loans, leasing and equity.

Given the random arrangement of SMEs composing the sample and the suitable number of responses obtained, the demand figures provide a best possible estimate for the total SME population in Slovakia.

The demand for funding has been considered for micro-enterprises on the one hand and for small and medium-sized companies on the other hand. These two sizes of companies have been taken together in order to consider a larger number of answers to the online survey. Moreover, interviews with representatives of SMEs and commercial banks have highlighted that financing demand from small and medium-sized companies are often similar in Slovakia. Various financial products have been considered for the analysis. For the two categories of SMEs considered and for each type of financing, the answers provided by companies with amounts they expect to require in the future

[77] See Annex 2 for a complete note on the methodology used for the sampling of the online survey.

[78] For this computation, results provided in Question 20 have been used (see Annex 7). Answers considered are from 55 micro-enterprises, 34 small companies and 10 medium-sized companies. In total, 99 SMEs provided an answer to that specific question out of 375 SMEs who answered the online survey in Slovakia. SMEs may have decided not to provide an answer because they have no vision of their future needs and consequently the financing amounts they will need in the future, because they do not make a clear distinction between the different financial products, because they are not intending to seek finance in future or because they do not want to provide this information.

have been computed[79]. The computation has been conducted by using the following approach:

1. The "outliers" from the sample are left aside, i.e. where some firms indicated EUR 0 amounts or extremely high financing figures for a particular type of financing. In order to avoid a situation where a few responses severely skew the global estimate of the demand, these answers are taken out.
2. The average of the remaining amounts is calculated. This step is conducted for each financial product and each category of SMEs considered (micro-enterprises on the one hand and small/medium-sized companies on the other hand).
3. The final calculation of the demand for the entire population of each category of companies is conducted as follows:
    - The total number of companies of the specific size category, that are likel to seek financing in 2014 is computed[80].
    - This computed number is multiplied by the average amount to be sought in 2014.
    - A variation of -5% and +5% around the result computed previously is applied to generate a reasonable approximation of the potential demand.

In order to illustrate the computation method described above, the following box gives an example of estimating demand for short-term loans from micro-enterprises.

Box 1: Example of the calculation of demand estimate for short-term loans for micro-enterprises

The following description illustrates a computation of demand estimate, using data for short-term loans from micro-enterprises in 2014.

Step 1: Outliers.

The amounts above EUR 100,000 have been removed from the computation as these amounts, for short-term loans, are likely to have resulted from an overestimation of the funding needs by the respondents, or from their misunderstanding of a questionnaire question. Observations of the EUR 0 funding amounts have also been removed, as they are an indication that no funding is needed for the future. By doing so, the micro-enterprises which indicated the EUR 0 amounts are considered not different from those which did not answer the question.

Step 2: Calculating the weighted average amount of the sample.

The average amount of the whole sample is EUR 30,625. And corresponds to the demand for short-term loans by a single micro-enterprise that is intending to seek finance.

Step 3: Computing the potential demand from the population of micro-enterprises.

[79] The amounts used for the computation are estimated needs from SMEs for 2014; unless stated otherwise.

[80] The micro-enterprise population has been computed differently, with a correction for those for whom financing is deemed not applicable, as explained in Box 1. This correction has been applied for computing demand for loans and leasing. For microfinance, only 0 employee companies were considers, as shown Section 7.4 b).

The total population of micro-enterprises in Slovakia is 383,521.

First, the 0 employee companies are removed. They correspond to 264,977 enterprises[81].

Second, the micro-enterprises that do not intend to raise finance in 2014 are filtered out. According to the SAFE survey, 74.4% of enterprises intend to use loan financing if they need external financing to realise their growth ambitions[82]. Consequently, the remaining micro-enterprise population considered is 88,196.

Third, the obtained number is multiplied by the proportion of micro-enterprises which used short-term loans in 2013 as a proxy for the type of finance that will be sought in the future. This proportion is 34.6%[83].

Following these adjustments to the calculation, the population of relevant micro-enterprises is 30,516, computed with the following formula:

$$(383{,}521 - 264{,}977)*0.744*0.35= 30{,}530$$[84]

The volume of the potential demand for short-term loans from micro-enterprises is then computed as follows:

$$30{,}625*30{,}530= 934{,}970{,}206$$[85]

A variation of -5% and +5% around this volume is then calculated to take into consideration the potential fluctuation. The lower end of the estimated range is calculated as follows:

934,970,206*(1 - 0.05) = 888,221,696

The higher end of the range is calculated as follows:

934,970,206*(1 + 0.05) = 981,718,716

As a conclusion, the demand for short-term loans from micro-enterprises represents EUR 888m at the lower end of the estimated range, and EUR 981m at the higher end.

The same methodology is applied to long-term loans (with 22.1% instead of 34.6%) and to leasing products (with 38.5%).

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81 This is based on the assumption that 0 employee companies have different needs than companies with employees. These 0 employee companies are considered for microfinance only and not for short-term loans. This assumption is based on the fact that commercial banks preferably finance more structured companies, which tend to have employees.

82 This result derives from SMEs' answers to Question 20 of the SAFE survey: "If you need external financing to realise your growth ambitions, what type of external financing would you prefer most?".

83 This result derives from micro-enterprises' answers to Question 7 of the survey conducted for this study.

84 The result of this computation is 30,868 but contains rounding errors and the actual result is 30,530.

85 The result of this computation is 934,981,250 but contains rounding errors and the actual result is 934,970,206.

The results obtained for each financial product thus correspond to **potential** total demand for this specific product, within a reasonable margin of tolerance. Consequently, the potential demand is an estimate of the amounts that companies **might** want to obtain, but which they would get **only** if they (1) convert their intention to seek finance to action (many may be discouraged) and (2) met the conditions set by finance suppliers[86].

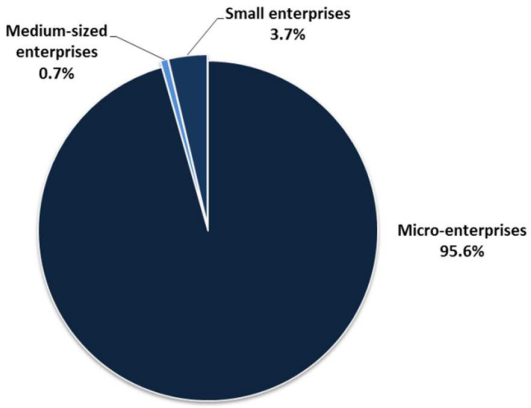
To ensure that the sample of SMEs was as representative as possible, the online survey conducted for the study canvassed SMEs from different sectors. It is important to remember that their answers are largely based on their perception of their own business needs and expectations for the economy (GDP growth) and the overall business climate. These perceptions and expectations are formed in the current climate where the market operates within a relatively low-growth environment. Both these factors exert pressure on the SMEs and will be further discussed in the section on the analysis of the estimates of demand, based on the "*viable*" companies' unmet need methodology described in Section 8.1.

7.4 Demand for financing from micro-enterprises

7.4.1 Financing micro-enterprises in Slovak Republic

Micro-enterprises (companies having between 0 and 9 employees) represent more than 95% of the total SME population in the Slovak Republic (Figure 8). Assessing and improving micro-enterprises' access to finance would consequently affect the largest part of the SME population including its economic performance and social impact, particularly in the sense of employment creation.

Figure 8: SME population in the Slovak Republic according to the size of companies



Source: Statistical Office of the Slovak Republic, PwC analysis, 2014.

As shown in Table 34, the number of micro-enterprises increased significantly from 253,308 in 2009 to 383,521 in 2013. This represents an increase of 51.4% which is a strong indication that the Slovak

[86] For instance, 3.8% of the SMEs which applied to bank overdraft and credit lines were rejected (compared to 10.4% at the EU-28 level), 14.8% of those which applied to bank loan were rejected (compared to 12.6% at the EU-28 level) and 6.4% of those which applied to other external financing (including loans from other lenders, equity, leasing, and factoring) were rejected (compared to 5.5% at the EU-28 level) (European Commission, SME's Access to Finance survey, 2013).

economy is undergoing a transition with a turning point in 2012. This transition appears mostly caused by the inability of the industrial sector, once the main driver for job creation, to absorb the ever increasing unemployment. As result, entrepreneurship becomes a last resort for people struggling to re-enter the job market. This transition also implies that the newly created companies mostly concern 0 employee companies. Moreover, the creation of micro-enterprises is motivated by new regulations and support programmes introduced in recent years that reduce administrative burdens and provide motives for business creation. Specific support programmes implemented by the Central Labour Office supported mostly concerning the provision of grants supported 40,891 former unemployed people in establishing a new business between 2010 and 2013[87]. While this initiative helped to partly absorb the economic shock on the labour market, it has to be taken into account that often SMEs prefer to hire self-employed persons as full time employees in order to reduce payments for health and social insurance. As a result of this tendency, the figures regarding entrepreneurship are overstating reality, since many self-employed people actually work as employees and do not share the needs and concerns of business owners, particularly when it comes to finance.

Table 34: Number of micro-enterprises in the Slovak Republic

Number of companies	2009		2010			2011			2012			2013		
	Number of companies	*% of total SME population*	Number of companies	*% of total SME population*	*Change over 2009-2010*	Number of companies	*% of total SME population*	*Change over 2010-2011*	Number of companies	*% of total SME population*	*Change over 2011-2012*	Number of companies	*% of total SME population*	*Change over 2012-2013*
Total SME population	285,557		294,558		*3.2%*	291,497		*-1%*	379,697		*30.3%*	401,163		*5.7%*
Total micro-enterprises	253,308	*88.7%*	279,868	*95.0%*	*10.5%*	270,656	*92.9%*	*-3.3%*	363,923	*95.8%*	*34.5%*	383,521	*95.6%*	*5.4%*

Source: Statistical Office of the Slovak Republic, 2014.

When considering the regional distribution of micro-enterprises, Table 35 shows that the highest number of micro-enterprises is located in Western Slovakia. From 2009 to 2013, the number of micro-enterprises has increased in all regions.

[87] The programme is financed by the European Social Fund (Operational Programme: Employment and social inclusion) and the national state (National project VAOTP (Selected active measures of labour market)).

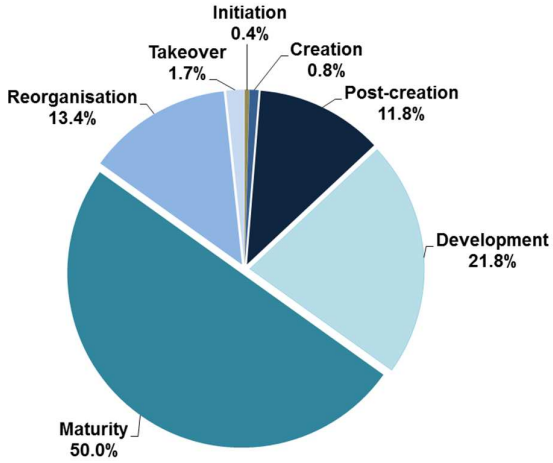
Table 35: Number of micro-enterprises in the Slovak Republic by region

	2009	2010		2011		2012		2013	
	Number of micro-enterprises	Number of micro-enterprises	*Evolution 2009-2010*	Number of micro-enterprises	*Evolution 2010-2011*	Number of micro-enterprises	*Evolution 2011-2012*	Number of micro-enterprises	*Evolution 2012-2013*
Bratislava Region	48,213	56,137	16.4%	56,682	*0.97%*	73,738	*30.1%*	79,522	*7.8%*
Western Slovakia	77,196	83,660	8.4%	80,002	*-4.37%*	114,425	*43.0%*	119,813	*4.7%*
Central Slovakia	68,053	72,879	7.1%	69,505	*-4.63%*	88,922	*27.9%*	92,924	*4.5%*
Eastern Slovakia	60,346	67,192	11.3%	64,467	*-4.06%*	86,838	*34.7%*	91,262	*5.1%*
Total number	**253,808**	**279,868**	**10.3%**	**270,656**	***-3.29%***	**363,923**	***34.5%***	**383,521**	***5.4%***

Source: Statistical Office of the Slovak Republic, 2014.

The results of the online survey indicate that about one third of micro-enterprises consider that their company is in a post-creation or developing phase, as illustrated in Figure 9. Hence, these companies still have the potential to grow and create further job opportunities. Half of all micro-enterprises believe to have developed their business to a mature stage but further growth should not be ruled out.

Figure 9: Development stage of micro-enterprises in the Slovak Republic[88]



Source: PwC, SME online survey in the Slovak Republic, 2014.

Financial sources to fund start-ups are considerably different than funding sources used by established enterprises For start-ups, according to the SME survey carried out by SBA in 2013, 82% of enterprise owners used their own savings as financial resources to start their business[89]. Other

[88] The number of micro-enterprises having provided an answer: 231.

[89] In 2013 SBA (former NADSME) carried out a survey among 1,000 small and medium-sized enterprises to assess the current state of the SME sector in the Slovak Republic.

informal sources like savings and credits from friends and family members were used by 17.6% of respondents. Finally, formal funding in the form of bank loans and the allowance for self-employment from the Office of Labour were each used by 15% of entrepreneurs to start their business.

However, Figure 10 illustrates that most of the micro-enterprises surveyed used leasing and short-term loans, bank overdrafts and credit lines (maturity < 1 year) to fund their businesses over the last 3 years (2011-2013). Around 39% of all micro-enterprises used leasing as a funding source, followed by short-term loans (incl. bank overdrafts and credit lines) with 35%. Retained earnings (27%) and medium and external capital contributions (25%) were the third and fourth most used financing source. Microfinance and public grants are only used respectively by 6% and 5% of all micro-sized respondents. No respondent used factoring, mezzanine or any other private equity form of financing.

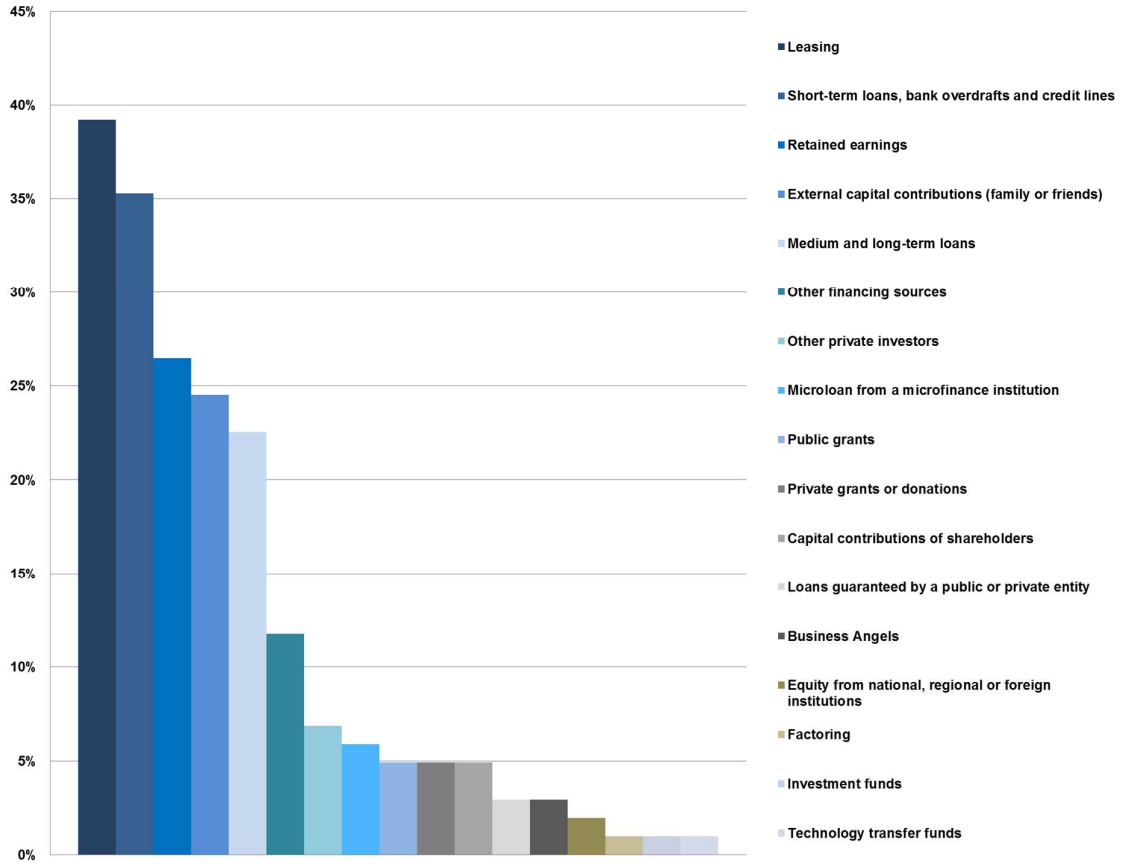
Through the survey, companies were asked to state which financial products were relevant to them and to what degree these were accessible. More than 85% of micro-enterprises stated to have sufficient access to leasing products, followed by short terms loans (incl. bank overdrafts and credit lines) with 64% and retained earnings (64%)[90].

Micro-enterprises perceived loans guaranteed by public or private entities (60%) and loans provided with interest rates subsidies as the most inaccessible products but relevant to their business[91]. The accessibility of medium and long-term loans also remains difficult for 92% of respondents but with these products remaining relevant, while 43% feel not to have sufficient access to these products. The most relevant sources for micro-enterprises are leasing (95%) and short-term loans (90%), to which only 10% and 25% respectively, feel not to have sufficient access.

[90] The number of micro-enterprises that provided an answer: 83.

[91] This analysis was performed based on two questions asking Slovak SMEs whether they felt having sufficient access to financial products and if these products are relevant to them.

Figure 10: Sources of funding used by micro-enterprises in the Slovak Republic over 2011-2013[92]

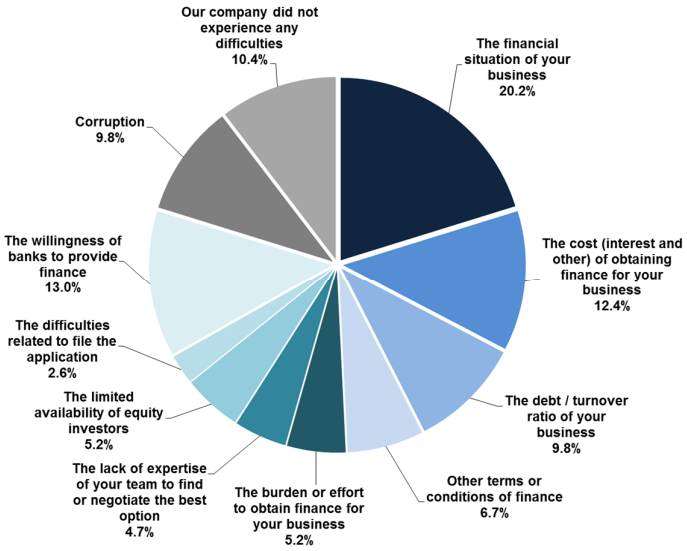


Source: PwC, SME online survey in the Slovak Republic, 2014.

When asked about accessing finance, 90% of micro-enterprises stated that they faced difficulties. The main difficulties identified as barriers can be linked to the current reality of the market environment in Slovakia. More specifically, a vast majority of answers is related to the lack of confidence from micro-enterprises in dealing with the financing institutions. As described in the market environment chapter, in recent years, micro-enterprises have been increasing in number and are mostly 0 employee companies, created by people facing or experiencing unemployment. These companies are created on fragile foundations by people with a lack of managerial skills and experience. In the survey, more than 20% of respondents identified the financial situation of their company as the main barrier while 23% of respondents implied their overall lack of experience in seeking finance by choosing answers such as corruption, complicated application procedures, lack of expertise or bureaucracy as their main barriers. The unwillingness of banks to provide financing is chosen by only 13% of respondents proving that most of micro-companies are still reluctant to actually apply for a loan. Only 10% of micro-enterprises stated not having had any issues over the past 3 years.

[92] The number of micro-enterprises that provided an answer: 104. Other sources of funding which were not listed as used are: loan provided with interest rate subsidy, venture capital funds, rescue/turnaround and buyout capital, Mezzanine or hybrid financing, corporate bonds, capital contribution of stakeholders, other financing sources.

Figure 11: Reasons explaining the difficulties of micro-enterprises in accessing finance over 2011-2013[93]



Source: PwC, SME online survey in the Slovak Republic, 2014.

When considering more specifically debt financing, almost 80% of companies stated to have faced obstacles in their access (Figure 12). The lack of own capital was identified as the most recurring obstacle for micro-enterprises (16.9% of all answers provided). Other major difficulties identified are the poor credit rating of companies with 11.5%, but also high interest rates (10.8%).

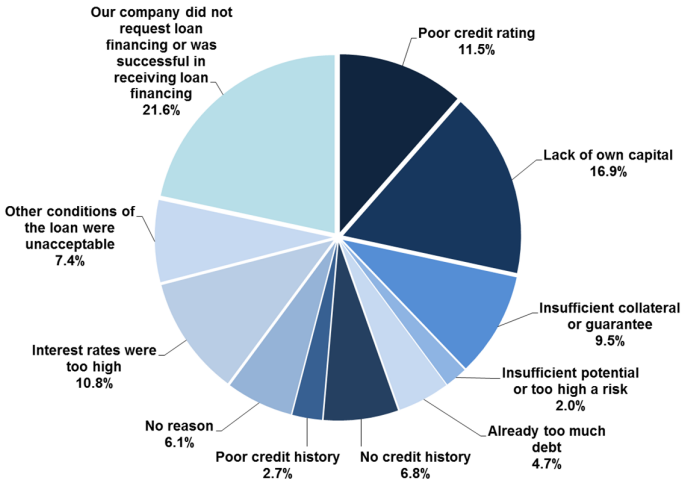
The difficulties of obtaining debt finance can be further illustrated as 55% of surveyed micro-enterprises stated to have relied on family and friends for loan collateral[94]. This was the highest answer followed by company's assets (45.5%) and owner's assets (43.6%). The fact that such a high number of enterprises had to rely on family and friends' or owner's assets to guarantee their loan is an indicator for the weak asset base of these companies. Moreover, the literature review highlights the lack of economic soundness of micro-enterprises with a very weak average return on revenues of 1.95% between 2008 and 2011 (5.1% for small and 6.7% for medium-sized) and a minimal average return on assets of 0.055% during the same period (1.7% for small and 2.56% for medium-sized enterprises)[95].

93 The number of micro-enterprises that provided an answer: 108.

94 The number of micro-enterprises that provided an answer: 55.

95 Data according to the SBA Report on the state of Small and Medium Enterprises in the Slovak Republic in 2012 and 2013. It must be also considered that particularly micro-enterprises have possibilities to understate their financial income in order to reduce taxes and other official payments.

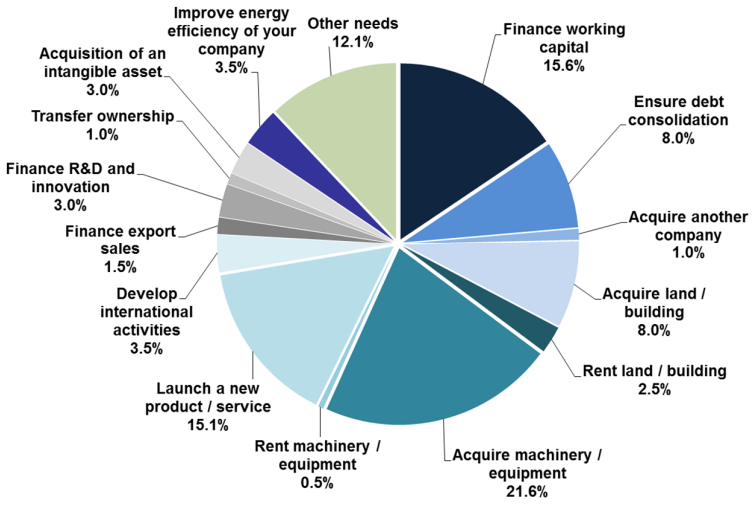
Figure 12: Obstacles to loan financing reported by micro-enterprises[96]



Source: PwC, SME online survey in the Slovak Republic, 2014.

The survey also highlighted that the financing obtained by micro-enterprises was primarily used for the funding of new production equipment and machinery (21.6%), but also for the launching of new products and services (15.1%). This is an indication that micro-enterprises are willing to invest in their business and it also validates the popularity of leasing financing which is a very useful financing product for investments in new machinery and equipment. Furthermore, 15.6% of answers indicated that related companies were in need for finance to sustain their day-to-day operations (i.e. the lack of working capital).

Figure 13: Use of funding by micro-enterprises over 2011-2013[97]



Source: PwC, SME online survey in the Slovak Republic, 2014.

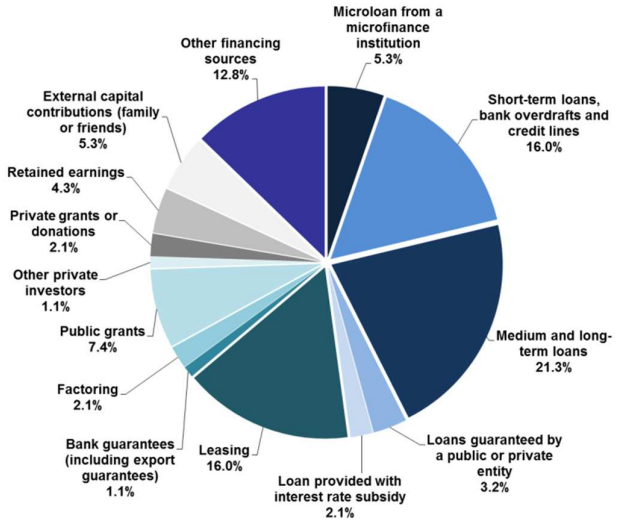
[96] The number of micro-enterprises that provided an answer: 97.

[97] The number of micro-enterprises that provided an answer: 105.

The online survey also investigated future needs of micro-enterprises which shared their intentions for future funding sources for the year 2014. Results on the products that micro-companies intend to seek are presented in Figure 14. Similar to the past, traditional commercial products such as leasing and loans, represent the main source of finance to be used in the future. Particularly, medium and long-term loans are to be sought by micro-enterprises (21.3%). Interviews with representatives of professional associations and SMEs have revealed that microfinance institutions are not yet well known by micro-enterprises allowing room for improvement in increasing awareness of the benefits of microfinance. This potential for the use of microfinance seems to be already taken under consideration by the public authorities, since the microfinance market in the country is currently being restructured through the setting up of new facilities for the implementation of microfinance schemes (SBA's new microfinance fund).

Furthermore, equity funding from business angels, venture capital funds, investment funds or rescue / turnaround and buyout, and even mezzanine and hybrid finance is not mentioned as a future financing source by the micro-enterprises who responded to the questionnaire.

Figure 14: Financial products sought by micro-enterprises98

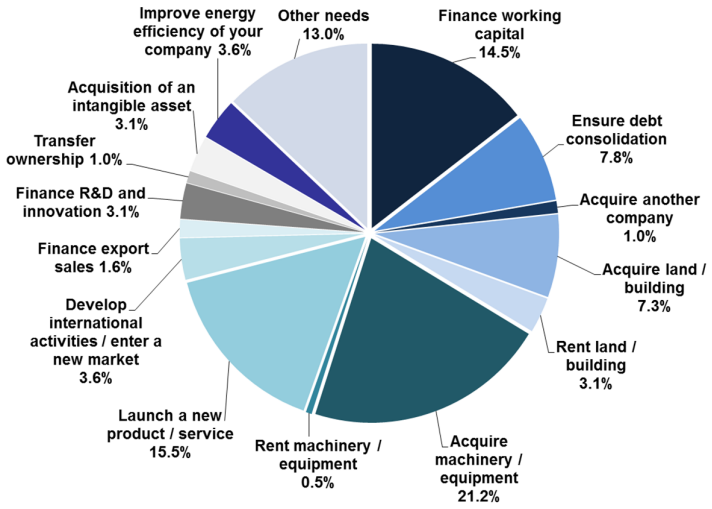


Source: PwC, SME online survey in the Slovak Republic, 2014.

The top 3 uses of funding are likely to remain the same as in the past, as underlined by Figure 15. Funding will be required for investing in new production equipment and machinery (21.2%) and, launching new products/services (15.5% of the micro-enterprises). Furthermore, 14.5% of micro-enterprises expect to seek financing in order to support their day-to-day operations (finance working capital).

98 The number of micro-enterprises that provided an answer: 92. Note: other financing sources are: factoring, investment funds, Venture Capital funds, Business Angels, rescue/turnaround and buyout capital, mezzanine or hybrid financing, corporate bonds and equity from national; regional or foreign institutions.

Figure 15: Expected use of funding of micro-enterprises in 201499



Source: PwC, SME online survey in the Slovak Republic, 2014.

7.4.2 Quantification of potential demand for financial products from micro-enterprises in Slovak Republic in 2014

Demand from existing micro-enterprises has been considered for two categories of companies:

- Micro-enterprises with no employees;
- Micro-enterprises with between 1 and 9 employees.

Demand from the first category of micro-enterprises will only be considered for microfinance while demand from the second category will be considered for three financial products: short-term loans, medium and long-term loans and leasing. The survey did not provide information on other products at this level of detail. Equity products are considered as a whole for the three main categories of SMEs in Section 7.8.

In the case of micro-enterprises with no employees, demand has been considered for both existing and non-existing companies in order to provide insights on financing demand for social inclusion.

Demand from micro-enterprises with employees is considered first.

7.4.2.1 Quantification of demand for loans and leasing

The methodology behind quantifying micro-enterprise demand for financing is provided in Section 6.3. The information provided by SMEs in the online survey was used in estimating demand for the following financial products:

- Short-term loans, bank overdrafts and credit lines;
- Medium and long-term loans; and
- Leasing.

99 The number of micro-enterprises that provided an answer: 77.

The average amount in short-term loans sought by micro-enterprises is EUR 30,625. Despite that the average amount of short-term loans provided in the market is not available, the average amount emerging from the survey seems consistent with the market reality in Slovakia and the international experience based on the fact that these types of loans are mostly used for working capital purposes and by definition have a short maturity.

To calculate micro-enterprises' total demand for the selected financial product, the total population of micro-enterprises has been identified on the basis of the following considerations:

- First, the number of 0 employee companies is removed (264,977). The reason is that many self-employed people are actually employed by companies and thus do not share the same needs and concerns as real companies;
- Second, the obtained number is multiplied[100] by
  - The rate of enterprises that prefer bank loans as a type of external financing as a proxy for companies seeking finance in future: 74.4% for short-term loans and for medium and long-term loans as indicated in the ECB's SAFE survey of 2013.
  - The rate of micro-enterprises that used the financial product in 2013 as a proxy for their respective likely uptake among those seeking finance in the future: 34.6% for short-term loans, 22.1% for medium and long-term loans and 38.5% for leasing products.

In order to estimate the total demand from micro-enterprises, the average amount is multiplied by the total population (30,530 micro-enterprises for short-term loans, 19,505 micro-enterprises for medium and long-term loans, and 33,922 micro-enterprises for leasing). A variation of -5% and +5% around this volume is then calculated so as to take into consideration the potential fluctuation of demand.

This method is applied for 2014 for the three financial products. The results by product are presented in Table 36 below.

[100] The use of proxies in these calculations is intended to provide a more realistic size sample of population. These proxies originate from different sources in order to reinforce the triangulation process, and reveal a behavioural pattern of companies related to their choices of financing either in the past or the future. It has to be noted that different approaches could have been used to obtain a similar result, however the information provided by the SAFE survey and the survey conducted for the present report, provide strong indications on the financing choices of SMEs, thus allowing to reduce the population size based on these choices. As a result of the use of proxies, the population is reduced to a number of companies that is more likely to seek a specific financial product, thus allowing a more realistic computation of demand for this product.

Table 36: Annual demand for financial products among micro-enterprises in the Slovak Republic in 2014

	Average finance sought by a single micro-enterprise (EUR Mil.)	Finance sought by the total micro-enterprise population (EUR Mil.)
Short-term loans, bank overdrafts and credit lines	0.031	888 - 982
Medium and long-term loans	0.067	1,233 - 1,362
Leasing	0.023	747 - 826

Source: PwC analysis, 2014.

As described in Chapter 3, the number of micro-enterprises in Slovakia is increasing in both absolute terms as well as in percentage of the total population. As a result, more micro-sized companies are seeking finance in the country. Moreover, and as illustrated in other surveys, SMEs in Slovakia use more bank overdraft and credit lines than average in the EU-28 (European Commission, SME's Access to Finance survey, 2013)[101]. They however use less bank loans than the average in EU-28 (26.8% of SMEs as compared to 31.6%)[102]. This is aligned with the results of the online survey conducted for the present report where micro-enterprises seem to not clearly distinguish the purpose of loans depending on different maturity periods when looking for financing.

Micro-enterprises consider using long-term loans and leasing in order to update their equipment and machinery. However, micro-enterprises are also willing to secure their financing over the next few years, especially for working capital purposes. In fact, micro-enterprises seem to not clearly distinguish the purpose of loans depending on different maturity periods when looking for financing. For example, as illustrated in other surveys, SMEs in Slovakia use more bank overdraft and credit lines than average in the EU-28 (European Commission, SME's Access to Finance survey, 2013)[103]. They however use fewer bank loans than the average in EU-28 (26.8% of SMEs as compared to 31.6%)[104]

The sense that Slovak micro-enterprises may not make a clear distinction between the uses of loans with various maturities is also consistent with observations on microfinance that are highlighted later on in the present section, and that illustrate the extent to which microfinance products are not clearly defined, neither by micro-enterprises, nor by financial services providers in the country.

As mentioned in the previous section, leasing products have been heavily used by micro-enterprises in the past and remain a potential source of financing for the future. However, the calculation shows a small average amount and a small total amount in comparison with short-term and long-term loans. These amounts refer to leasing for peripheral equipment (e.g. cars, furniture) rather than machinery or other important equipment. These amounts are also consistent with the relatively

[101] 43.5% of the SMEs in Slovakia used bank overdraft and credit line over the last 6 months prior to the survey conducted for the European Commission and the European Central Bank, when they were 38.8% for the EU-28 (European Commission, SME's Access to Finance survey, 2013). The survey was conducted over the second half of 2013.

[102] 26.8% of the SMEs in Slovakia used bank loan over the last 6 months prior to the survey conducted for the European Commission and the European Central Bank, when they were 31.6% for the EU-28 (European Commission, SME's Access to Finance survey, 2013).

[103] 43.5% of the SMEs in Slovakia used bank overdraft and credit line over the last 6 months prior to the survey conducted for the European Commission and the European Central Bank, when they were 38.8% for the EU-28 (European Commission, SME's Access to Finance survey, 2013). The survey was conducted over the second half of 2013.

[104] 26.8% of the SMEs in Slovakia used bank loan over the last 6 months prior to the survey conducted for the European Commission and the European Central Bank, when they were 31.6% for the EU-28 (European Commission, SME's Access to Finance survey, 2013).

high supply figures for leasing products presented in the previous section suggesting that micro-enterprises may need low amounts in the future and that the leasing market provides enough financing for micro-enterprises.

7.4.2.2 Quantification of demand for microfinance

Demand for microfinance has only been considered for 0 employee companies in Slovakia. This is done since microfinance is mostly used for social inclusion and social entrepreneurship purposes. As already established in this report, most newly created companies are micro-enterprises and in fact 0 employee companies. Two calculations have been made:

- Demand for microfinance from existing micro-enterprises; and
- Demand for microfinance from potential micro-enterprises (social inclusion).

Demand for microfinance from existing micro-enterprises

The average amount of microfinance intended to be sought in 2014 by micro-enterprises is EUR 18,000 based on the survey. The average amount provided by Slovak micro-enterprises in the online survey illustrates that:

- Micro-enterprises do not clearly identify the microfinance market and the objectives and purposes of microfinance products[105];
- Micro-enterprises do not clearly identify the Microfinance Institutions in the country, despite clear financing needs, indicated in the average amount provided in the online survey and as discussed with stakeholders during the interviews; and that
- Whatever the source of financing (commercial banks for short-term loans and MFIs for microfinance), micro-enterprises seek short-term financing to address similar needs, i.e. mainly working capital.

This average amount expressed by micro-enterprises results from the information provided by micro-enterprises in the online survey and has to be taken with precaution: only three micro-enterprises provided an appropriate answer (between EUR 1 and EUR 25,000). On the one hand, it seems high in regard with the use of microfinance products in other UE Member States where microfinance markets are more structured and developed. More specifically according to a survey conducted by the European Microfinance Network[106] (EMN), the average business loan amount provided by MFIs in the EU is EUR 9,960. However, according to the same survey, there seem to be wide differences from country to country regarding the average loan amounts, ranging from very low amounts of below EUR 1,000 to high amounts reaching EUR 20,000. In the CEE region similar differences can be observed. Poland reports an average business loan amount close to EUR 20,000, while Hungary reports an average amount of EUR 16,000. On the other hand, the average amount for Romania is EUR 5,700.

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[105] Even though the maximum amount of EUR 25,000 was indicated to define microfinance in the questionnaire provided to SMEs in the online survey, several micro-enterprises provided amounts above this limit. This illustrates that microfinance products are not defined enough in the country to be clearly identified by the micro-enterprises that might need it.

[106] EMN 2014, Overview of the microcredit sector in the European Union for the period 2012-2013. "Forthcoming"

However, on the other hand, as mentioned previously, loans provided by MFIs in Slovakia can go up to EUR 50,000. Also, the main provider of microfinance in the Slovakia, namely SBA, has reported average amount of micro-loans between 2010 and 2013 approaching EUR 35,000. By looking only at microfinance as per the EU definition, i.e. loan amounts below EUR 25,000, the average of 18,000 is maintained. This is further supported by a 2007 SME Access to Finance study showing an average of 15,000.

The population considered for computation is 52,465 micro-enterprises with 0 employees. This population has been calculated as follows:

- Only 0 employee companies as of 2013 are considered for microfinance (264,977).
- 19.8% of these micro-enterprises are considered. This is the proportion of Slovak SMEs that aim to obtain a financing with an amount smaller than EUR 25,000 in the future (European Commission, SME's Access to Finance survey, 2013).

The number of existing SMEs with 0 employees that may need microfinance in Slovakia is 52,465. The computation of demand for microfinance has been made for 2014. The results are presented in Table 37 below.

Table 37: Annual demand for microfinance in Slovak Republic in 2014

	Average finance to be sought by a single micro-enterprise (EUR Mil.)	Finance to be sought by the total micro-enterprise population (EUR Mil.)
Microfinance	0.015	748 - 826

Source: PwC analysis, 2014.

Demand for microfinance from potential micro-enterprises (social inclusion)

Microfinance can be used for social inclusion to help people at risk of poverty to create their own company.

Since there is no available data on demand for microfinance in Slovakia and that there is a lack of detailed information on the supply of microfinance in the country, the average amount to be sought by a micro-enterprise for social inclusion in 2014 may be considered at EUR 10,000[107]. The average amount of microfinance is reduced in order to reflect a more realistic approach for microfinance and especially for social inclusion.

As there is no generally accepted methodology, an approach has been developed to estimate the population that may use microfinance for social inclusion in Slovakia. This approach provides the amount of microfinance needed by micro-enterprises that could be created by people between 15 and 64 years old at risk of poverty. As raised during interviews with stakeholders involved in microfinance in the EU, this population at risk of poverty considers people with very different profiles, such as: (1) young people with no qualification, who have never worked and have difficulties finding a job, (2) people with disabilities, (3) people from unprivileged populations, (4)

[107] This amount of EUR 10,000 was used in the computation of demand for microfinance for social inclusion in the SME Access to Finance in Slovakia study conducted in August 2007.

people living in difficult areas with high rates of unemployment and suffering from the crisis or (5) experienced people who are unemployed for a long period and have difficulty in adapting and finding a new job. This accounts particularly for the Roma community in the country, among which the government wants to increase employment opportunities.

Population at risk may create their own business if supported. They however reflect various profiles, which is an important factor to consider since business creation is a personal challenge for entrepreneurs initiating their companies in difficult environments. There are consequently imponderable elements in the inception of companies that are not fully considered in this first approach. It nevertheless provides the widest population that could be of interest for microfinance focusing on social inclusion.

This approach considers the people aged 15-64 years old at risk of poverty that may create their own business. With this approach, the following steps are conducted:

- Consider within the population of 15-64 years old in Slovakia in 2012 (2,695,000 people), the people at risk of poverty (13.2% according to 2012 figures). This population represents 355,714 people.
- Among these people, consider the percentage of people preferring to be self-employed over being an employee. This percentage among the overall Slovak population is 33%. The same proportion may be applied to the population considered previously[108]. The population obtained represents 117,385 people.
- Among this population, consider the people who think that starting a business is a desirable career choice. This represents 50% of the respondent to an SBA survey conducted in 2012[109]. The population obtained represents 58,693 people.
- Multiply this population of companies by the estimated average amount of microfinance to be sought by a micro-enterprise for social inclusion in Slovakia in 2014: EUR 10,000[110].

The results are presented in Table 38 below.

Table 38: Annual demand for microfinance for social inclusion in the Slovak Republic in 2014

	Average finance to be sought by a single micro-enterprise (EUR Mil.)	Finance to be sought by the total micro-enterprise population (EUR Mil.)
Microfinance	0.010	587

Source: PwC analysis, 2014.

As a result of these computations, a need for microfinance of EUR 587m may be expressed by new business creators who currently face social exclusion and may be willing to initiative a business if better supported in their access to finance.

7.5 Demand for financing from small enterprises in the Slovak Republic

[108] SBA (2013). Report on the state of Small and Medium Enterprises in the Slovak Republic in 2012.

[109] Global Entrepreneurship Monitor (2013). Slovakia Report. Used in SBA (2013). Report on the state of Small and Medium Enterprises in the Slovak Republic in 2012.

[110] It is assumed that all newly created companies need funding.

Small enterprises (companies with 10 to 49 employees) represented 3.7% of the total SME population in the Slovak Republic in 2013. This proportion has not been stable over the last few years as the number of small enterprises dropped from nearly 29,000 in 2009 to 14,898 in 2013. This is an indications (also taking into consideration that micro-enterprises are increasing in numbers) that companies in Slovakia are gradually becoming smaller in size on average[111].

Table 39: Number of small enterprises in the Slovak Republic

Number of companies	2009		2010			2011			2012			2013		
	Number of companies	*% of total SME population*	Number of companies	*% of total SME population*	*Change over 2009-2010*	Number of companies	*% of total SME population*	*Change over 2010-2011*	Number of companies	*% of total SME population*	*Change over 2011-2012*	Number of companies	*% of total SME population*	*Change over 2012-2013*
Total SME population	285,557		294,558		*3.2%*	291,497		*-1.0%*	379,697		*30.3%*	401,163		*5.7%*
Total small enterprises	28,735	*10.1%*	11,884	*4.0%*	*-58.6%*	17,968	*6.2%*	*51.2%*	13,121	*3,5%*	*27.0%*	14,898	*3.7%*	*13.5%*

Source: Statistical Office of Slovak the Republic, 2014.

Table 40 below shows that Western Slovakia is the region with the highest amount of active small enterprises in the country. Despite the lower total amount in Central and Eastern Slovakia, it is important to mention that fluctuations between the regions on the basis of year-on-year changes are very low. Even though a strong volatility in absolute numbers can be observed since 2009, the changes in the number of small enterprises follow the same trend in all regions: a similar decrease in 2009 and 2011 and a similar increase in 2010 and 2013.

Table 40: Number of small enterprises in the Slovak Republic by region

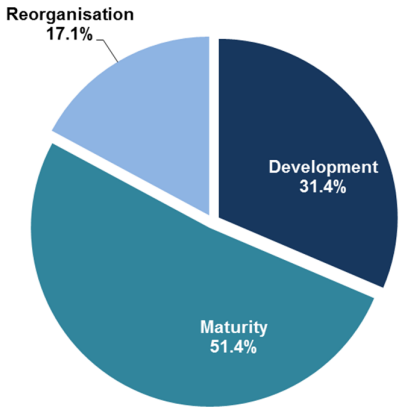
Number of small enterprises	**2009**	**2010**		**2011**		**2012**		**2013**	
	Number of small enterprises	Number of small enterprises	*Evolution 2009-2010*	Number of small enterprises	*Evolution 2010-2011*	Number of small enterprises	*Evolution 2011-2012*	Number of small enterprises	*Evolution 2012-2013*
Bratislava Region	7,193	3,040	*-57.7%*	4,556	*49.9%*	3,356	*-26.3%*	3,635	*8.3%*
Western Slovakia	9,260	3,861	*-58.3%*	5,839	*51.2%*	4,316	*-26.1%*	4,923	*14.1%*
Central Slovakia	5,750	2,373	*-58.7%*	3,585	*51.1%*	2,604	*-27.4%*	3,131	*20.2%*
Eastern Slovakia	6,532	2,610	*-60.0%*	3,988	*52.8%*	2,845	*-28.7%*	3,209	*12.8%*
Total number	**28,735**	**11,884**	***-58.6%***	**17,968**	***51.2%***	**13,121**	***-27.0%***	**14,898**	***13.5%***

Source: PwC, SME online survey in the Slovak Republic 2014.

[111] A significant decrease in the share of small enterprises by nearly half between 2009 and 2010 occurred as the Statistical Office of the Slovak Republic introduced methodological changes with impact on the classification of companies.

The figure below shows that more than half of all respondents (51.4%), believe that their business is in a mature stage of its life cycle, indicating that they do not expect strong growth or increase in their employees. The survey also revealed that around 31% of respondents see their business in the development stage and another 17% in the reorganisation stage.

Figure 16: Development stages of small enterprises in the Slovak Republic[112]



Source: PwC, SME online survey in the Slovak Republic 2014.

When analysing the most used sources of finance, Figure 17 highlights that small companies mainly relied on traditional forms of commercial finance and on own funds over the period from 2011 till 2013. Small enterprises naturally rely much more on formal sources due to their higher needs in financing than micro-enterprises. According to the survey, 52% of small enterprises used leasing between 2011 and 2013. 43% used short-term loans, bank overdrafts or credit lines and the same number of respondents also used retained earnings. Medium or long-term loans were used by 33% and 29% were using bank guarantees.

Small enterprises have a more solid financial base (5.1% average return on revenues and 1.7% average return on assets between 2008 and 2011[113]) in comparison to micro-enterprises and consequently somewhat easier access to formal funding sources, potentially leading to a stronger diversification of their financial sources. Nevertheless, no respondent used mezzanine or other private equity forms of financing.

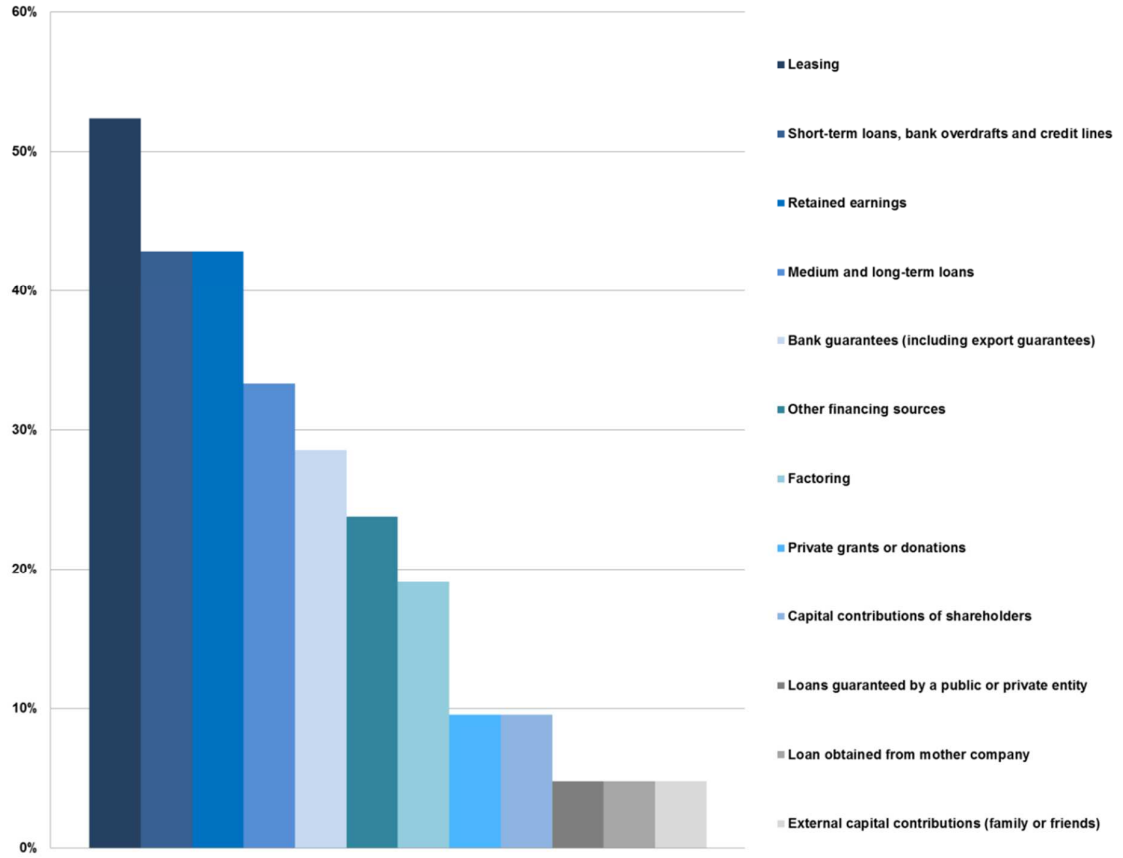
The survey further queried the perception of sufficient access to finance for different products. Approximately 85% of small enterprises stated to have sufficient access to leasing products, followed by short terms loans (incl. bank overdrafts and credit lines) (75%) and bank guarantees including export guarantees (75%)[114]. Loans guaranteed by public or private entities were seen as the most inaccessible, but nevertheless a very relevant (85%) product. Only 20% of small enterprises feel they do not have access to medium and long-term loans.

[112] The number of small enterprises that provided an answer: 35.

[113] SBA (2014), report on the state of small and medium enterprises in the Slovak Republic in 2012, 2013.

[114] The number of small enterprises that provided an answer: 17.

Figure 17: Sources of funding used by small enterprises over 2011-2013[115]



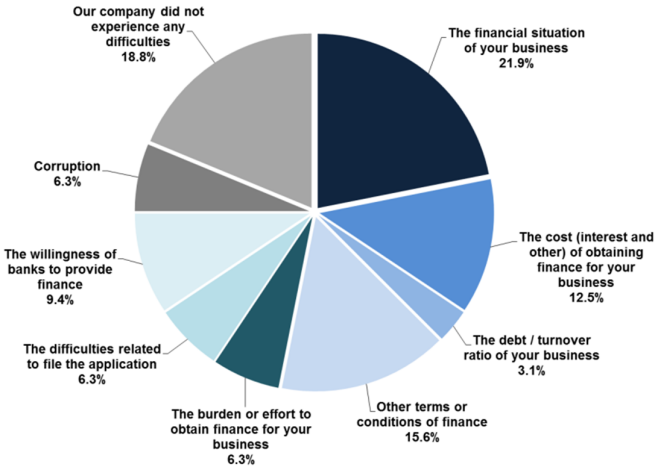
Source: PwC, SME online survey in the Slovak Republic, 2014.

Most of the enterprises (21.9%) stated that their financial business situation during the indicated time period from 2011 to 2013 was the main difficulty, followed by unfavourable terms or conditions of proposed financing products[116] (15.6%), and the costs of obtaining finance (12.5%). Only 9.4% blame the reluctance of banks for not having obtained finance. Nevertheless, a high number of companies (18.8%) stated not having had experienced any difficulties. Even though access to finance is less difficult for small enterprises, the reasons stated are very similar to those of micro-enterprises.

[115] The number of small enterprises that provided an answer: 13. Note: other sources of funding are: Venture Capital funds, rescue/turnaround and buyout capital, mezzanine or hybrid financing, corporate bonds, private grants or donations, technology transfer funds and other private investors.

[116] Other terms and conditions includes for instance: loan maturity, collateral levels, covenants, guarantee, conditions, duration.

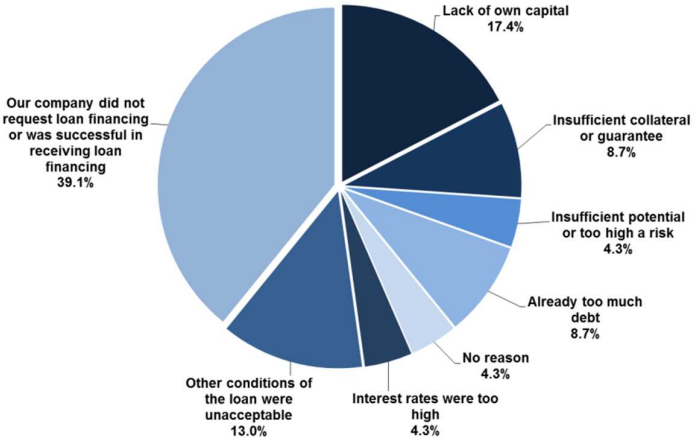
Figure 18: Reasons explaining the difficulties of small enterprises in accessing finance over 2011-2013[117]



Source: PwC, SME online survey in the Slovak Republic, 2014.

When focusing on debt financing, multiple differences exist between micro- and small enterprises having had difficulties in receiving loans. First of all, more small companies did not encounter problems or did not ask for loans (39.1% vs. 21.6%). For the companies who faced problems, the most serious was the lack of own resources (17.4%), followed by other conditions of the loan which were not acceptable (13%). Secondly, due to the higher loan amounts, small enterprises stated insufficient collateral (or guarantees) and high existing debts (both 8.7%) as barriers to loan financing access. When asked about collateral provided for loan financing, 8 out of 12 companies stated using their owner's assets. In the survey, no small company relied on private or public guarantee schemes.

Figure 19: Obstacles to loan financing reported by small enterprises[118]



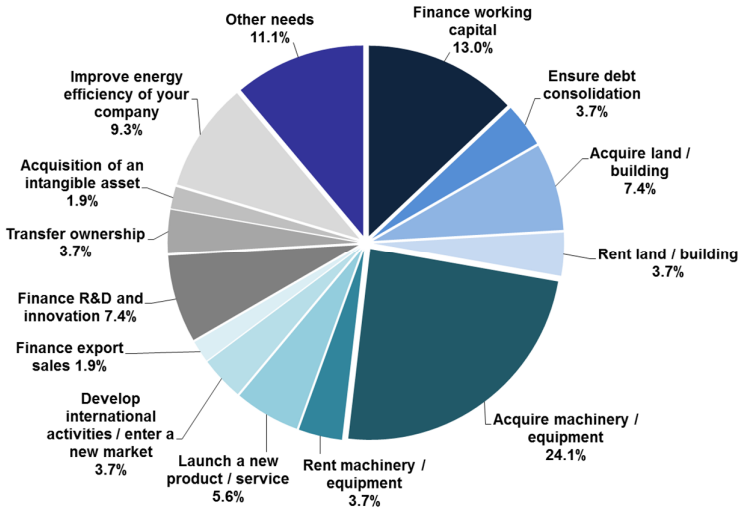
Source: PwC, SME online survey in the Slovak Republic, 2014.

[117] The number of small enterprises that provided an answer: 21.

[118] The number of small enterprises that provided an answer: 18.

With regard to the use of funding, 24.1% of small enterprises used funding in order to acquire machinery and equipment, while 13% used financing to support their working capital needs. However, when adding up the answers related to investments, more than 54% of small companies used their financing to invest in their business. This could create added value for the general economic environment in the medium term if these investments are able to save these small companies and make them sustainable in the future.

Figure 20: Use of funding by small enterprises over 2011-2013[119]

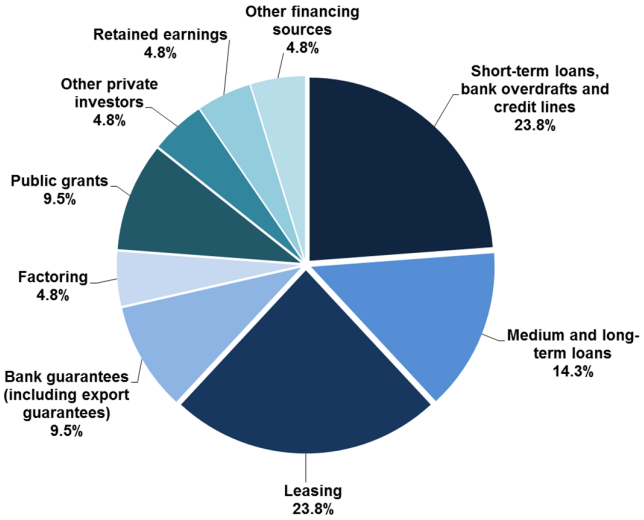


Source: PwC, SME online survey in the Slovak Republic, 2014.

Small enterprises plan to seek familiar products to them in 2014 as indicated in Figure 21, especially leasing (23.8%), short-term loans, bank overdrafts and credit lines (23.8%), and medium and long-term loans (14.3%). Equity funding from business angels, venture capital funds, investment funds or rescue / turnaround and buyout, and even mezzanine and hybrid finance is not mentioned as a preferred financing source. Also other forms of financing such as loans guaranteed by public or private entities, or loans provided with interest rate subsidies are not mentioned.

[119] The number of small enterprises that provided an answer: 21.

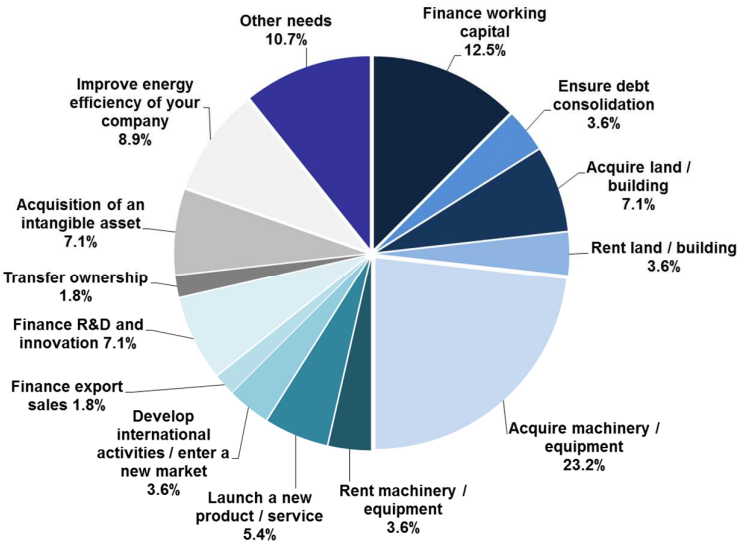
Figure 21: Financial products sought by small enterprises[120]



Source: PwC, SME online survey in the Slovak Republic, 2014.

The expected use of their funding is likely to remain the same as in the past, according to the online survey, as underlined by Figure 22. Funding will be required for investing in new production equipment and machinery (23.2%). The second main use of funding will remain financing of working capital (12.5% of the small enterprises).

Figure 22: Expected use of funding of small enterprise in 2014[121]



Source: PwC, SME online survey in the Slovak Republic, 2014.

[120] The number of small enterprises that provided an answer: 17.

121 The number of small enterprises that provided an answer: 17.

7.6 Demand for financing from medium-sized enterprises in the Slovak Republic

As illustrated in Table 41 below, medium-sized enterprises (companies with 50 to 249 employees) accounted for 2,744 entities, representing only 0.7% of the total SME population in the country (2013). This proportion has been stable over the last few years.

Table 41: Number of medium-sized enterprises in the Slovak Republic

Number of companies	2009		2010			2011			2012			2013		
	Number of companies	*% of total SME population*	Number of companies	*% of total SME population*	*Change over 2009 - 2010*	Number of companies	*% of total SME population*	*Change over 2010 - 2011*	Number of companies	*% of total SME population*	*Change over 2011 - 2012*	Number of companies	*% of total SME population*	*Change over 2012 - 2013*
Total SME population	285,557		294,558		*3,2%*	291,497		*- 1.0%*	379,697		*30.3 %*	401,163		*5.7%*
Total enterprises	3,014	*1.1%*	2,806	*1.0%*	*- 6.9%*	2,873	*1.0%*	*2.4%*	2,653	*0.7%*	*- 7.7%*	2,744	*0.7%*	*3.4%*

Source: Statistical Office of Slovak the Republic, 2014.

Western Slovakia is the region with the highest amount of active medium-sized enterprises in the country (891 enterprises in 2013). Despite the lower total numbers in Central (577) and Eastern Slovakia (512), it is important to mention that fluctuations on the basis of year-on-year changes are very similar across all regions. Only the Bratislava region recorded over 10% growth of medium-sized enterprises in 2013. The overall volatility in the total population of medium-sized enterprises is very low and shows the stability of the size group even under worsening economic conditions. This is an indication that medium-sized companies seem to adapt to the economic environment in contrast to small companies which are decreasing in numbers while micro-companies are widely increasing in numbers.

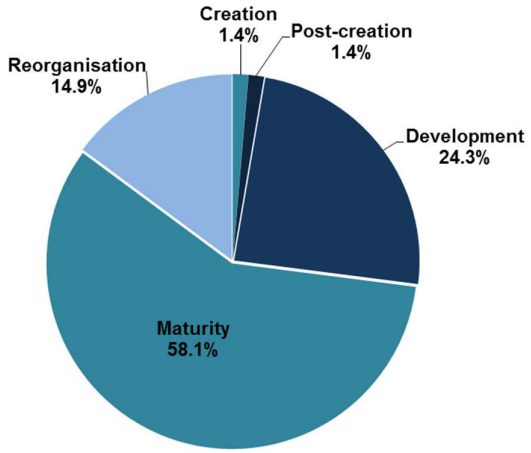
Table 42: Number of medium-sized enterprises in the Slovak Republic by region

Number of medium-sized enterprises	**2009**	**2010**		**2011**		**2012**		**2013**	
	Number of medium-sized enterprises	Number of medium-sized enterprises	*Evolution 2009-2010*	Number of medium-sized-sized enterprises	*Evolution 2010-2011*	Number of medium-sized enterprises	*Evolution 2011-2012*	Number of medium-sized enterprises	*Evolution 2012-2013*
Bratislava Region	714	683	*-4,3%*	742	*8,6%*	691	*-6,9%*	764	*10,6%*
Western Slovakia	1,039	967	*-6,9%*	987	*2,1%*	878	*-11,0%*	891	*1,5%*
Central Slovakia	660	605	*-8,3%*	593	*-2,0%*	561	*-5,4%*	577	*2,9%*
Eastern Slovakia	601	551	*-8,3%*	551	*0,0%*	523	*-5,1%*	512	*-2,1%*
Total number of medium-sized enterprises	**3,014**	**2,806**	***-6,9%***	**2,873**	***2,4%***	**2,653**	***-7,7%***	**2,744**	***3,4%***

Source: Statistical Office of the Slovak Republic, 2014.

When considering the development stages of medium-sized enterprises, Figure 23 shows that, more than half of all respondents (58%) believe that their business is in a mature stage of its life cycle. The survey also indicated that around 24.3% of respondents see their business in the development stage and another 15% in the reorganisation stage.

Figure 23: Development stages of medium-sized enterprises in the Slovak Republic[122]



Source: PwC, SME online survey in the Slovak Republic, 2014.

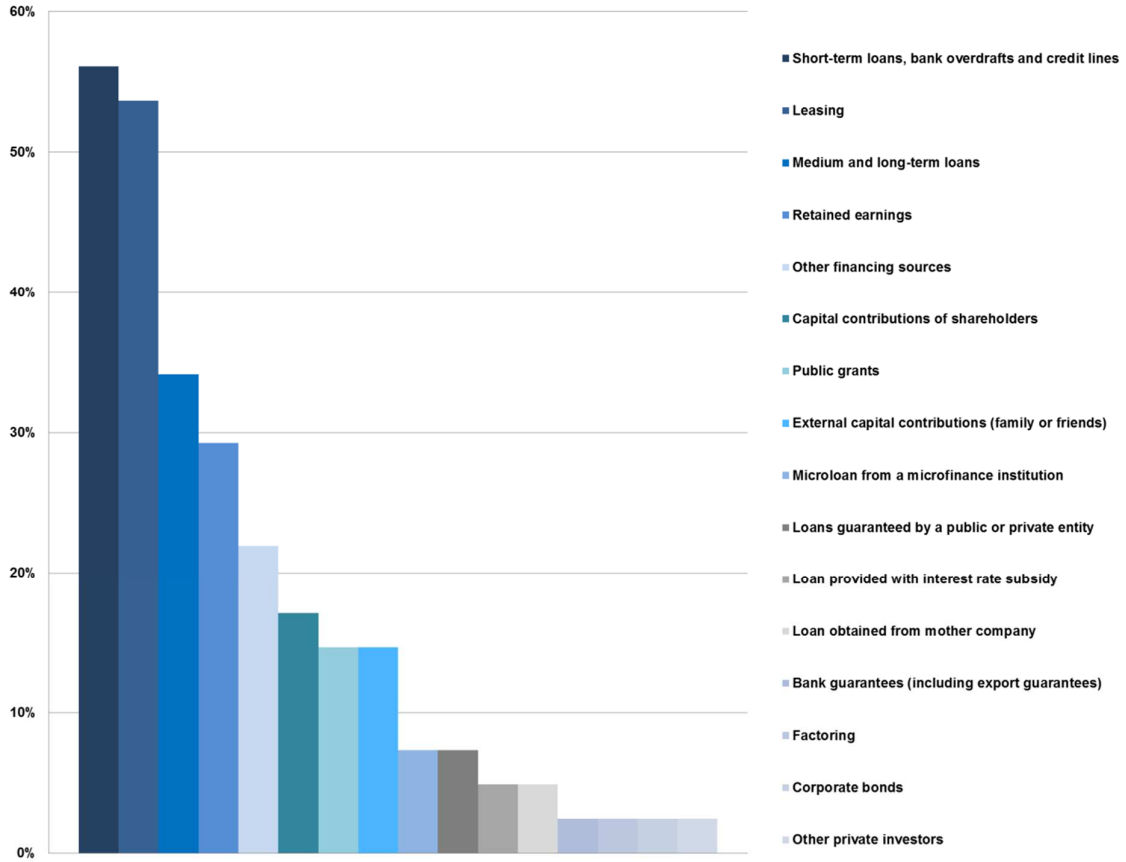
[122] The number of medium-sized enterprises that provided an answer: 74.

Medium-sized companies have experience in using short-term loans, overdrafts and credit lines between 2011 and 2013 (56%), followed by leasing (54%). As in the case of the other size groups, medium and long-term loans (34%) were less used than short term loans. No respondent indicated using mezzanine or venture capital funds, however, in comparison to small enterprises, a few medium-sized enterprises indicated having used factoring.

The survey also queried the perception that companies have regarding their access to different products. More than 92% of medium-sized enterprises stated to have sufficient access to leasing products[123]. Medium and long-term loans were relevant for 90% of the companies. However, 45% stated not to have sufficient access to them. In line with the perception of micro- and small enterprises, medium-sized companies believe that loans guaranteed by public or private entities (87%) and public grants (85%), are relevant to their business but they also report that their access to these funding sources remains limited (68% and 72%). Equity financing is also considered relevant to 75% of companies. This is an indication that equity financing is not only more relevant to medium-sized companies but also that these companies are aware of the benefits of obtaining equity financing. Due to the weak equity market in Slovakia however, nearly 70% of companies do not feel having sufficient access to this form of financing.

[123] The number of medium-sized enterprises that provided an answer: 35.

Figure 24: Sources of funding used by medium-sized enterprises over 2011-2013[124]



Source: PwC, SME online survey in the Slovak Republic, 2014.

When analysing the obstacles in accessing finance, most of the medium-sized enterprises (20.9%) answered that the willingness of banks to provide finance was the main difficulty during the period from 2011 to 2013, while micro- and small enterprises stated that their financial business situation was the main obstacles in obtaining finance. However, the financial business situation was the second main problem for medium-sized enterprises (17.4%) followed by unfavourable terms and conditions (12.8%). Only 12% of respondents did not report any difficulties.

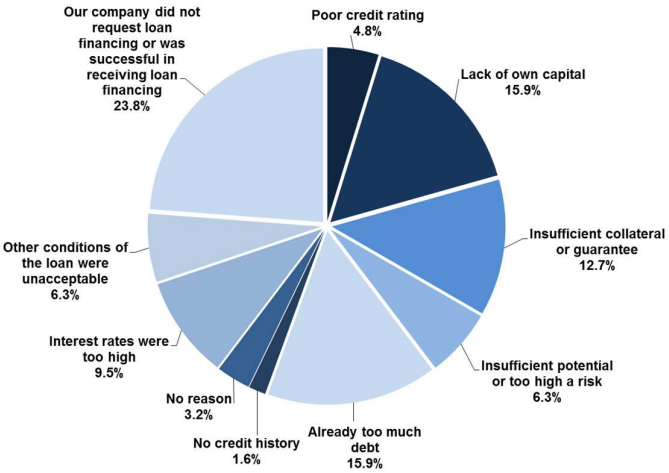
[124] The number of medium-sized enterprises that provided an answer: 23. Note: Other sources of funding are: venture capital funds, Rescue/turnaround and buyout capital, Mezzanine or hybrid financing, corporate bonds, private grants or donations, technology transfer funds and other financing sources.

Figure 25: Reasons explaining the difficulties of medium-sized enterprises in accessing finance in 2011-2013[125]

Source: PwC, SME online survey in the Slovak Republic, 2014.

According to Figure 26 below medium-sized enterprises had difficulties in receiving loans mostly as a result of their existing debt (15.9%). The lack of own capital represents another main obstacle (15.9%), while medium-sized enterprises also face constrains with regard to insufficient collateral (12.7%). When asked about collateral provided for loan financing, most enterprises stated to have used their company's (64%) and the owner's assets (58%)[126].

Figure 26: Reasons referred to as difficulties by medium-sized enterprises in receiving loan financing[127]



Source: PwC, SME online survey in the Slovak Republic, 2014.

Regarding the use of funding, medium-sized enterprises indicated that financing working capital (20.4%) was a priority, while acquiring equipment represented the second largest reason of using

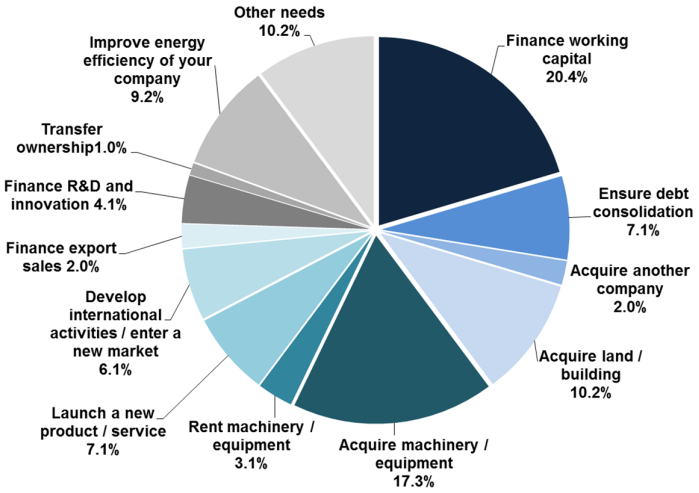
125 The number of medium-sized enterprises that provided an answer: 41.

126 The number of medium-sized enterprises that provided an answer: 31.

127 The number of medium-sized enterprises that provided an answer: 39.

finance by medium-sized enterprises (17.3%). The third most common purpose with 10.2% of responses was to acquire land or buildings and other needs.

Figure 27: Use of funding by medium-sized enterprises over 2011-2013[128]



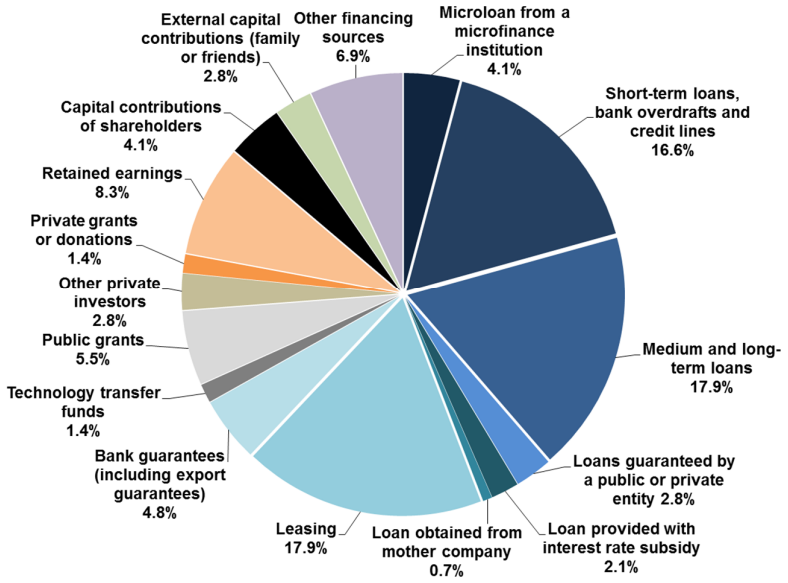
Source: PwC, SME online survey in the Slovak Republic, 2014.

When asked about the financial product to be sought in the future, medium-sized enterprises stated almost the same products as in the past. According to the survey, leasing and medium and long term loans will be sought by 18% of respondents, followed by short-term loans (16.6%), which presumably reflect the medium-sized companies' greater relative interest in investing in the business.

Equity funding from business angels, venture capital funds, investment funds or rescue / turnaround and buyout, technology transfer funds, and even mezzanine and hybrid finance attracted only very low responses. This lack of responses indicates also in the case of medium-sized companies a very low awareness of such financing sources.

[128] The number of medium-sized enterprises that provided an answer: 41. Note: no respondent answered: rent land/building and acquisition of intangible assets.

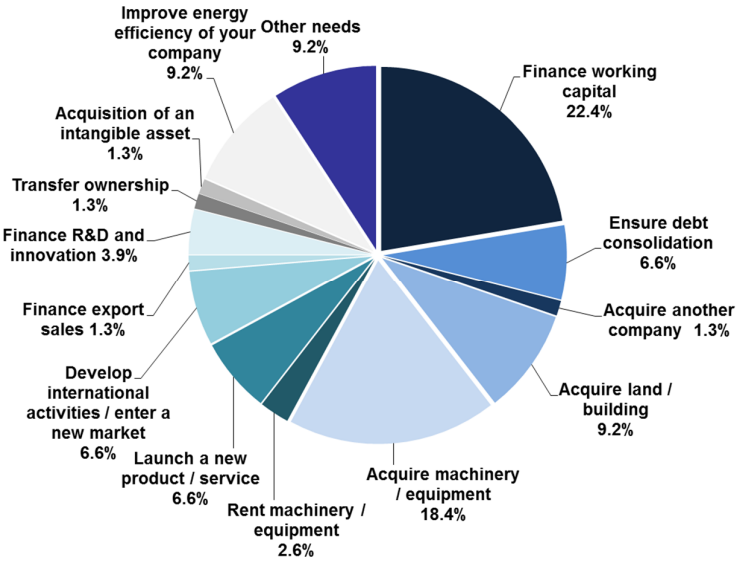
Figure 28: Financial products to be sought by medium-sized enterprises[129]



Source: PwC, SME online survey in the Slovak Republic, 2014.

The expected use of funding is also likely to remain as in the past, in proportion. According to the online survey, as shown in Figure 29, most of the medium-sized enterprises anticipate using funding for financing their working capital (22.4%), followed by acquiring machinery (18.4%).

Figure 29: Expected use of funding of medium-sized enterprises in 2014[130]



Source: PwC, SME online survey in the Slovak Republic, 2014.

[129] Number of medium-sized enterprises that provided an answer: 37.

[130] Number of medium-sized enterprises that provided an answer: 36.

Large enterprises

Background

There are 615 large corporates in the Slovak Republic, or roughly 0.1% of the total business entities in the country. Despite their limited number, large companies play an important role in the Slovak economy. Slovakia is a country with a strong industrial sector (the industry sector contributed to roughly 25% of total GDP output in 2013, of which 82% accounted for manufacturing) which is mainly driven by large companies. As shown in the present report, despite a noticeable decline, the industrial sector remains competitive in the automobile and electronic appliances production, allowing for strong export activities. In this context, large corporates contribute in different positive ways to the economy, including R&D spending, innovation and the support of SMEs which participate in the chain of supply and production.

Large enterprises and access to finance

According to banking statistics, the large corporates currently enjoy access to private sector financing disproportionate to their role in the economy. This is especially true in the case of the kinds of long term loans which most often finance investment projects, of which large corporates receive more than 95%. Their access flows from a number of factors, including overall capacity and experience to negotiate with financial institutions, internal capacity to negotiate complex financial products, and the ability to post substantial collateral. In addition to domestic lending, large corporates also have the ability to attract FDI. Overall, when compared with SMEs, large corporates do not face an obvious financing gap.

Large enterprises and FIs

FIs related to access to finance for companies have been designed and promoted in Europe the last two programming periods in order to support SMEs and reduce financing gaps. They also have as a goal to make optimal use of ESI funds by increasing the number of beneficiaries. Furthermore, FIs are designed in order to promote additionality through the support of companies that do not have access to finance.

In this sense, using FIs to target large corporates would undermine many of the goals this funding is designed to achieve because it reduces the amount of funding that would be available to support SMEs, substantially limits the number of companies to be supported as large corporates needs are proportionally larger, and does not achieve additionality because of the lack of obvious financing gaps.

As a result, DG REGIO has weighed in through a number of platforms[131] in opposition to using FIs to support large corporates. In a position paper from 2012, DG REGIO argues that although large corporates are eligible for support under TO1[132] according to Art. 3(1)(b) of the EU Regulation No 1301/2013 (ERDF Regulation), support to large enterprises cannot be accepted as a general rule[133]. The paper cites empirical studies that found that providing support to large corporates had no impact on firm behaviour in terms of hiring, investment or productive activity. In other words, the funds acted only to supplant the budgets of large firms[134]. As such, DG REGIO recommends that

[131] Mouqué, D. 2012. What are counterfactual impact evaluations teaching us about enterprise and innovation support? DG REGIO.

[132] Large enterprises are not eligible for support under TO3.

[133] Criscuolo et la (2012) sais "that the lack of impact for large enterprises is due to that large firms being more able to take the subsidy without changing the investment and employment levels, possible combined with financial constraints for smaller firms."

[134] The selection criteria should be set up so that the large enterprise can benefit only if a substantial number of SMEs, NGOs or public sectors bodies benefit.

large enterprises should not be considered within the scope of financial support, and SMEs should be prioritised because of the impact that support has on growth and job creation[135].

Although DG REGIO has weighed in strongly against providing financial support to large corporates investments in R&D, there are some circumstances under which such financing may be feasible. Specifically, such a use of funds might be appropriate where the funding is specifically targeted to support SMEs through cooperation or collaborations, and where it can be shown that a substantial number of SMEs, non-governmental organisations (NGOs) or public bodies benefit from it[136].

An alternative for large companies could be the InnovFin[137] facility of the EIB. In order to support investments also for mid-caps and largest enterprises[138], InnovFin consists of a series of integrated and complementary financing tools and advisory services offered by the EIB Group, covering the entire value chain of research and innovation (R&I)[139].

7.7 Quantification of potential demand for financial products from small and medium-sized enterprises in the Slovak Republic in 2014

The quantification of demand for financing for small and medium-sized enterprises has been calculated for the two size categories together[140]. As already mentioned, these two sizes of companies have been taken together in order to consider a larger number of answers provided by the online survey. Interviews with representatives of SMEs and commercial banks have also explained that financing demand from small and medium-sized companies are often similar in Slovakia. The following quantification of demand from these companies uses the methodology described in Section 7.3 for the following financial products:

- Short-term loans, bank overdrafts and credit lines;
- Medium and long-term loans; and
- Leasing.

Similar to micro-enterprises, small and medium-sized companies have not indicated amounts that can be appropriately utilised for the quantification of the potential demand for other financial products, such as factoring.

After implementing all the steps of the methodology for 2014, the average potential demand from a single small or medium-sized company for each product is provided. For short-term loans, the

[135] DG REGIO. 2012. Position of the Commission Services on the development of the Partnership Agreement and programmes in SLOVAKIA for the period 2014-2020

[136] DG REGIO. 2013. Thematic Guidance Fiche Research and Innovation

[137] By 2020, InnovFin is expected to make over EUR 24bn of debt and equity financing available to innovative companies (for all sizes) to support EUR 48bn of final R&I investments.

[138] http://www.eib.org/products/innovfin/index.htm

[139] InnovFin builds on the success of the former Risk-Sharing Finance Facility (RSFF) developed under the 7th framework programme for research and technological development (FP7).

[140] An appropriate weighting was applied to survey data to best approximate the relevant population of SMEs (see Annex 2)

average demand amounts to EUR 150,167. Despite the fact that average amounts of short-term loans are not available, this amount seems consistent with the business reality of Slovakia also based on international experience and the size of these companies. A respective amount was computed for medium and long-term loans (EUR 208,200) and for leasing (EUR 59,188), as presented in Table 43 below.

Table 43: Annual demand for financial products by small and medium-sized enterprises in the Slovakia Republic in 2014

	Average finance to be sought by a single small or medium-sized enterprise (EUR Mil.)	Finance to be sought by the total population of small and medium-sized enterprises (EUR Mil.)
Short-term loans, bank overdrafts and credit lines	0.150	2,517 - 2,782
Medium and long-term loans	0.208	3,489 – 3,857
Leasing	0.059	992 – 1,096

Source: PwC analysis, 2014.

In order to estimate the demand in the total population of small and medium-sized enterprises, the average amounts were multiplied by the number of companies and a variation of -5% and +5% was applied.

In contrast with micro-enterprises, small and medium-sized companies seem to be more aware of the suitability of different financing products for different uses. According to the findings, these companies will seek funding through medium and long-term loans, in order to support their businesses. However, this size category seems to be more conservative in their demand for long-term loans as shown by the average amounts (one would expect larger amounts for loans directed toward investment needs and of long maturity), which could imply that their priority is to secure their working capital needs and day to day operations rather than developing their activities.

7.8 Potential demand for equity financing from the SME population in the Slovak Republic

The description of demand for equity financing in the Slovak Republic will mainly remain qualitative since it is recognised that quantifying demand for equity may depend on many contextual factors, such as: capacity of the SME to present its project and attract investors, ability of the SME to be well supported by a network and interest of investors in the sector. However, an indicative quantification will also be provided for consistency reasons and in order to provide also an indicative financing gap.

In contrast to debt products that can support a very wide range of potential companies in terms of size and sectors with their working capital and investment needs, equity financing is only appropriate for a small subset of companies. Despite the fact that demand for equity financing could originate from different sectors, sizes and company profiles, a realistic approach in describing demand is actually to define the profile of companies where the type of demand would materialise that would be of interest to investors.

In the survey conducted for this study, a few companies expressed the willingness to use equity

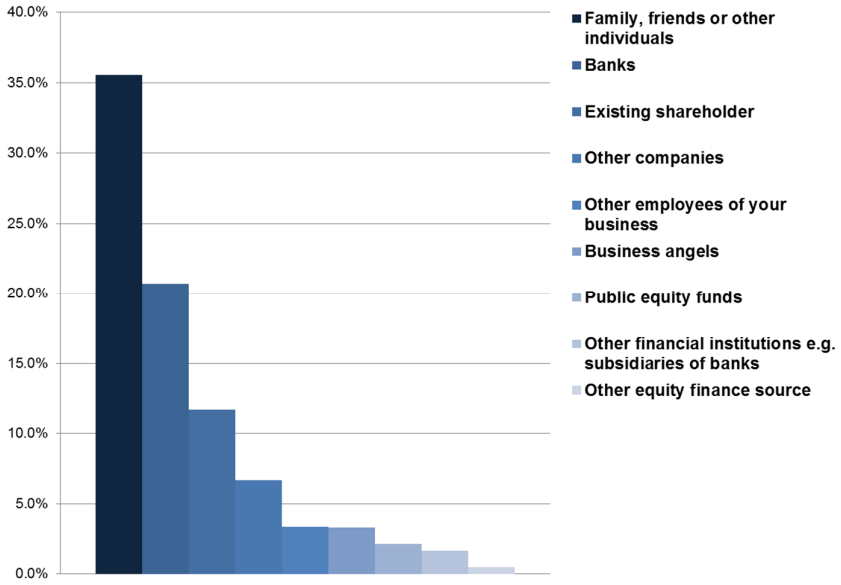
financing in the future. These investments could be attractive for equity investors but only if other conditions are met first. For this reason it is important to define the prerequisites sought by investors. For early stage financing the profile of the entrepreneur and his educational or professional background are important, as well as the viability and scalability of the business. As Slovakia is a small market, a targeted company would at least develop operations in the CEE region if not international markets. The level of innovation deriving from the business is also a priority along with defining growth perspectives before considering the size of the company or even the sector.

SMEs in Slovakia have been asked to provide the amounts of equity financing they sought and obtained over 2011-2013, but as only a very limited number of enterprises clearly stated their needs.t.

Seeking equity financing is currently not a common process for SMEs in the Slovak Republic. The few enterprises having used equity finance received money from informal sources like friends and family members (36% of SMEs) rather than through formal structures like banks (21%), according to the survey conducted for this study. Business Angels and public equity funds were only used by a small proportion of SMEs in the country (approximately 3% and 2% respectively).

This is an indication that the equity market is underdeveloped in the country. As mentioned in Chapter 4, Business Angels in Slovakia are not coordinated and only few individual investors are active in the country. Moreover, VC and PE funds are mostly initiated by European and public intervention schemes rather than private initiatives.

Figure 30: Equity financing sought by SMEs in the Slovak Republic over 2011-2013[141]



Source: PwC, SME online survey in the Slovak Republic, 2014.

In parallel, interviews with financial stakeholders and SME representatives have revealed the low level of awareness of equity financing among SMEs in the country. This results in limited knowledge of the purposes of equity financing and of the national actors present in the Slovak Republic. This

141 The number of SMEs that provided an answer: 129.

situation is also exemplified by the fact that between 1% and 4% of SMEs intend to seek equity financing from various external equity sources in 2014[142]. For reference, SMEs in Slovakia used between 1.3% and 6.5% of external equity financing over 2011-2013[143]. According to the SAFE survey, 2% of Slovak SMEs used equity finance in 2013.

This little use of equity financing is confirmed by SBA in its 2012 annual report. As illustrated in Table 44 below, equity financing represents only 1.2% of the financial resources used by SMEs that sought funding from the SBA.

Despite the fact that SMEs intend to develop and expand over the next years, they will rather use financing related to grant schemes. They consequently reduce the interest of SMEs to seek equity financing in view of financing their growth strategies.

Table 44: Volume of financial resources used by SMEs in 2012 (EUR Mil.)

Amounts	Volume (EUR Mil.)	Share (%)
EU	181,850	30%
State budget	11,227	1.9%
Measures of active labour market policies	85,296	14.1%
Loans	230,904	38.1%
Guarantees	87,414	14.4%
Equity[144]	**6,978**	**1.2%**
Investment incentives	2,380	0.4%
Total	**606,643**	**100%**

Source: SBA, 2014[145].

Another factor explaining this little interest in equity financing in Slovakia is the fact that the large majority of SMEs are owned by one person (37.8%) or by other members of his/her family and/or other entrepreneurs (40.6%) (European Commission, SME's Access to Finance survey, 2013). Reluctance in seeking and obtaining equity financing may consequently be linked to the existing mentality of SMEs' owners who have often created their business and are not willing to share its management.

As illustrated in the online survey[146]:

- For Private Equity: 65% consider they do not need it, 30% consider the access as not adequate and 5% consider their access as adequate;
- For Venture Capital: 63% consider they do not need it, 34% consider the access as not adequate and 3% consider their access as adequate;

142 External equity sources exclude contributions from current shareholders and family and friends.

143 The number of SMEs that provided an answer: 104.

144 This amount represents only venture capital investments under the daughter company of SBA, Fond fondov, s.r.o.

145 SBA (2013). Report on the state of Small and Medium Enterprises in the Slovak Republic in 2012.

146 The number of SMEs that provided an answer: 135.

- For mezzanine financing: 63% consider they do not need it, 34% consider the access is not adequate and 3% considers their access as adequate;
- For Business Angels: 56% consider they do not need it, 39% consider the access is not adequate and 5% consider their access as adequate.

Overall, only between 2% and 5% of SMEs in Slovakia consider their access to equity and quasi-equity financing as adequate. However, the fact that over 30% of companies feel that there is an inadequate supply of early stage finance suggests that there may be a sufficient latent demand.

In order to illustrate the profile of companies seeking Venture Capital in Slovakia, as well as growth perspectives of the market for the future, hereafter are presented a few examples of SMEs having received equity financing over the past few years.

Pixel Federation. This SME was founded in 2007 by four people working in the video game industry. It is dedicated to browser-based and mobile game development. In 2013, the company won a prize: the Best App Fan Page 2013 on Facebook for Trainstation Fan Page. The company has received funding for its first game projects. These investments were coming from BC Fin and Immocap Invest which are now represented at the Board. The investment funds have an influence on business development. They have also enabled the company to create its own products.

CulCharge Ltd. In 2013, this start-up from Piestany (in the Western region of Slovakia) won the "Business Idea of the Year Award" awarded by the Slovak Venture Capital and Private Equity Association for having developed the smallest USB charging cable in the world. Furthermore, after producing first prototypes, the project was published on the crowdfunding portal IndieGoGo. After one month the company exceeded the target amount of EUR 11,000 and obtained about EUR 70,000. According to the Slovak-Asian Chamber of Commerce, investors from Slovakia, Czech Republic and the Silicon Valley in California expressed their interest to invest in CulCharge.

Piano Media. This Slovak company was established in 2011 and funded by Monogram Ventures Fund. It has developed software to permit digital subscription and content monetisation for the online publishing industry. In 2012, the SME raised EUR 2m from 3TS Capital. Currently, the company operates in three countries.

Presented examples of successful businesses managed to raise some awareness on the opportunities for young entrepreneurs in launching an innovative start-up. Privately organised events such as startupcamp or startupawards further helped toward this direction in recent years. Although some success stories occur in the Slovak Republic over the last few years, as the ones presented above, the overall demand for equity financing is limited. This demand is also often not well formulated by the entrepreneurs who lack financial knowledge and experience with VC funds. This lack of knowledge and experience is faced by all sizes and all maturity stages of SMEs. It is one of the main barriers for seeking equity financing in the Slovak Republic.

As already presented in the previous section and explained by several stakeholders during the interviews, the equity financing market is very fragmented in Slovakia. In addition, BAs and VC funds may have difficulties finding well-presented and suitable projects.

According to stakeholders interviewed, the challenges for the future of the equity market will be to improve the access to equity financing for small and medium-sized enterprises with high-growth

potential in order to orientate the Slovak economy towards sectors with higher added value that would better contribute to GDP growth. In that context, stakeholders on the Slovak market consider as priority to encourage high-technology and knowledge-intensive industries. As highlighted in the analysis on innovation in Slovakia, a considerable lack of funding instruments for innovative companies to finance growth exists particularly in the critical development stages. Equity finance is potentially the most appropriate form of financing to promote innovation in the country as anticipated by national strategies. Nevertheless, increasing innovation does not only depend on adequate financial sources, but a stimulating environment supported by stronger links and interactions not only between universities, research institutes and innovative SMEs, but also incubators, innovation centres, technology parks and clusters. Strengthening this environment in combination with the involvement of BAs and VC funds in such interactions would benefit young innovative SMEs.

7.8.1 Quantification of demand for equity financing

The average amount of equity financing to be sought by SMEs in the Slovak Republic in 2014 is EUR 124,359[147]. This amount may be explained by the need for equity financing from innovative micro-enterprises and small/medium-sized enterprises with high-growth potential that need to develop in the country. Furthermore, the range in the amounts expressed by SMEs is important since they range from EUR 1,000 to EUR 500,000, considering that all category sizes of SMEs and all equity products are taken into account. Moreover it has to be taken into account that the scope of potential types of businesses and their development stages is wide thus explaining this wide range of amounts.

For the calculation of the total demand of SMEs, the total population has been identified on the basis of the following considerations:

- First, only micro-enterprises with employees are taken into consideration. They are 118,544 micro-enterprises.
- Second, all small and medium-sized companies are taken into consideration: 17,642 enterprises.
- Third, the obtained number is multiplied by the proportion of SMEs that are interested in seeking equity financing in 2014. As already mentioned, the lower end of the range may be estimated at 1% and the higher end of the range may be considered at 4%[148].

The number of SMEs that may seek equity financing in the Slovak Republic in 2014 is between 1,362 and 5,447. The results of equity financing to be sought in the country in 2014 are presented in Table

[147] Amounts used for the computation of the average includes: “capital contribution of shareholders”, “external capital contributions (family or friends)”, “Business Angels”, “investment funds”, “venture capital funds”, “technology transfer funds”, “rescue/turnaround funds and buyout capital”, “other private investors”, “mezzanine or hybrid capital”, and “equity from national, regional and foreign institutions”. The average amount is computed by adding all the amounts given by SMEs for the above-mentioned financial products. Amounts that are above EUR 500,000 have been considered as outliers since they may be only relevant to a limited number of companies.

[148] For instance, according to the SAFE survey, 0.6% of Slovak enterprises stated to prefer to use equity investment (including Venture Capital or Business Angels) as compared to 4.7% at Eu-28 level, when asked “If you need external financing to realise your growth ambitions, what type of external financing would you prefer most?”.

45 below.

Table 45: Annual demand for equity financing in the Slovak Republic in 2014

	Average finance to be sought by a single SME (EUR Mil.)	Finance to be sought by the total SME population (EUR Mil.)
Equity financing	0.124	169 - 677

Source: PwC analysis, 2014.

This range of demand for equity financing should be considered with caution, particularly as equity investment can be applied to different needs. There is a wide range of amounts sought: small amounts could illustrate a capitalisation need in order for SMEs to stabilise and/or solidify their capital structure as well as to have better access to debt financing and large amounts could illustrate SMEs' willingness to secure future investments for the launch of new activities and the implementation of their growth strategies.

Also, the equity market mainly depends on the capacity of supply to meet demand and the ability of stakeholders to coordinate. According to the stakeholders interviewed, such coordination should be much improved in the Slovak Republic to be more effective and be able to raise relevant investment projects for BAs and VC funds. This coordination would imply investment funds, Chambers of Commerce, business clusters and incubators, for instance. This current lack of coordination emerges from the financing amounts provided by the Slovak SMEs in the online survey for 2014. By indicating an amount for equity financing, Slovak SMEs also express their need for support from business clusters and investors to help them structure and implement their growth strategies. This support does not only cover the provision of financing, but also the skills support and mentoring that SMEs may need to develop.

7.9 Demand for financing from SMEs in the social economy sector

Similar to the analysis on financing demand of micro-, small and medium-sized companies, a specific analysis is conducted for SMEs considering themselves as enterprises working in the social economy sector in the Slovak Republic. As private initiatives are still limited in this field (Centre for Philanthropy, 2012)[149], entities behaving as social enterprises, including social enterprises established by municipalities and cooperatives, will also be considered in the second part of this section.

According to the last amendment of the law on social enterprises[150] in the Slovak Republic, effective since May 2013, a social enterprise is determined as a legal entity and natural person, that:

- Employs at least 30 % of people who were classified as disadvantaged job-seekers;
- Provides assistance and support to these people in their job search;

[149] Social economy and social enterprises in Slovakia, available only in Slovak: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf.

[150] Social entrepreneurship in Slovakia is determined by the Law on employment services from 2004. In 2008, the amendment, that determined social entrepreneurship, defined applicants for the status of social enterprise and conditions of their operation in the market, entered into force. The law was amended again in 2013.

- Re-invests at least 30 % of the financial means gained through its activity and after deducted all eligible costs, towards the creation of new jobs or to improve working conditions; and
- Is recorded in the registry of social enterprises (Central office of Labour, Social Affairs and Family 2013).

Companies fulfilling these legal requirements are entitled to public contributions towards the creation and sustainability of jobs for disadvantaged job seekers. When considering the definition of a social enterprise in the Slovak context, a social enterprise is mainly understood as an instrument of support for employment as opposed to business creation. While there is no explicit definition at the European level, according to DG Enterprise and Industry's definition[151], social enterprises are defined as enterprises which promote projects of common or social interest rather than only profit maximisation in a broader sense. The present report understands social enterprises in line with the broader definition of social enterprises applied by various European institutions[152], thus including actors like associations, foundations, cooperatives and private companies – instead of the rather limited national legal definition.

In the survey conducted for the present study, companies were asked to self-identify as a company operating in the social economy based on a list of characteristics. Companies that chose at least one of these characteristic were used in the present section analysis. However, these companies are not necessarily social economy companies as defined by the legal framework of the country. According to the survey conducted for the present study, 68% of the surveyed SME population do not perceive any social oriented characteristics as part of their business model[153]. On the other hand, 32% of SMEs seem to have included social goals into their business as illustrated in Figure 31 below. These companies chose one or more characteristics provided in question 3 of the survey that define them as companies in the social economy sector. Only these companies are considered in the analysis of the present section.

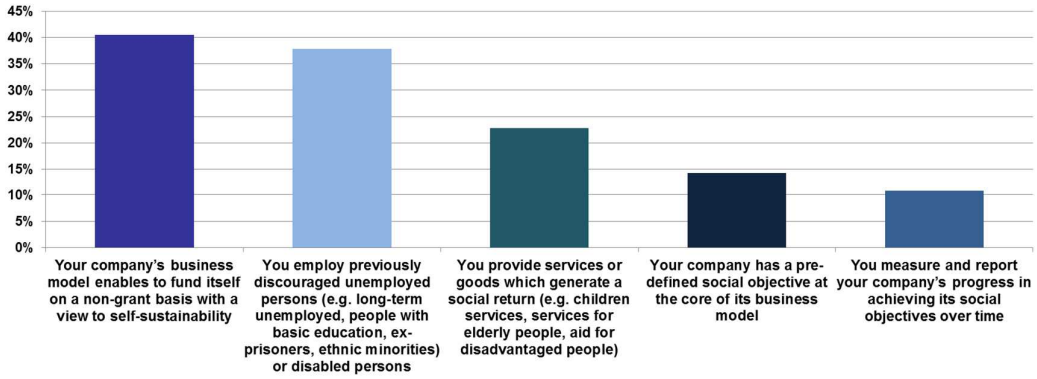
151 Source:

http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/social-economy/index_en.htm#h2-2.

152 In fact, the Single Market Act, the EC's Social Business Initiative, as well as the Regulation on European Social Entrepreneurship Funds all aim at a much wider array of actors and therefore the use of the EU Structural and Investment Funds ought not to be constrained by the narrower understanding of the term in the national legislation.

153 The number of SMEs that provided an answer: 350.

Figure 31: Social characteristics of SMEs active in the social economy in the Slovak Republic[154]



Source: PwC, SME online survey in the Slovak Republic 2014.

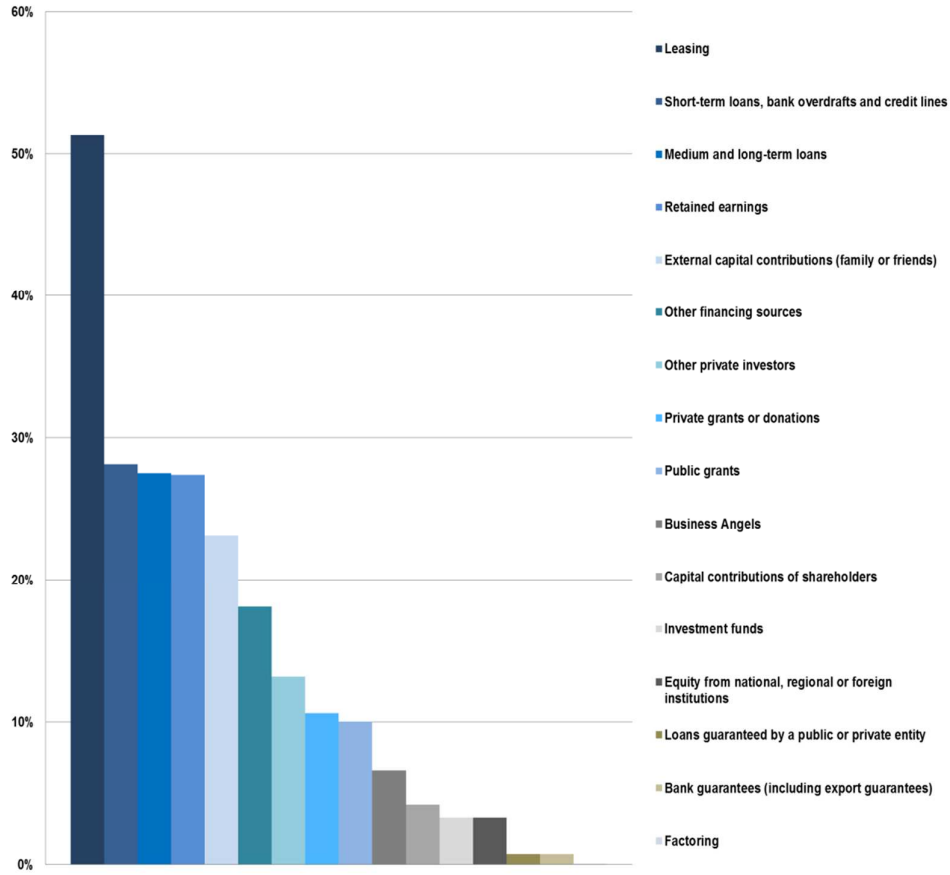
Approximately 38% of these companies stated that they employ previously discouraged people e.g. the long-term unemployed, people with a basic education, ex-prisoners, ethnic minorities, or disabled persons, while close to 23% of these companies stated to provide goods or services generating a social return.

As the majority of these enterprises are micro-enterprises with a limited capacity, which limits their scope and ability to generate a substantial social return, these companies should be a policy consideration: only 40% of these enterprises stated that they were able to fund themselves on a non-grant basis. Moreover, 46% of all SMEs active in the social economy are in a mature stage of business development and around 43% in the development or post-creation phase.

Regarding their funding needs, these companies relied mainly on leasing (53%) and debt financing, as illustrated in Figure 32. Short-term loans and medium- and long-term loans were used by 32% and 34% of respondents respectively. Particularly short-term loans seem to be less used by these companies as compared to the total SME population (36%). The use of retained earnings account for 27% for social enterprises the same percentage as for the total SME population. Not surprisingly, 10% of SMEs which perceived themselves as social enterprises use public grants (6% among the total SME population) and nearly 11% private grants or donations (5% among the total SME population).

154 The number of SMEs that provided an answer: 93.

Figure 32: Sources of funding used by SMEs in the social economy sector[155]



Source: PwC, SME online survey in the Slovak Republic, 2014.

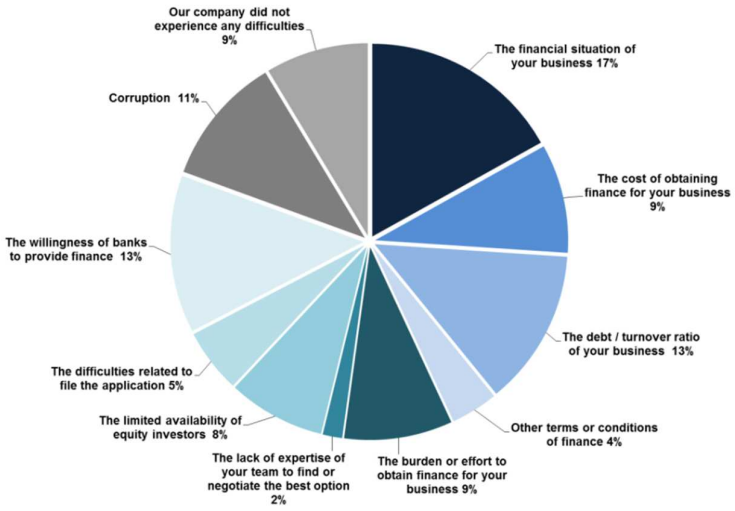
When asked the reasons why they had difficulties accessing finance over the last few years, SMEs in the social economy provide answers mostly in line with the total SME population (Figure 33)[156]. They mostly refer to the financial situation of their company and the cost of financing. This was to be expected when taking into account the social focus of these companies.

Stakeholders mentioned during interviews, that social oriented SMEs have certain disadvantages in comparison to purely profit oriented SMEs as they often lack managerial skills. The ability to set up a business plan and deal with the general conditions of funding is often less developed among socially oriented enterprises. Limited or non-existent credit history and the lack of collateral lead commercial banks to reject applications. Moreover, unclear legal structures or ownership structures (e.g. a limited liability company owned by a civic association) were also expressed as barriers by stakeholders. As a consequence, SMEs active in the social economy sector feel that support from commercial banks is insufficient (60% compared to 43% for all SMEs).

155 The number of SMEs that provided an answer: 44.

156 The number of SMEs that provided an answer: 46.

Figure 33: Reasons referred to as difficulties in receiving loans by SMEs in the social economy sector[157]

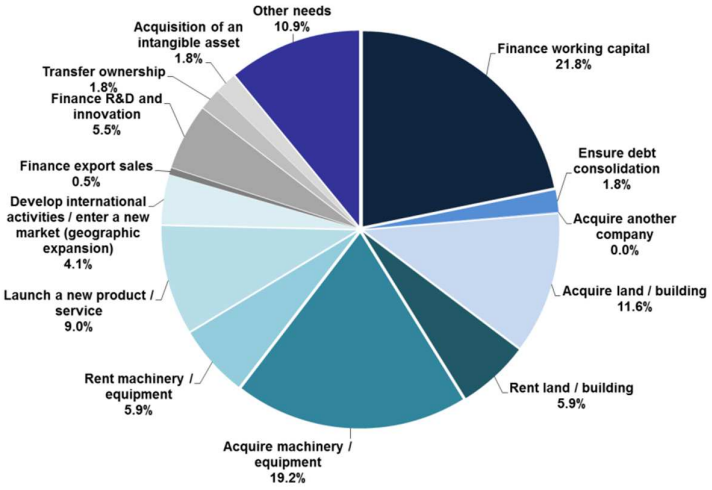


Source: PwC, SME online survey in the Slovak Republic, 2014.

The priority in the use of funding by companies in the social economy sector is to finance working capital (21.8%), higher than for the total SME population while 19.2% used funds to acquire machinery and equipment (Figure 34).

157 The number of SMEs that provided an answer: 46.

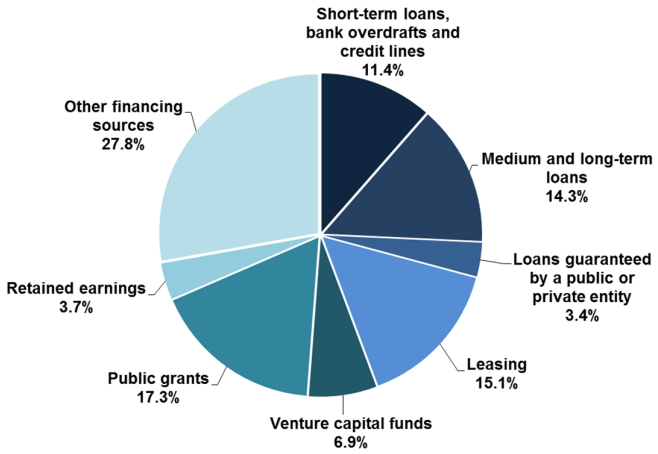
Figure 34: Use of funding by SMEs in the social economy sector[158]



Source: PwC, SME online survey in the Slovak Republic, 2014.

Regarding the funding needs and intensions of social companies for the future, results are presented in Figure 35 below and significant differences emerge between social enterprises and the entire SME population. Debt financing (including short, middle-term and long-term loans) is mentioned by nearly 40% of the total SME population in comparison to only 26% of social enterprises. This is a strong indication that these specific SMEs do not have the confidence to apply for a loan knowing that their access is limited and also knowing that they cannot meet the collateral requirements. On the other hand, social SMEs intend to use leasing and grants more than the total SME population.

Figure 35: Expected financing products to be sought by SMEs in the social economy in 2014[159]



Source: PwC, SME online survey in the Slovak Republic, 2014.

Overall it is important to highlight that from the stratified sample used to conduct the survey of the

158 The number of SMEs that provided an answer: 35.

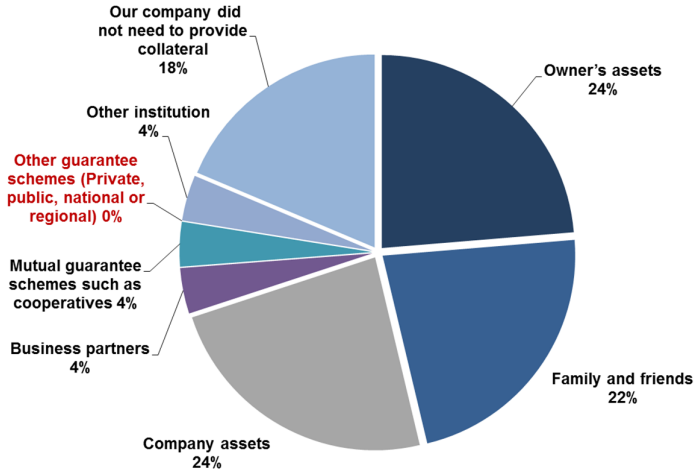
159 The number of SMEs that provided an answer: 29.

present report, the number of SMEs considering themselves as part of the social economy is considerable. Even if these companies are not in the official social sector, the high response rate is an indication that entrepreneurship with a social impact is emerging in the Slovak market and this trend should be taken into account.

The most important point emerging, however, is the fact that these companies irrespective of size do not report being supported by the state or by relevant FIs such as guarantees. This is an indication that existing support schemes either in the form of grants or FIs are not adequate or relevant to them or haven't been appropriately marketed to this group.

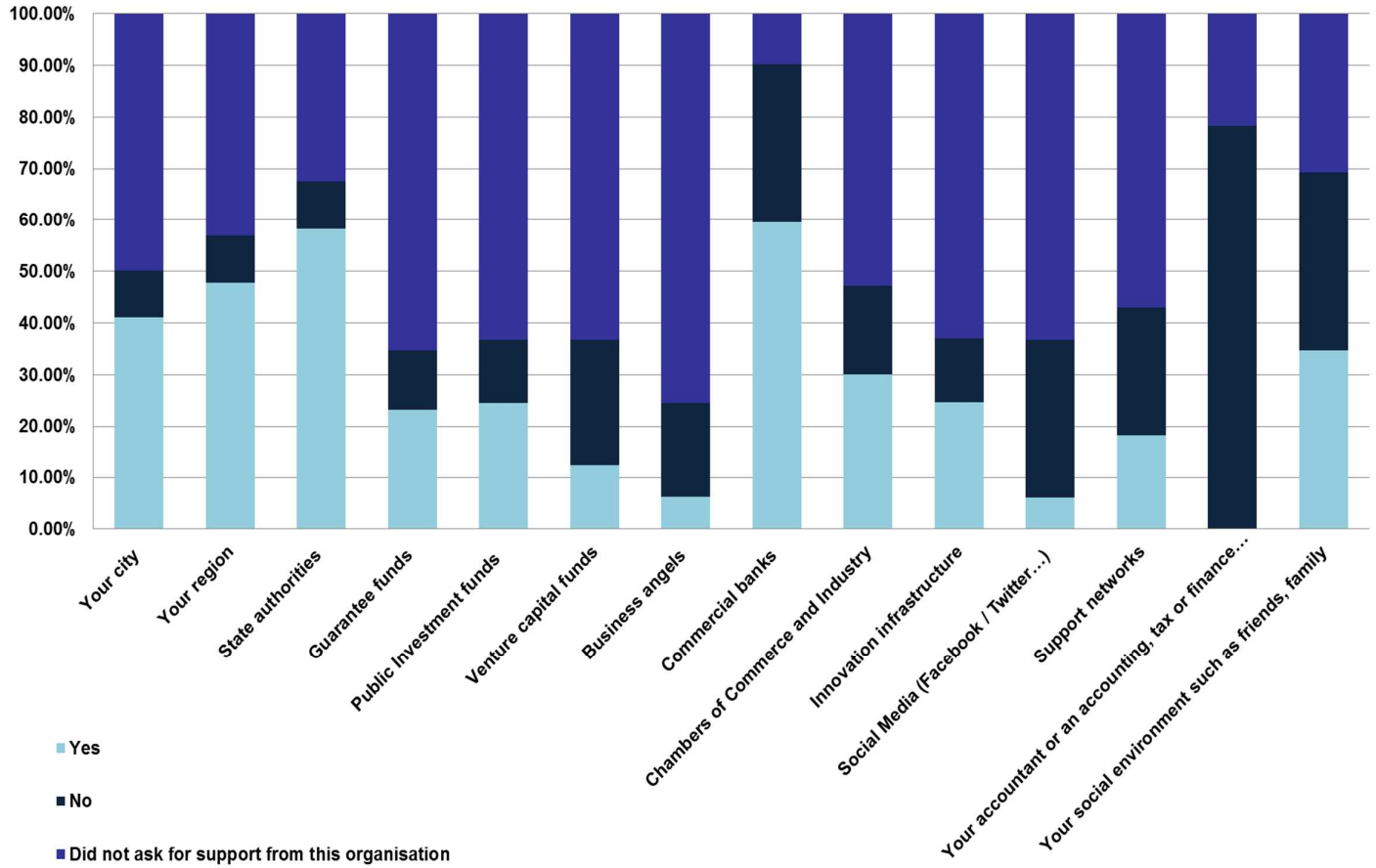
As shown in Figure 37, almost half of social companies did not ask for support or felt not supported by state authorities while a vast majority did not seek support or were not supported adequately by guarantee funds. This last point is important taking into account the fact that guarantee schemes are currently available for SMEs in the country but apparently do not seem to be relevant to the social economy sector. This is further validated by the fact that, among those social economy companies that managed to obtain a loan in the last three years, not a single company used a guarantee from a state institution, as shown in the figure below.

Figure 36: Collateral used by SMEs in social economy that received a loan in the last three years



Source: PwC, SME online survey in the Slovak Republic, 2014.

Figure 37: Perception of lack of support from several institutions to SMEs in the social economy[160]



Source: PwC, SME online survey in the Slovak Republic, 2014

160 The number of SMEs that provided an answer: 64.

The challenges for the future financing of social enterprises will be to implement a scheme of revolving support involving a holding fund (e.g. FOSFOR under Slovak Investment Holding) and other financial intermediaries from the social economy as mentioned in Chapter 4. Such a specialised social fund could provide an impulse to kick-start further developments of the social economy sector in the country. The support scheme should be focused both on legal entities including enterprises, NGOs and non-profit organisations and people working in the social economy as final beneficiaries. While the current initiatives support start-ups and the creation of 0 employee enterprises to a certain degree, it is noteworthy that other forms of cooperative enterprises are not yet legally and financially supported. The financing of cooperative forms of (social) enterprises could provide unemployed people with a new alternative of income generation and contribute to a growing social economy sector. It will also have to be taken into account the fact that SMEs are involved in social activities without being registered and could benefit from support in order to develop the social economy sector. In this context, the analysis highlighted that the existing generic FIs such as the existing guarantee schemes do not seem sufficient or relevant to these companies.

Moreover, it is necessary to use a combination of grants (technical assistance in order to improve entrepreneurship skills) and repayable forms. Support for social oriented SMEs, but also NGOs and non-profit organisations like ETP Slovakia[161], could help to further develop the social economy sector and create positive external effects. This could be further encouraged by leveraging the support from the European Social Fund focused on unemployed or disadvantaged people, and projects from the European Regional and Development Fund. Finally, it would be desirable, to meet policy objectives, to create social business incubators that would provide the initial technical and service support for social enterprises in order to avoid the expected high fail rate of newly-created social enterprises.

7.10 Demand for financing from SMEs willing to develop energy efficiency projects

Similar to the analysis of the financial demand of SMEs active in the field of the social economy in the Slovak Republic, a specific analysis was conducted with the intention to draw a clearer picture on SMEs' demand for energy efficiency financing.

Slovakia is one of the most energy-intensive Member States of the EU, partly due to its large industry sector (SWD, 2014, 426 final). Improvements in energy efficiency would not only reduce overall emissions, but also trigger additional investments and create jobs. The Slovak government has published several reports confirming a clear commitment to improve in this field in line with EU-wide goals and key strategic documents such as Europe 2020, Low-carbon road map 2050, and other relevant European legislation on energy[162]. However, according to the energy efficiency EU-28 country report, the Slovak National Energy Efficiency Action Plan (NEEAP) seems to lack long-term

[161] ETP Slovakia (Centre for Sustainable Development) is a non-profit organisation that works with small communities in Slovakia, supporting and assisting disadvantaged and marginalised groups, refugees, specifically Roma from marginalised settlements, in order to improve their social and economic situation in five main areas: housing, education, employment, health and financial inclusion.

[162] National energy-related strategies include the National Energy Strategy, National Energy Security Strategy, National strategy for Renewable Energy Sources, National Action Plan for Energy Efficiency, etc.

targets and specific strategies as well as mechanisms for the overall coordination and financing of energy efficiency measures[163]. Many of the surveyed experts believe that the inadequate funding of energy efficiency (EE) investments or a lack of legislation and its implementation are the most important policy gaps of the national strategy.

The survey conducted for this report focused on SMEs in order to comprehend their financing needs and perceptions with regard to energy efficiency financing. The analysis is based on two groups of answers. The first group represents 16% of the surveyed SMEs which implemented a project aiming at improving energy efficiency during the last three years (2011, 2012, and 2013). The second group represents the nearly 20% that revealed an intention to invest in energy efficiency in the next three years. This is an indication that energy efficiency can become a continuous process for companies that have experienced benefits from investing in this field.

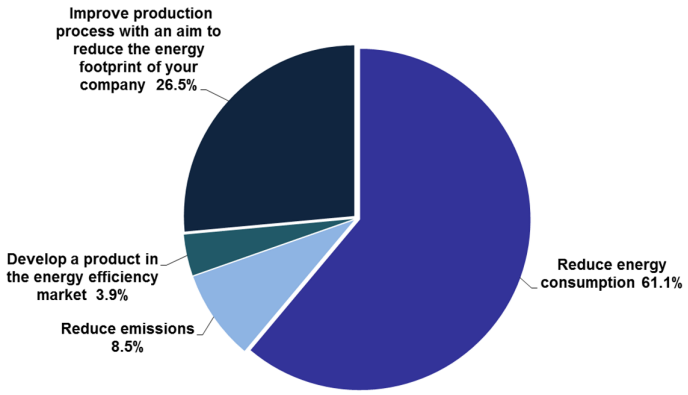
The SME population has implemented or plans to implement energy efficiency projects, and is thus similar to the total SME population, dominated by micro-enterprises. Almost half of these SMEs consider their companies as mature (47%), while 28% state that they are in a post-creation or in a developing phase[164]. Very few are start-ups, and this is not surprising given that energy efficiency is not a likely priority at this stage. The fact that almost half of companies that implemented such investments are in a mature phase, however, indicates a potential target group for companies willing to invest in improving their energy efficiency. These are companies that are already established in their sector and activity, most probably have already achieved their goals, thus allowing them to focus on other goals and priorities.

More than half of the undertaken projects focused on the reduction of energy consumption (61%) thus reducing costs for these companies. Despite the fact that reducing cost is the main motive for such investments, an environmental awareness also emerges since 27% of companies aim at reducing the energy footprint of their companies. The business orientation of such projects seems limited since only 4% of these investments focused on the development of a new product. This is consistent with the analysis on the lack of innovation in the Slovak market.

[163] Energy Efficiency in Europe: Assessment of Energy Efficiency Action Plans and Policies in EU Member States, Slovakia, 2013.

[164] The number of SMEs that provided an answer: 60.

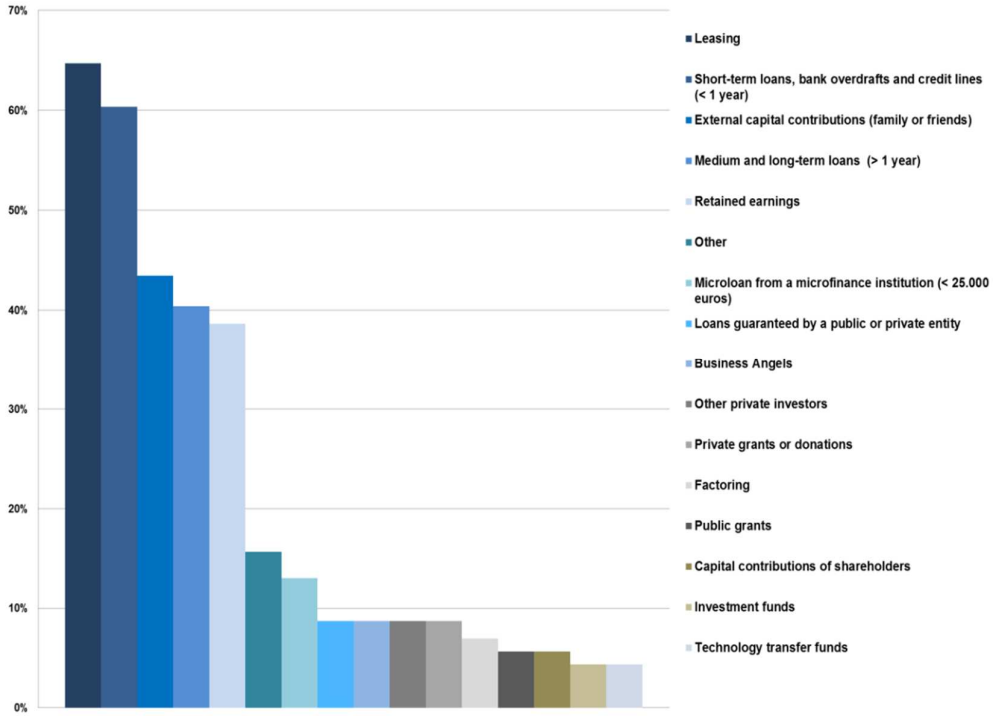
Figure 38: Reasons for implementing energy efficiency projects165



Source: PwC, SME online survey in the Slovak Republic, 2014.

SMEs which implemented energy efficiency projects in the past seem to have similar funding sources to the overall SME population, especially regarding the focus on leasing products and short-term loans. But it is notable that these enterprises used more public grants (10%) than the overall SME population (around 6%).

Figure 39: Sources of funding used by enterprises which implemented energy efficiency projects over 2011 - 2013[166]



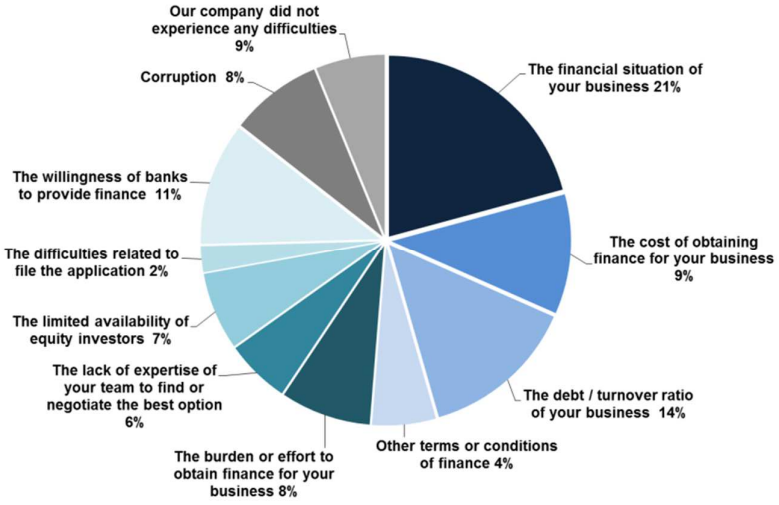
Source: PwC, SME online survey in the Slovak Republic, 2014.

165 The number of SMEs that provided an answer: 60.

166 The number of SMEs that provided an answer: 42.

SMEs which implemented energy efficiency projects in the past also seem to have similar obstacles in accessing finance as the overall SME population (Figure 40). These reasons are mostly related to the financial situation of the companies or the cost of obtaining finance. Respondents also referred to the terms and conditions (collateral and other requirements) as a limiting factor for access to finance (13%).

Figure 40: Reasons referred to as difficulties in receiving financing for SMEs having implemented energy efficiency projects[167]



Source: PwC, SME online survey in the Slovak Republic, 2014.

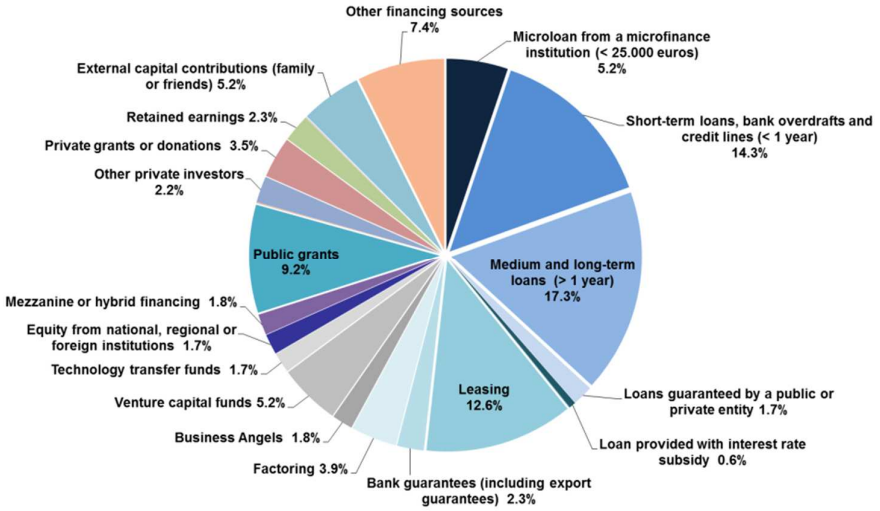
The expected financing products to be sought by these companies in 2014, not necessarily for energy efficiency projects, are similar to those anticipated by the whole SME population (Figure 41). An important aspect to highlight is that companies willing to invest in energy efficiency projects will more likely target investment financing products such as medium and long-term loans and leasing products.

A further important point to raise from the findings is the fact that companies that have implemented an energy efficiency project in the past do not appear to have been strongly supported by an existing FI and especially by existing guarantee schemes.

As shown in the figure above, almost half of these companies did not feel supported by the state authorities while a vast majority of them did not feel supported by guarantee institutions. This is further validated by the figure below showing that among those companies that secured loan finance, only 0.5% used a guarantee scheme to meet the collateral requirements, and those who did were solely medium-sized enterprises.

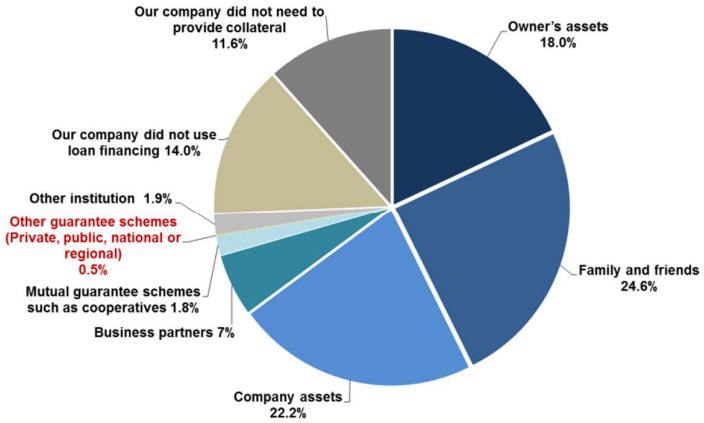
167 The number of SMEs that provided an answer: 60.

Figure 41: Expected financing products to be sought by SMEs having implemented energy efficiency projects[168]



Source: PwC, SME online survey in the Slovak Republic, 2014.

Figure 42: Collateral used by SMEs that implemented an energy efficiency project in the last three years and received a loan also in the last three years[169]



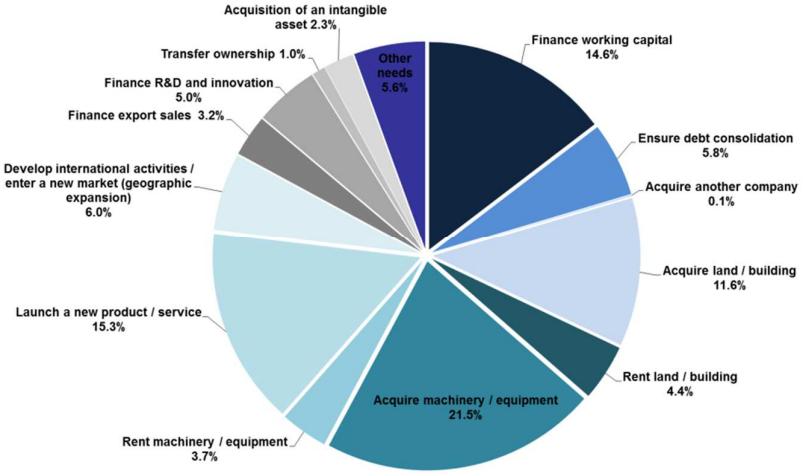
Source: PwC, SME online survey in the Slovak Republic, 2014.

Regarding companies which intend to implement energy efficiency projects in the next three years, 22% of these companies intend to seek financing in order to acquire equipment (Figure 43). However it is important to highlight that 5% of respondents state that they intend to use financing in order to finance R&D and innovation and that 15% are planning to launch new products or services. This is an indication that the support of companies willing to invest in energy efficiency would create positive spill-over effects also for innovation which remains weak in the country.

168 The number of SMEs that provided an answer: 55.

169 The number of SMEs that provided an answer: 59.

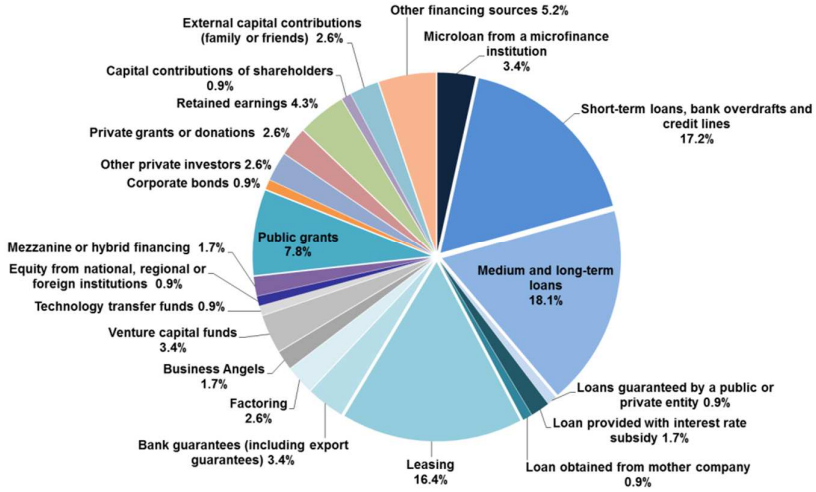
Figure 43: Use of funding by companies planning to implement an energy efficiency project in the next years[170]



Source: PwC, SME online survey in the Slovak Republic, 2014.

According to the survey and Figure 44 below, 35% of respondents intend to seek debt financing in 2014 while 16% intend to seek leasing financing in order to finance their company and their investments (including in energy efficiency but not necessarily focused on that). It is interesting to underline that only 1% intends to seek guaranteed loans, indicating that these companies do not have awareness that existing guarantee schemes are relevant to them.

Figure 44: Financial products to be sought in 2014 by companies planning to implement an energy efficiency project in the next years[171]



Source: PwC, SME online survey in the Slovak Republic, 2014.

Based on stakeholder interviews the following crucial difficulties exist for SMEs willing to invest in energy efficiency projects:

170 The number of SMEs that provided an answer: 65.

171 The number of SMEs that provided an answer: 54.

- No clear conditions on how to obtain financing from public sources or SMEs are not able to cope with the administrative burden related to the application procedure;
- No awareness of existing financing products;
- No awareness of eligibility criteria to access finance;
- SMEs do not see an early return on such investments, but would need to acquire a long term debt in order to finance the investment.

According to interviews and the desk research, the two promising areas in the energy sector are renewable energy sources (RES) and energy efficiency for buildings. On the other hand, eco-innovation is still very weak[172] as there has been little support during the last two years to promote it. It appears that activities in the coming years that will generate potential demand will continue concentrating on the development of renewable energy technologies and improvement of energy efficiency in construction, and public transportation, where some initiatives have been observed in improving the transport fleet and introducing vehicles operating on alternative fuel sources (Eco-Innovation Observatory Country Profile 2013). The government commitment to the EU 2020 targets will furthermore increase demand for RES projects. Particularly the focus on small RES (up to 10 kW) will be of relevance for the SME sector[173].

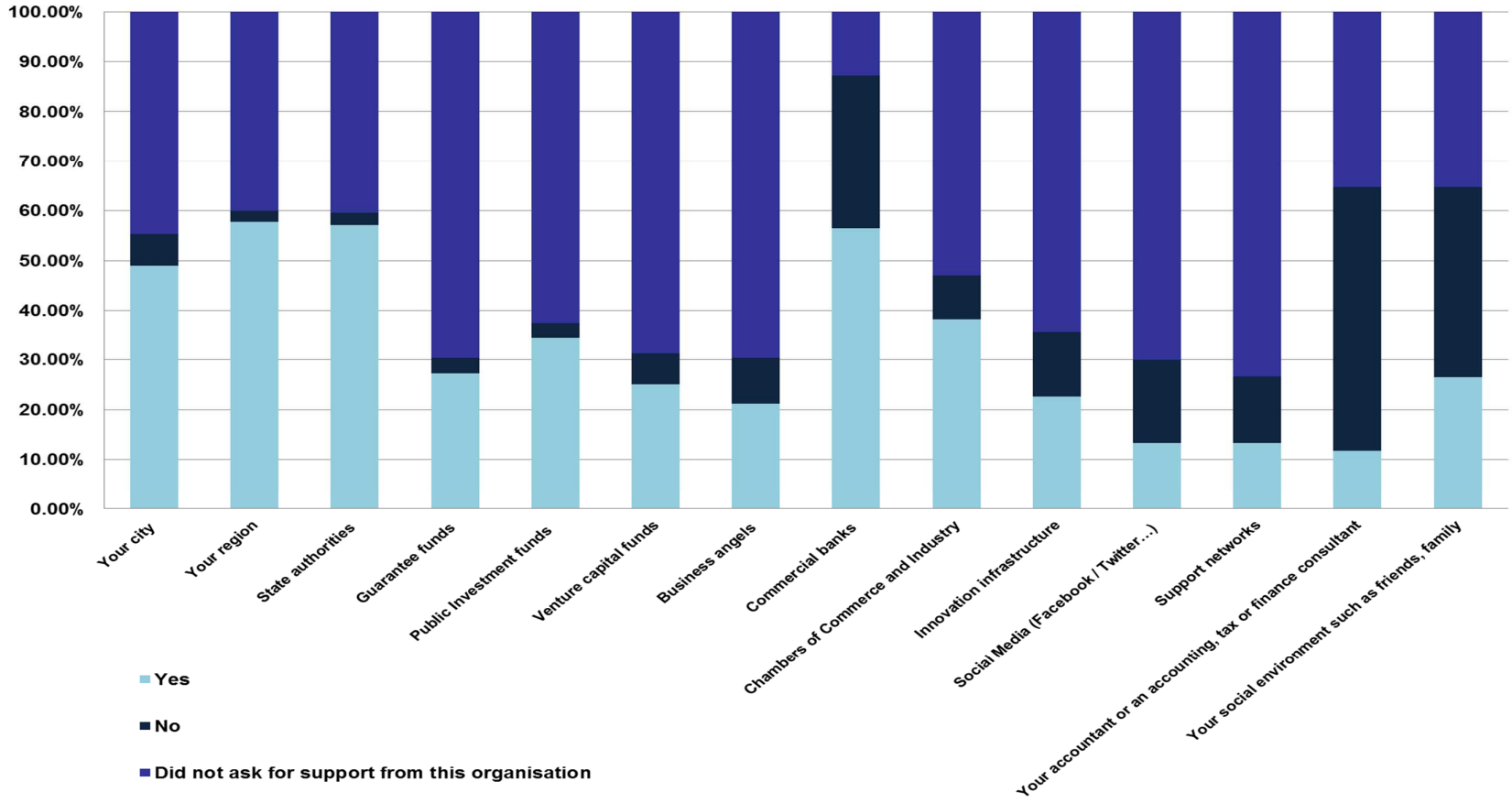
The Ministry of Economy estimated that the total investment costs for private enterprises associated with achieving the 14% share of RES in final energy consumption (as committed under Europe 2020 strategy objectives) would range between EUR 3.3bn and EUR 4.3bn over a period of 10 years. This amount is not likely to be covered by the current supply of financing products and thus the development of Financial Instruments becomes very relevant[174].

[172] According to the Community Innovation Survey (2011) 0.07% of all Slovak enterprises have implemented innovation activities aimed at reducing materials and 8.54% of companies have implemented innovation activities aimed at reducing energy input.

[173] Photovoltaic, micro-wind type of installation, solar collectors, biomass boilers and heat pump installation will be the focus investment area within small RES according the Government of the Slovak Republic.

[174] Ministerstvo hospodárstva (2009),SR: Dokument s prognózou odhadovaného množstva energie z obnoviteľných zdrojov energie (Prognosis of estimated amount of energy from renewable energy sources in Slovakia).

Figure 45: Feeling of lack of support from institutions by SMEs having invested in energy efficiency in the last three years[175]



Source: PwC, SME online survey in the Slovak Republic, 2014.

[175] The number of SMEs that provided an answer: 52.

8 Financing gaps, conclusions and recommendations

This chapter of the report provides the calculations of the financing gaps per segment of company category and per financial product in order to draw conclusions and present recommendations to be used for the development of a future investment strategy for the use of Financial Instruments. The chapter is set out as follows.

Section 7.1 outlines the methodology used to calculate the financing gaps. The first part of the analysis provides estimates of the financing gaps based on the estimated existing supply and the potential demand per company category and financial product. More targeted financing gaps are then calculated based on a recent approach elaborated by the European Commission[176] which takes into account the demand for financial products from *viable* SMEs in the Slovak Republic.

In Section 7.2 the financing gaps based on both potential and "viable SMEs" demand are presented and analysed. The analysis is carried out by segment of company size and per financial product.

Section 7.3 summarises the analysis of the financing gaps.

Section 7.4 provides conclusions and main findings of the market assessment.

Section 7.5 presents the recommendations for the PIS (presented in Chapter 8) in the Slovak Republic, including lessons learned from previous initiatives.

8.1 Rationale behind financing gaps and methodology to compute them

In order to provide a greater perspective of the SMEs' needs in Slovakia, two different methodologies have been used to define the financing gaps: one that provides the total amount that SMEs would like to seek compared to the total supply, and the other one which takes into account the pressing issue of viable, growing companies that have failed to raise finance. In the following paragraphs, the rationale behind the use of financing gaps is first provided in order to define the context and understanding of the gaps. Second, the two methodologies are detailed.

8.1.1 Rationale behind financing gaps

The estimated supply of financial products presented in Chapter 7 was based on market trends and estimates of market stakeholders. As a result, it can be argued that the estimated supply figures can be considered more straightforward and objective due to the fact that market stakeholders have the expertise to provide such insights based on the liquidity and overall conditions of the institutions they represent.

The estimated demand is based on the online survey answers provided by SME owners and is related to their knowledge of their respective markets and the perspective of their company. In the present report, financing gaps are first calculated by subtracting existing supply from potential

[176] European Commission (2013). Ex-ante assessment of the EU SME Initiative. Staff Working Document, November 2013.

demand. The following points have to be taken into account when assessing the financing gaps based on potential demand.

- **Potential demand may not actually translate into action**. SMEs express their expectations and intentions when answering the online survey. These intentions may however not translate into action in the coming months or years for several reasons. SMEs may be discouraged to ask for finance, because of requirements (collateral, interest rates) or because of their difficult financial situation. They may also change their growth strategy and decide to postpone their investments.
- **Transition process in the market due to the crisis**. The financial and economic crisis forced SMEs to reduce their investment and sometimes downsize their business. In light of their concerns to remain competitive or remain sustainable, SMEs might be willing to make the necessary investments. This situation may motivate SMEs to seek long-term loans for investment while continuing to seek short-term loans to cover their working capital needs. Demand for financing in 2014 may consequently be high and may abate during the year if growth forecasts are revised downwards.
- **Limited knowledge of financing sources and products**. SMEs may not be aware of all the financing sources available on the Slovak market. SMEs may consequently keep seeking debt financing without envisaging other funding sources. Demand for products provided by the banking system may consequently remain high, while more sophisticated products could be more appropriate to SMEs' actual needs.
- **Uncertain economic environment**. Even if the Slovak Republic was impacted by the financial and economic crisis only for a limited period, the general economic environment remains uncertain in the country. This uncertainty and current needs for working capital and investment may motivate SMEs to seek higher amounts of financing than they might actually need.

These market conditions create a tendency for SMEs to overestimate their financing needs or to request financing which is needed for more than one year. As a result, the financing gaps calculated with potential supply and potential demand should not be perceived by policy makers as amounts that should be covered in a single year or as gaps which have to be bridged by Financial Instruments in order to catalyse private financing for SMEs. They are an indication of financing needs in the overall economy of the Slovak Republic, according to the methodologies described in the report and market constraints experienced by SMEs in the country.

In order to give the analysis of financing gaps a more operational focus for the design of Financial Instruments, the report also provides viable financing gaps (VFGs). These gaps express a more targeted approach for identifying needs of SMEs which experience growth but do not have access to finance. Nevertheless, it has to be taken into account that these needs do not necessarily reflect a realistic view of the market, but only a minimum existing gap for the following reasons:

- The definition of a viable company (as described later on in Section 8.1.c) is a limiting factor, especially under the current market conditions. SMEs which have deteriorating financial standings due to external reasons are not taken into account, nor are newly created SMEs which should be a target of Financial Instruments.

- SMEs which are viable but do have access to finance could be in a process of experiencing financing constraints which do not allow for the further development of their activities or for their expansion to international markets. These SMEs create important added value and should be taken into account when analysing financing gaps.
- SMEs which have difficulties restructuring their existing debts are also not included. These companies could become viable if supported in their process to renegotiate their terms on existing loans. However, the impact of these companies on financing demand is difficult to estimate.
- Potential financing demand of SMEs that do not yet exist is not taken into account (due to lack of data availability).

Both of the above-mentioned methodological approaches to calculating financing gaps provide useful information to policy makers. They define maximum needs from the potential demand and minimum needs from the viable financing gaps. These elements can define a context on which future public help can focus.

The methodologies used to compute the financing gaps are detailed in the following paragraphs.

8.1.2 Methodology to compute financing gaps with estimated supply and potential demand

The first methodology to calculate the financing gaps uses the estimated supply and the range of potential demand calculated in the previous sections of the report for each category of SME and each financial product.

For each financial product considered per category of SMEs, two steps have been followed: first, the minimum estimated supply is subtracted from the lower figure of the potential demand (as calculated in Chapter 7). Second, the maximum estimated supply is subtracted from the higher figure of the potential demand.

For each of the subtractions, when a positive number is obtained, a financing gap is identified. If a subtraction provides a negative number, it means that, under certain circumstances, the supply in 2014 may cover the potential demand for the considered financial product.

This computation methodology is followed for two categories of SMEs (micro-enterprises on the one hand and small together with medium-sized companies on the other hand) and three financial products: short-term loans, medium and long-term loans and leasing.

8.1.3 The viable SMEs methodology to compute financing gaps

A second methodology is used to estimate financing gaps for loans. It follows the approach based on "viable SMEs" that was suggested by the European Commission in a recent report[177], and the gaps

[177] European Commission (2013). Ex-ante assessment of the EU SME Initiative. Staff Working Document, November 2013.

estimated by using this method will be henceforth referred to as Viable Financing Gaps or VFGs. The methodology used by the EC estimates financing gaps by using two elements:

- The identification of the percentage rate of financially viable SMEs that were unsuccessful in obtaining loan finance in the Slovak Republic; and
- The calculation of a loan financing gap by using an average loan amount that would have been requested by these companies.

In the EC report, viable SMEs are defined as SMEs that have registered positive growth in terms of turnover in the last six months. The proportion of viable SMEs that were unsuccessful in obtaining loan finance is considered in the EC report as the share of SMEs that (1) applied for a bank loan but were rejected by the bank (bank rejection); (2) refused the bank's proposed loan because of high interest rates (SME refusal); and (3) did not apply for a loan for fear of rejection (SME discouragement). For the Slovak Republic, the EC report estimates the proportion of viable SMEs that were unsuccessful in obtaining loan finance at 8.8%. In order to compute a viable loan financing gap for SMEs in Slovakia which is in line with the EC report's assumptions, the following methodology has been used in the present report.

The proportion of financially viable SMEs that were unsuccessful in obtaining loan finance has been estimated for the two categories of SMEs. The number of SMEs defining their turnover as better or much better between 2011 and 2013 has been taken from the online survey data. Among the viable SMEs, the share of companies that were unsuccessful in obtaining loan finance has been calculated. In doing so, the proportion of viable micro-enterprises unsuccessful in obtaining loan finance has been estimated at 13.3%. The respective percentage of small and medium-sized companies taken together has been estimated at 6.3%. These percentages are applied to the population figure used to calculate the potential demand previously[178].

For each size category of companies, the calculation of the financing demand from a single company is multiplied by the share of viable unsuccessful SMEs. The average loan amounts to be sought by a single company that have been previously computed and presented in Section 7 have been used. A variation of -5% and +5% is then applied to each result so as to take into consideration the potential fluctuation.

In order to illustrate the methodology presented above, the following box provides the calculation used to estimate the financing gap of viable micro-enterprises that would be unsuccessful in obtaining short-term loans.

[178] For example, 30,530 micro-enterprises for short-term loans, 19,505 for medium and long-term loans and 17,642 small and medium-sized companies taken together (14,898 small enterprises and 2,744 medium-sized companies).

Box 2: Example of calculation of a viable financing gap (VFG) for short-term loans for viable micro-enterprises

Step 1: Calculating the share of viable micro-enterprises that were unsuccessful in obtaining loan finance

The percentage of micro-enterprises that define their turnover as better or much better between 2011 and 2013, but are unsuccessful in obtaining short, medium and long-term loans, represent 13.3%[179] of all micro-enterprises in the Slovak Republic. The absolute number of micro-enterprises is 4,046 for short-term loans.

Step 2: Computing the average short-term loan sought by a single micro-enterprise

This computation provides the average demand of short-term loans for micro-enterprises. The average amount is EUR 30,625.

Step 3: Multiplying the average amount by the number of viable micro-enterprises that were unsuccessful in obtaining loan finance

The formula is the following: 4,046*30,625 = 123,911,714[180].

Step 4: Estimate of a reasonable range for the viable financing gap

Based on the calculation in step 3, a viable financing gap is obtained. In order to take into account of the variation of the demand around this viable financing gap, a variation of -5% and +5% is applied, giving a viable financing gap between EUR 118m and EUR 130m.

The same approach is applied to the other category of SMEs and to medium and long-term loans.

8.2 Financing gaps

The analysis in this section, based on the two methodologies described above, presents the financing gaps computed according to the potential demand for financial products as well as the viable financing gaps (VFGs) based on viable demand.

8.2.1 Financing gaps for micro-enterprises

Micro-enterprises in Slovakia represent the vast majority of companies in the country. Their importance is increasing as their relative number is also increasing since 2009. An important point to be taken into account is the fact that 0 employee companies are also increasing fast. This trend is an indication that the Slovak economy is in a transition phase where the industrial sector is no longer

[179] This percentage corresponds to the micro-enterprises that perceive their turnover as better or much better between 2011 and 2013, who sought finance and were unsuccessful in obtaining short, medium or long-term loans. The respective percentage for small and medium-sized enterprises is 6.3%. This illustrates again the difference in access to finance for micro-enterprises and small/medium-sized companies.

[180] The result of this calculation is 123,908,750 but contains rounding errors and the actual result is 123,911,714.

able to absorb employees, thus leading people toward entrepreneurship. However, that many self-employed people are actually hired by other companies as full time employees and, consequently, do not share the same needs and concerns as entrepreneurs and business owners.

8.2.1.1 Financing gaps for microfinance

As mentioned previously, the microfinance market is being restructured with the creation of the microfinance fund of SBA and the implementation of Progress through OTP. Both the supply of microfinance and the demand for it for 2014 were calculated in the previous chapter.

The quantitative estimate of the financing gap for 2014 based on potential demand from existing micro-enterprises in the Slovak Republic is indicated in the table below.

Table 46: Potential financing gap for microfinance for micro-enterprises in 2014

	Range of potential demand (EUR Mil.)	Estimated supply (EUR Mil.)	Financing gap (EUR Mil.)
Microfinance	**748 - 826**	**4**	**744 - 822**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

The range of the financing gap between EUR 744m and EUR 822m for microfinance indicates an important need for this product for micro-enterprises. As explained during the interviews, microfinance products are not well identified in the country while the demand for this product indicates a clear need for short-term financing. It also shows that the estimated supply for 2014 is far from covering the potential demand and that the microfinance market requires the restructuration which is currently occurring.

Following this, the financing gap for microfinance may be explained by:

- The difficulties that micro-enterprises – and especially 0 employee companies – experience when seeking financing from financial institutions, and especially banks. Microfinance Institutions are limited to state-owned institutions and are not well known to micro-enterprises in the country. This leads to an important demand for microfinance, which is however not always understood as micro-loans below EUR 25,000. Demand for these products will also increase in the future due to the increasing number of micro-enterprises and newly created businesses. Despite the development of the microfinance market, MFIs will have difficulties to cover this increasing demand in 2014.
- The fact that no microfinance market *per se* may be clearly identified in Slovakia. This financing product is implemented both by commercial banks and state-owned institutions, but not by specialist MFIs. The SZRB for instance, provides microfinance directly to SMEs without leverage from intermediaries and provides loans up to EUR 50,000. Despite the fact that this institution should intervene after SMEs are rejected by commercial banks, in practice SMEs prefer to apply directly there for a loan.

Moreover, a need for microfinance for social inclusion has been computed in the previous section. This need is estimated at EUR 587m. It corresponds to the financing amount of microfinance that would be needed by new business creators who currently face social exclusion and may be willing to

launch a business if they were better supported in their access to finance. Table 47 below indicates the total financing gap for microfinance, including microfinance needed for social inclusion.

Table 47: Potential financing gap for microfinance for micro-enterprises in 2014, including social inclusion

	Financing gap for existing micro-enterprises (EUR Mil.)	Financing gap for social inclusion (EUR Mil.)	Total financing gap for microfinance (EUR Mil.)
Microfinance	**744 – 822**	**587**	**1,331 - 1,409**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

The total financing gap for microfinance ranges between EUR 1,331m and EUR 1,409m in 2014. This financing gap indicates that microfinance is expected to be more sought and used in the future by micro-enterprises, while microfinance providers might have difficulties to cope with this increase. An effort to clearly define microfinance and clarify the distinction between microfinance products and standard loans would greatly benefit the market. As a result of this distinction, some state-owned institutions would be then able to better target beneficiaries and a Financial Instrument supporting microfinance supply would consequently benefit micro-enterprises (and more specifically 0 employee companies and newly created businesses).

8.2.1.2 Financing gaps for loans and leasing

Many micro-enterprises in Slovakia are experiencing problems in accessing the banking system, which is the main source of corporate funding in the country. Access to mainstream banking products tends to be limited to micro-enterprises with credit history of the owner, larger turnovers and suitable assets for collateral.

The quantitative estimate of the financing gaps based on potential demand for micro-enterprises in the Slovak Republic is summarised in the tables below for 2014.

Table 48: Potential financing gap per financial product for micro-enterprises in 2014

	Range of potential demand (EUR Mil.)	Estimated supply (EUR Mil.)	Financing gap (EUR Mil.)
Short-term loans, bank overdrafts and credit lines	888 - 982	517 - 571	372 - 411
Medium and long-term loans	1,233 - 1,362	33 - 36	1,200 - 1,326
Leasing	747 - 826	297 - 328	451 - 498
Total	**2,868 - 3,170**	**846 - 935**	**2,022 - 2,235**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

These gaps are subject to the limitations described in the previous paragraph but they provide a reasonably realistic view of the total potential financing needs of micro-enterprises in the region. For 2014, the range of the financing gap between EUR 372m and EUR 411m for short-term loans is an indication of a need for working capital finance for micro-companies. The quantification of these gaps seems consistent with the interviews carried out and the financing gap for microfinance, since stakeholders underlined the need for working capital financing for micro-enterprises.

Financing needs for investment are also highlighted by the financing gaps for long-term loans for 2014 (where the financing gap is from EUR 1,200m to EU 1,326m). This financing gap primarily indicates the very limited supply of long-term loans to micro-enterprises.

Even though the leasing market is well-developed in Slovakia and leasing is the most used financing product among micro-enterprises, a financing gap was computed for this product for 2014. The range for potential demand (between EUR 451m and EUR 498m) illustrates above all a need for investment expressed by micro-enterprises. It is a well-known product among these companies and its access seems easier than to loan financing for which banks require collateral. This limited accessibility is especially visible in the case of medium and long-term loans.

The demand analysis in Chapter 7 demonstrated that micro-enterprises may not be trying to access the right kind of finance for their intended use. This should be an indication that micro-enterprises would benefit from customized products in terms of amount, maturity, grace period, and possible collateral. The lack of specialised and regionally present MFIs with a strong familiarity of their customers' needs enhances the shortcomings in loan products for micro-enterprises. With regard to the heterogeneous nature of micro-enterprises, mainly with 0 employees, and start-up micro-enterprises, the supply of targeted products is a crucial success factor in closing the financial gaps as they rely heavily on informal sources and support to cover their funding needs.

Overall, micro-enterprises' problems in accessing finance may also be explained by their difficulties in defining their needs and formulating a clear business plan for the future. This factor highlighted during interviews with financial institutions, is probably due to the lack of managerial skills that entrepreneurs have when launching their activity. In order to cope with these challenges, business owners may need support in order to define the most appropriate financing sources and products for their development.

In order to provide a more targeted view of these gaps, this report has also calculated a gap range for the loan products (short-term loans, overdrafts and credit lines, and medium and long-term loans) based on the viable demand as described in Section 8.1. These gaps (VFGs) are presented in the table below for 2014.

Table 49: Viable financing gaps for micro-enterprises concerning loan products in 2014

	Range for viable financing gap (EUR Mil.)
Short-term loans, bank overdrafts and credit line	118 - 130
Medium and long-term loans	163 - 181
Total	**281 - 311**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

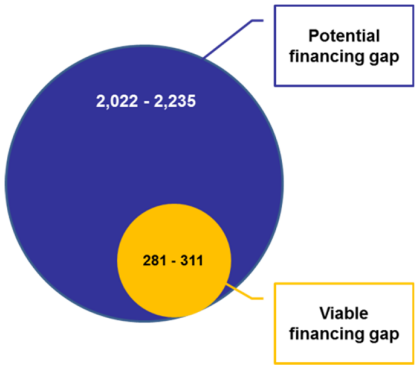
For 2014, the calculation has identified a VFG for short-term loans ranging between EUR 118m and EUR 130m. For long-term loans, the VFG ranges between EUR 163m and EUR 181m. The VFGs refer to financing needs of micro-enterprises which are viable but still have no access to finance. These companies should become a policy priority for future public assistance, since improving their access to finance would create strong additionality.

For 2014, the total viable gap for loan products ranging between EUR 281m and EUR 311m is an indication that the obstacles for the financing of micro-enterprises are not only linked to the viability

of the business plans but also to other constraints, such as the lack of funding at the launch of the business, the lack of financial knowledge, the lack of experience with and relation to financial institutions (often leading to discouragement to seek finance) and especially the lack of collateral. It also illustrates a prudent and conservative banking sector resulting from an overall attitude of the banking system toward micro-enterprises and new regulations on banking risk management (Basel II and III regulations).

In this context, the further development of guarantee products in the country and/or funding products that would better incentivise the existing commercial banking sector to support micro-enterprises would improve their access to bank financing. It would also help to avoid the difficult period that micro-enterprises experience when they need to invest and grow if they have no credit history and lack relations with banks and experience with the banking sector in general. Both potential financing gaps and viable financing gaps for micro-enterprises are illustrated in the following figure for 2014 to show their relative size and expected evolution over time.

Figure 46: Potential financing gaps and viable financing gaps for micro-enterprises for 2014



Source: PwC analysis, 2014.

8.2.2 Financing gaps for small and medium-sized companies

Small enterprises represent a significant smaller segment of the SME population than micro-enterprises in the Slovak Republic. Despite their easier access to banking finance compared to micro-enterprises, barriers also exist for this category of SMEs. Unlike micro-enterprises, small companies rely on banking finance to a much larger extent, especially leasing and short-term loans. As the analysis shows, they will also keep relying on banks in the future mostly due to their size that prevents them from seeking finance elsewhere.

A considerable proportion of small companies consider that their access to debt financing could be improved, especially with regard to the collateral requirements and existing debt ceilings of commercial banks. Overall, small companies were affected by the crisis since their numbers are constantly decreasing since 2009.

Medium-sized enterprises represent a very small segment of the SME population in the Slovak Republic. The crisis did not have such an impact on their viability since their total number has remained stable over the last few years demonstrating their resilience. Similar to small companies, medium-sized enterprises have favoured short-term loans and leasing over the past few years. They,

however, have faced fewer difficulties than small companies.

Financing supply to small and medium-sized companies is above all constrained by the reluctance of banks to lend to the SME sector, especially medium and long-term loans, which are essential for the companies' future investments and development. The quantitative estimate of the financing gap for small and medium-sized companies based on potential demand in the Slovak Republic is summarised in the table below for 2014.

Table 50: Potential financing gap per financial product for small and medium-sized enterprises in 2014

	Range of potential demand (EUR Mil.)	Estimated supply (EUR Mil.)	Financing gap (EUR Mil.)
Short-term loans, bank overdrafts and credit lines	2,550 - 2,782	1,550 - 1,713	967 - 1,069
Medium and long-term loans	3,489 - 3,857	99 - 109	3,391 - 3,747
Leasing	992 - 1,096	890 - 984	102 - 113
Total	**6,998 - 7,735**	**2,538 – 2,806**	**4,459 - 4,929**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

A well-developed range of leasing products, as in the case of micro-enterprises, seems to support the investment needs of these companies whereas the gap in loan products is significant. Small and medium-sized companies experience similar difficulties as micro-enterprises for medium and long-term loans but since their financing needs are naturally higher, the financing gaps are also much large.

Current factors that limit small and medium-sized companies' access to finance are mentioned below:

- Like micro-enterprises, some companies have problems in providing collateral;
- Existing debts prevent banks to lend to small and medium-sized companies;
- The general caution of banks limits the total availability of financial products, especially for the medium and long term, in the market, widening the financial gap from the supply side.

In order to provide a more targeted view of the needs of small and medium-sized companies in the Slovak Republic, it is necessary to consider the viable gaps for loan products (short-term loans, overdrafts and credit lines, as well as medium and long-term loans). These gaps are based on the viable demand as previously defined in Section 7.1. They are presented in the table below for 2014.

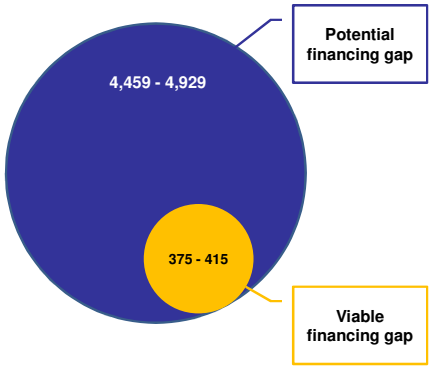
Table 51: Viable financing gaps for small and medium-sized enterprises concerning loan products in 2014

	Range for viable financing gap (EUR Mil.)
Short-term loans, bank overdrafts and credit line	157 - 174
Medium and long-term loans	218 - 241
Total	**375 - 415**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

For 2014, the calculation reveals viable gaps ranging between EUR 157m and EUR 174m for short-term loans and between EUR 218m and EUR 241m for long-term loans. These gaps represent the financing needs of small and medium-sized companies that are viable but still have no access to finance. Similar to micro-enterprises, both potential financing gaps and viable financing gaps are illustrated in the following figure.

Figure 47: Potential financing gaps and viable financing gaps for small and medium-sized enterprises for 2014



Source: PwC analysis, 2014.

Overall, small and medium-sized companies in the Slovak Republic have a better access to finance compared to micro-enterprises but the viable financing gaps do highlight the fact that viable companies are still not provided with the funding they need, to the detriment of the economy. It also indicates how the development and reinforcement of existing Financial Instruments providing guarantees in the country may improve access to finance for this category of SME.

An improved asset base of small and medium-sized companies could also improve their access to debt financing. This would be in addition to guarantees, since the companies could have already used their assets as guarantees for long-term investment. In order to support the growth strategies of small and medium-sized companies, financial products to support equity financing could be developed in that perspective. Larger SMEs may need equity or quasi-equity financing to take more risks, grow and invest in the long-term prospects of their business. Improving and facilitating the access to such financial products for small and medium-sized companies would have a positive impact on economic growth since these companies have often more capacity to mobilise human resources and to innovate. Their innovation strategies may also have a ripple effect towards micro-enterprises which are their suppliers. In that view, Financial Instruments targeting R&D and

innovation but not only at the early stage of the company could be developed to favour growth and risk-taking among small and medium-sized companies.

8.2.3 Financing gap for equity financing

In line with the growth strategies intended by all sizes of SMEs and in comparison to similar markets, the equity market is underdeveloped in the country. When considering potential demand and estimated supply for equity financing in the Slovak Republic, a financing gap emerges. The quantitative estimate of the financing gap is provided in Table 52 below.

Table 52: Potential financing gap for equity financing for all SMEs in 2014

	Range of potential demand (EUR Mil.)	Estimated supply (EUR Mil.)	Financing gap (EUR Mil.)
Equity financing	**169 - 677**	**31 - 35**	**138 – 643**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

For 2014, the calculation reveals a potential financing gap ranging between EUR 138m and EUR 643m for equity financing for all SMEs in the Slovak Republic. This financing gap is, however, mainly indicative because:

- The amounts provided by SMEs in the online survey express intentions and expectations that may not translate into action. Even if SMEs perceive a need to (re)capitalise their companies, they might not start the process of seeking equity financing.
- The intentions expressed by the SMEs may be diverse: some SMEs intend to look for equity because they need to be more capitalised in order to improve their access to debt financing, while other SMEs will do so because their growth strategies require high equity amounts.
- The intentions expressed by SMEs may not materialise in 2014 but later on. SMEs generally find it difficult to plan ahead of one or two years. They consequently express an intention to seek equity financing in the future but this intention may materialise later than the next three years.
- The equity market is before all based on the capacity of supply to meet demand. This requires appropriate financial knowledge of SMEs' directors, capacity of SMEs' directors to develop good business plans, investors (BAs, VC or PE funds) willing to invest in the sector where the SME is operating.

The analysis conducted in the previous section highlighted that equity financing in the Slovak Republic is characterised mainly by:

- Low demand and supply;
- Low level of awareness of equity financing among SMEs and consequently lack of knowledge and experience is faced by all sizes and all maturity stages;
- The opportunity for the equity market will be to improve the access to equity financing for small and medium-sized enterprises with high-growth potential in order for them to further develop their activities, and for micro-enterprises at the start-up phase in order to allow them to receive bank financing.

Overall, the equity financing market in Slovakia is mostly generated by public assistance schemes through SBA and JEREMIE while private initiatives are still limited and fail to create a substantial impact in the market. The newly established funds by JEREMIE will be able to attract in the medium-term private investors and even stimulate the creation of an active business angel network.

8.3 Conclusions and main findings

The analysis conducted in this report revealed that the Slovak Republic proved resilience against the crisis but the market entered into a process of transition that is affecting the SME population of the country. The industrial tradition of the country developed over the years a strong industrial sector that on the one hand, promoted exports and on the other, nurtured a comfort zone for SMEs that were involved in the manufacturing process. As a result of this comfort zone, SMEs became dependent on the larger companies and failed to build a healthy credit history and cooperation with the financing institutions. Nevertheless, after the beginning of the crisis, the industrial sector seems to remain at a standstill and is no longer able to absorb the employment needs of the country. This situation seems to have a stronger effect on small companies rather than medium-sized enterprises. Moreover, unemployed people having lost their jobs from small and medium-sized companies which downsized seem to lack the technical skills and training to be rehired and become self-employed either to start a new business or to be employed by companies but under a less permanent status.

The objective of the analysis conducted in the present study was to identify the main characteristics of SMEs' access to finance in the Slovak Republic, to draw a picture of the current situation, identify the major constraints and analyse any existing financing gaps. In this framework, the overall objective has been to consider market failures, suboptimal investment situations and financing needs in the SME sector. The goal of this analysis is to contribute to the formulation of an investment strategy for Financial Instruments for SME financing that would use the European Structural and Investment Funds, and more specifically ERDF resources. This analysis also draws from the experience of the current use of the Financial Instruments already in place. The PIS is presented in the next chapter

8.3.1 Microfinance

Demand for microfinance covers both existing SMEs and people currently unemployed and/or at risk of poverty who see themselves as potential business creators if their access to finance was facilitated (social inclusion).

In the case of the Slovak Republic, the potential financing gap for microfinance for existing micro-enterprises in 2014 ranges between EUR 744m and EUR 822m. Concerning microfinance for social inclusion, a gap has been estimated at EUR 587m.

Following that, a total financing gap for microfinance may be considered between EUR 1,331m and EUR 1,409m. As already mentioned, the microfinance financing gap may be partly explained by the

current structuration of the market and the past unclear definition of microfinance (with the supply of loans up to EUR 50,000). This is despite a clear need for short-term financing expressed by micro-enterprises, as illustrated in the VFGs for short-term loans in the following paragraphs. The table below summarises the financing gap for microfinance.

Table 53: Potential financing gap for microfinance for micro-enterprises in 2014, including social inclusion

	Financing gap for existing micro-enterprises (EUR Mil.)	Financing gap for social inclusion (EUR Mil.)	Total financing gap for microfinance (EUR Mil.)
Microfinance	**744 - 822**	**587**	**1,331 - 1,409**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

8.3.2 Short-term loans, overdrafts, credit lines

SMEs of all sizes have needs for working capital financing in the Slovak Republic. On the supply side, the analysis has highlighted that commercial banks do not face liquidity issues and can provide low interest rates to SMEs. Commercial banks seem however to implement a conservative approach toward financing SMEs and also seem to have difficulties finding bankable companies with business plans that conform to their preferred risk profile. According to interviews with commercial banks, business owners and entrepreneurs lack financial and management skills, thus further limiting their access to bank financing.

On the demand side, SMEs in the country first consider investment as a priority. They estimate day-to-day business as the second most important use of their financing. This implies a need for long-term and short-term loans that is also increased by the lack of visibility that micro-enterprises may have of the microfinance market.

The findings of potential financing gaps reveal difficulties for all three categories of SMEs to access short-term financing. Financing gaps are however higher for small and medium-sized companies due to their larger amount generally required per company.

The calculation of viable financing gaps for all categories of SMEs is provided in the table below. Contrary to gaps resulting from a total potential financing need, the VFGs are very similar for micro-enterprises on the one hand and small and medium-sized enterprises on the other hand.

The current restructuring of the microfinance market may partly explain the VFG for micro-enterprises for short-term loans. Viable micro-enterprises that should look for microfinance to launch their business and support its first development, ask for short-term loans instead of microfinance products. This approach may be explained by an unclear distinction between the two products.

Table 54: Viable financing gaps for short-term loans, overdrafts and credit lines in 2014

	Viable financing gap for micro-enterprises (EUR Mil.)	Viable financing gap for small and medium-sized enterprises (EUR Mil.)	Viable financing gap for SMEs (EUR Mil.)
Short-term loans, bank overdrafts and credit lines	118 - 130	157 - 174	**275 - 304**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

8.3.3 Medium and long-term loans

All sizes of SMEs use medium and long-term debt financing in the Slovak Republic. These loans are sought to finance investment and business expansion and are crucial for the enterprises' future development and sustainability. In 2014, and presumably also in the next years according to positive economic forecasts, micro, small and medium-sized companies intend to continue investing in their equipment and machinery as well as launch new activities.

Viable financing gaps were also calculated and are presented in the table below.

Table 55: Viable financing gaps for medium and long-term loans in 2014

	Viable financing gap for micro-enterprises (EUR Mil.)	Viable financing gap for small and medium-sized enterprises (EUR Mil.)	Viable financing gap for SMEs (EUR Mil.)
Medium and long-term loans	163 - 181	218 - 241	**381 - 422**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

The table above presents viable financing gaps for medium and long-term debt. According to the analysis, the reluctance of the banking sector to support SMEs is the main reason for this financing gap. Demand side constrains primarily concern micro- and small enterprises which have difficulties to meet the collateral requirements, but it also includes medium-sized enterprises despite their stronger asset-base. While a large part of investments needs is currently substituted by leasing, bridging these gaps would foster and secure investments and job creation in the long-term.

8.3.4 Leasing

The analysis concerning leasing products has highlighted a preference from SMEs for these products in the Slovak market. Leasing products are used by all sizes of enterprises, particularly by small and medium-sized enterprises. Micro-enterprises also benefit from leasing products for investing, but to a much lesser extent. Leasing products support SMEs in their investments in machinery and equipment without calling upon long-term debt.

Calculations show a financing gap based on potential demand for micro-enterprises between EUR 451m and EUR 498m. A financing gap ranging between EUR 102m and EUR 113m for small and

medium-sized companies has also emerged from the calculation. For all SMEs, the potential financing gap for leasing products calculated ranges from EUR 553m to EUR 611m. This financing gap demonstrates that a Financial Instrument supporting leasing products would support SMEs in their investment strategies and initiatives to launch new activities.

Table 56: Potential financing gaps for leasing in 2014

	Potential financing gap for micro-enterprises (EUR Mil.)	Potential financing gap for small and medium-sized enterprises (EUR Mil.)	Potential financing gap for SMEs (EUR Mil.)
Leasing	451 - 498	102 - 113	**553 - 611**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

8.3.5 Equity

The equity market in Slovakia is underdeveloped. Despite the inflow of FDI in the country, private investors are not active in VC or PE. Especially since the beginning of the crisis, raising capital for funds targeted at the CEE region remains one of the most important barriers to developing these markets. As a result, Private Equity and Venture Capital funding is mainly provided by funds from public institutional investors, namely through the SBA, while the 2014 launch of the JEREMIE funds is expected to improve the equity financing environment. The newly established funds will probably drive equity funding in Slovakia and are consequently very important in generating equity investments for SMEs but also in generating leverage of private funds.

The analysis conducted highlighted that equity financing in the Slovak Republic is characterised mainly by:

- Weak demand and supply; and
- Low level of awareness on the benefits of equity financing among SMEs and consequently lack of knowledge and experience in interacting with equity funds concerning all sizes and all maturity stages.

For 2014, estimates of supply of equity financing to SMEs in the country have been computed. In total, private and public equity financing providers may distribute between EUR 31m and EUR 35m. While numbers for BA investments do not exist, VC funds may provide between EUR 15m and EUR 17m and PE funds may provide between EUR 16m and EUR 18m.

A potential financing gap was calculated for equity financing for all SMEs in the country. The table below presents the financing gap for 2014.

Table 57: Potential financing gap for equity financing for all SMEs in 2014

	Financing gap for equity financing (EUR Mil.)
Equity financing	**138 – 643**

Source: PwC analysis, 2014. See Boxes 1 and 2 for detailed descriptions of the methodology.

For 2014, the calculation reveals a potential financing gap ranging between EUR 138m and EUR 643m for equity financing for all SMEs in the Slovak Republic. This financing gap is, however, mainly indicative for a variety of reasons.

Developing Financial Instruments for equity financing would help SMEs implement their growth strategies, built assets and have better access to debt financing in the future. In parallel, further actions to improve awareness for the benefits of equity financing would ease possible objections often expressed by SME owners concerning sharing the management of their business.

As described in the analysis of the present study and according to interviews with SME representatives, demand for equity financing derives from all sizes of SMEs and all sectors, but primarily from:

- Non-innovative, newly-created, micro-enterprises would benefit from seed funding in order to enhance their asset base and make them more attractive to commercial banks. Such instruments may also motivate newly created companies to hire employees, thus contributing to the struggle against unemployment;
- Innovative SMEs of all sizes. Innovation remains underdeveloped in the country and despite some success stories in the ICT sector. However, innovation is often generated by opportunity, thus the design of equity instruments for innovative SMEs will help explore potential innovative projects.
- Small companies struggling with the crisis. As defined through the analysis, small companies seem to suffer most from the crisis and appear to be downsizing. The support of these companies through equity financing could help them improve their asset base and redirect their activities toward more profitable sectors and markets.
- Mature medium-sized companies with investment and/or turnaround strategies. Having overcome the crisis years, SMEs intend to invest in their growth over the coming years. However, SMEs are often not capitalised enough to ensure the viability of their planned investments. That is why mature companies, and more particularly medium-sized companies, need equity financing to solidify their equity structure if they want to obtain investment financing from commercial banks.

The newly established funds by JEREMIE will be able to attract in the medium-term private investors and even stimulate the creation of an active business angel network.

8.3.6 Social Economy

The promotion of social economy and the support of the social economy sector have been considered to be among the main priorities for the potential use of Financial Instruments. Social

economy can be supported through the support of companies that have a social mission or through policies and instruments focusing on reducing unemployment and social inclusion.

As demonstrated by the survey findings, social enterprises are mainly micro-companies with similar needs to the general population of SMEs. However a lack of support from existing FIs such as guarantees also emerged. The creation of a social fund that would design and implement specialised FIs for the support of such companies would greatly benefit the social economy sector. Currently the sector is very limited, but according to the survey, companies that perceive themselves as social economy companies do exist and have highlighted the need to access financing both for working capital and investment purposes.

Overall, the social economy sector remains underdeveloped as it faces legal (as in the case of cooperatives) and financial constraints. Support for socially oriented SMEs, but also NGOs and non-profit organisations (like ETP Slovakia), could help to further develop the social economy sector and create positive external effects. Moreover, it is necessary to use a combination of grants (technical assistance in order to improve entrepreneurship skills) and repayable forms. On the one hand, companies involved in the social economy sector do not have access to existing FIs while on the other hand, social inclusion instruments and mentoring have not been used to a great extent, hence not leading to any valuable impact being realised in the market in recent years.

8.3.7 Energy efficiency

The overall perception in the market regarding energy efficiency investments is that the benefits and the return on such investments are generally limited and late coming[181]. The SMEs that are currently implementing or planning to implement investments to improve their energy efficiency are mainly micro-enterprises but the share of small and medium-sized companies is increasing. These companies are mostly at a mature development stage and are targeting cost reduction. Access to existing FIs seems limited for these companies and this seems to limit access to debt financing even more for potential investments. The inability to access long-term lending seems to prevent these companies from implementing such projects and especially the companies that are smaller in size.

The number of undertaken energy efficiency projects is still limited, as despite it being one of the priorities of the government, it is likely to come second in terms of priorities for the owners and managers of SMEs. This is especially true for renewable energy resources whose share of total inland energy consumption is expected to reach 14% by 2020. To successfully reach this goal and to change private incentives, further support to strengthen renewable energy resources in Slovakia is needed.

8.3.8 Lessons learned from the use of FIs in the Slovak Republic

[181] The report "Using Financial Instruments in the Slovak Republic in the 2014-2020 Programming Period" addresses the energy efficiency sector and renewable energy sources in the Slovak Republic in more detail.

The Slovak Republic has been implementing recycling forms of financing through public institutions since 1994. The main vehicles in this process are SRZB and SBA which have been providing over the years, microfinance, direct loans, guarantees and equity financing. However, the implementation of these instruments failed to create an impact in the market. SME are not informed about their existence, leverage of private funds has been weak and mostly generated by the guarantee products and most instruments remain generic without a clear targeting.

Throughout the report, the existing FIs are analysed and lessons learnt are being highlighted through information provided by interviews, data from the survey, from the point of view of both the supply and demand sides (Chapters 5, 7 and 8):

- Public institutions such as SBA and SRZB are often competing with the financing institutions since they provide direct loans and direct equity without intermediaries. This creates confusion in the market and fails to fully develop synergies between the public and private sector.
- Guarantees provided by SRZB have been able to generate a leverage effect and promote cooperation with commercial banks. However their impact has been weak in the market since these guarantees remain generic. It has been shown in the analysis that SMEs operating in the social economy, or SMEs implementing energy efficiency projects, have a perception that the existing guarantee instruments are not available to them. The same is expressed by micro-enterprises. The fact that the existing guarantee instruments are generic in nature and do not target specific company sizes or sectors of activity, is making them less relevant to companies with specific needs.
- Equity financing in Slovakia is almost non-existent. Despite the substantial inflow of FDI in the country and despite the fact that SBA is implementing equity financing instruments since 1994, private investors are reluctantly supporting SMEs in Slovakia. The overall impact of these instruments has been very weak. The newly established JEREMIE funds could generate interest from private investors but they are still at an initial implementation stage and conclusions can still not be drawn.
- Microfinance instruments in Slovakia are often implemented as standard bank loans, and are defined as loans up to EUR 50,000. This plus the volatile lending activities by public support programmes create confusion in the market and, as a result their impact has been minimal.
- Through the analysis, a tendency toward the creation of 0 employee companies has been identified. However, a lack of training and technical skills of entrepreneurs and employees in general has also been identified thus causing concerns about the level of technical knowledge that these new business owners will have. While some FIs are being implemented concerning access to finance, very few are being used for training and mentoring purposes (SBA is providing such services) in order to support more technical aspects of running a business like creating a business plan, or applying and negotiating with financial institutions.

Below, a non-exhaustive SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) is provided regarding access to finance for SMEs as a general overview leading to the recommendations provided in the next section.

Table 58: SWOT analysis regarding access to financing for SMEs in the Slovak Republic

	Strengths	Weaknesses	Opportunities	Threats
Commercial banks	• Strong presence of commercial banks in the country • Strong liquidity • Low levels of non-performing loans	• Limitations by Basel III regulations to support SMEs • Conservative approach toward SMEs. • Scarcity of existing FIs that involve the banking sector • Poor interaction and cooperation with state-owned institutions	• Fast recovering economy • Strong base of medium-sized companies that proved their resilience to the crisis • Low indebtedness of SMEs • Willingness of SMEs to invest in their business • Tradition in export activities	• Instability of the financial system in Europe • Increasing number of micro-enterprises and especially 0 employee companies • Reducing number of small companies • Poor credit history among SMEs • Lack of technical skills of business owners to apply for banking products and present business plans
Leasing companies	• Strong presence of leasing companies in the country • Strong liquidity at national level • Strong presence among SMEs	• Scarcity of existing FIs that involve the leasing sector • Poor interaction and cooperation with state-owned institutions	• Willingness of SMEs to invest in their business • Willingness of SMEs to use leasing products • Good reputation of leasing products	• Increasing number of micro-enterprises and especially 0 employee companies • Reducing number of small companies • Poor credit history among SME • Lack of technical skills of micro-enterprise owners to apply for banking products and present business plans
Equity investors	• Some success stories already reported without a developed equity market	• Weak presence in the country • Inability to raise capital • Low interaction with state-owned companies that play the role of equity funds without leveraging private funds • Low level of innovation in the country	• Willingness of SMEs to invest in their business • Launch of a JEREMIE equity funds	• Weak awareness among SMEs concerning equity financing • Limited technical skills of SME owners to interact with equity funds • Increasing number of micro-enterprises and especially 0 employee companies
Financial Instruments	• Existing state owned-companies with experience in recycling form of financing	• Very low leverage of private funds by existing FIs	• New EU regulation promoting the use of FIs • Willingness of the country to	• Limited technical skills of SME owners and knowledge to apply for such instruments

	Strengths	Weaknesses	Opportunities	Threats
		• Low awareness of FIs among SMEs • Weak interaction between state-owned institutions and the financing market • Not well labelled existing FIs, for instance microfinance products provided as short-term bank loans	promote the use of FIs • Willingness of SMEs to invest in their business • Launch of JEREMIE FIs	• Damage to the credibility of future FIs from the implementation of the existing instruments that resemble FIs but are not leveraging private funds
SMEs	• Resilience of SMEs during the crisis, especially medium-sized enterprises • Willingness of SMEs to grow and invest • Strong export tradition in the country • Low indebtedness of companies	• Limited technical skills of SME owners • Increasing number of 0 employee companies • Weak credit history • Lack of customised FIs (to different SME sizes, different development stages and various needs)	• New EU regulation promoting the use of FIs • New programming period • Launch of JEREMIE FIs	• Scarcity of skilled employees • Strong dependence on large companies, and especially in the industrial sector • Decreasing number of small companies

Source: PwC Analysis 2014

8.4 Recommendations

The Slovak Republic has developed a range of recycling financing instruments in the past including microfinance and equity instruments. Despite this experience developed by state owned institutions such as SZRB and SBA, it seems that these instruments were based on an outdated approach which does only marginally leverage private funds and does not involve private institutions in the implementation. For instance SZRB provides direct loans to SMEs while SBA has created equity funds which mainly use public funds[182]. Moreover, some of these instruments lack a clear positioning and a targeted approach thus failing to create an impact in the market. For instance microfinance instruments are implemented as standard loans with amounts up to EUR 50,000 creating confusion in the market and unnecessary competition between commercial banks and public institutions. Despite the long preparation period, the relatively recent launch of the JEREMIE instrument will play a crucial role in the transition period of the Slovak economy and will also support the development of a new mentality toward FIs (recycling and leveraging character). It can also serve as an example of the interaction between public assistance and private institutions and funds. Overall the promotion of FIs is an important factor to support the growth of SMEs and the creation of jobs to tackle unemployment that remains a main concern for the Slovak market and society.

The key recommendations from the analysis conducted in the present report are detailed below:

a. **Consider the design and implementation of FIs through a well-defined strategy, a more targeted approach and the restructuring of existing public institutions involved in the process.**

   The Financial Instruments currently available in the country are implemented by public institutions which often try to substitute the private sector instead of working interactively. With the exemption of the guarantee programmes, most initiatives fail to leverage private funds and are not using private institutions as intermediaries. It is important to design a clear strategy for the design and implementation of FIs. The creation of a holding fund that will manage different sub-funds is an initiative that moves toward the right direction. However this new institution should implement FIs, in cooperation with the private sector, which will operate in a complementary way and not in competition with financing products. Moreover, the creation of a new institution should not compete with existing institutions such as SBA and SZRB. These institutions should define and develop their respective expertise, if they are to remain operational and supported by public funds. For instance SZRB could focus solely on microfinance under a risk sharing model with commercial banks in order to provide support to micro-companies and potential entrepreneurs at the inception phase and before the stage of the bank financing. Also SBA could focus on equity financing as a fund of funds in order to support capital-raising for private funds in the market. Overall, coordinated communication should be implemented in order to raise awareness among SMEs for the existence of specialised institutions and FIs.

[182] It has to be noted that for funds established before the start of the Risk Capital Programme (2006) no private investors were involved. Today all equity funds operated by SBA include private investments with a varying share of between 1% – 37.5%.

b. Support and expand the implementation of JEREMIE.

The implementation of JEREMIE will greatly benefit the promotion of FIs in the Slovak Republic. While the preparation time for this initiative was very long and financing products have not reached the critical mass of beneficiaries, it should be further supported and could also become a part of the holding fund. The principal approach of the JEREMIE instruments with its focus on recycling and leveraging private funds and its introduction in Slovakia will create valuable experience for the design of other Financial Instruments. Especially the equity funds could become a stepping stone for the development of a private equity financing market and the awakening of an active Business Angel community. However, complaints expressed by stakeholders on delays and bureaucratic burdens related to the cooperation between the JEREMIE Holding Fund and the intermediaries should be taken into account and addressed. Taking into account the short period left until the end of 2015, the procedures for the extension of the JEREMIE funds should be initiated.

c. Consider developing specific guarantee products or complementing the existing products to facilitate access to short-term debt for working capital purposes and long-term debt for investment purposes.

The analysis conducted for the present report has revealed that financing gaps exist for short-term loans for all size categories of SMEs. More specifically, SMEs need financing for working capital, improving their cash-flow and sustaining their day-to-day operations. In parallel, SMEs in Slovakia intend to invest in their business over the coming years. The main barrier for the access to debt financing for SMEs, and especially micro-enterprises, is related to the collateral requirements made by the banks. The analysis in the present study has identified that the larger the firm, the lower their need to seek funding to finance working capital. Micro-enterprises would consequently be the main beneficiaries of short-term products. The launch of a new activity, however, follows the opposite pattern: larger companies would be the main companies seeking long-term financing for investment. Therefore, to support these needs for both working capital and investment financing, Financial Instruments in the form of guarantees and other risk-mitigation products to support SMEs without collateral could be developed or could complement existing guarantee products. Currently, guarantee instruments remain generic in the sense that they apply to all companies. Specific instruments targeting specific groups of SMEs according to their priorities, size or maturity could help increase the impact of these instruments and their visibility in the market, but this needs to be balanced with potential over-fragmentation. These products could help reduce the risk exposure of the banks and support the SMEs day-to-day business and investment strategies. A special attention to small companies could also be envisaged, since these enterprises are currently more impacted by the crisis thus adding to the unemployment problems in the country and reducing the pool from which medium-sized companies could emerge.

d. Create the conditions for the development of an environment that will support equity financing and an active Business Angels community.

The equity market and business angel environment in Slovakia are non-existent and need to be supported. The JEREMIE instruments as well as the experience of institutions such as the

SBA should be used in order to cultivate a new business mentality and raise awareness among SMEs on the benefits of equity financing, but also in order to raise the confidence levels of potential investors. Experience in other countries has shown that equity investments in SMEs through public assistance schemes tend to attract private investors and Business Angels, especially in countries where capital-raising remains a challenge.

Four types of companies with possible equity financing needs have been identified in the course of the analysis for the present report:

- Non-innovative, newly-created, micro-enterprises would benefit from seed funding in order to enhance their asset base and make them more attractive to commercial banks. The current tendency being the creation of 0 employee companies, such instruments as seed funding would probably also motivate newly created companies to hire employees thus contributing to the struggle against unemployment.
- Innovative SMEs of all sizes. Innovation remains underdeveloped in the country and despite some success stories in the ICT sector, the potential of the country to create innovative companies is still not explored. However, innovation is often generated by opportunity, thus the design of equity instruments for innovative SMEs will help explore potential innovative projects.
- Small companies struggling with the crisis. As defined through the analysis, small companies seem to suffer most from the crisis and appear to be downsizing. The support of these companies through equity financing could help them improve their asset base and redirect their activities toward more profitable sectors and markets.
- Mature medium-sized companies with investment and/or turnaround strategies. Having overcome the crisis years, SMEs intend to invest in their growth over the coming years. However, SMEs are often not capitalised enough to ensure the viability of their planned investments. That is why mature companies, and more particularly medium-sized companies, need equity financing to solidify their equity structure if they want to obtain investment financing from commercial banks.

e. Support the provision of microfinance for existing and potential entrepreneurs.

As underlined in the analysis, the supply of microfinance in the Slovak Republic is not clearly defined and is often provided in the form of standard bank loans. However, a clear need to promote genuine microfinance has emerged through the analysis not only because of the high and persisting level of unemployment but also because of the rise of micro-companies. The design of a genuine microfinance facility to support existing and potential entrepreneurs should be considered. This facility should ideally be implemented through a specialised vehicle or through a risk sharing scheme through commercial banks. In this last case however, a clear distinction with bank loans should be made and thus the participating banks should be given the necessary incentives not to request collateral. Furthermore, a mentoring component should also be provided due to lack of technical skills of entrepreneurs as also identified by the analysis.

f. Consider the use of grants and FIs to support social economy, mentoring, and motivate businesses to retain their employees.

The promotion of social economy and the support of the social economy sector have been understood to be among the main priorities for the use of Financial Instruments. Social economy can be supported through the support of companies that have a social mission or through policies and instruments focusing on reducing unemployment and social inclusion.

Regarding companies in the social economy

As demonstrated by the survey findings, social enterprises are mainly micro-companies with similar needs to the general population of SMEs. Nevertheless the creation of a social fund that would design and implemented FIs for the support of such companies would greatly benefit the social economy sector. Currently the sector is very limited, but according to the survey, companies that perceive themselves as social economy companies highlighted the need to access financing both for working capital and investment purposes. It was established in the analysis that existing FIs do not seem to support these companies. As such, the design of FIs in the form of guarantees (to reduce collateral requirements) and risk sharing loans (to reduce interest rates) would help these companies support their day-to-day operations and acquire the necessary equipment. Finally, the support scheme should be designed to support both legal entities including enterprises, NGOs and non-profit organisations and people as final beneficiaries.

Mentoring and social inclusion

As mentioned in recommendation (e) the provision of microfinance would be essential to promote social inclusion. However, it also has to be taken into account that entrepreneurs in the country do not have enough financial knowledge, and are not well-equipped to negotiate with financial institutions. They also lack managerial best practice in such areas as business development, and business plan preparation. The use of Funds for technical assistance in the form of grants or Financial Instruments with built-in mechanisms to support mentoring, support and counselling to entrepreneurs would be of primary interest to the SMEs to help them develop in the country. It could provide add-on facilities to future Financial Instruments, or offer new separate instruments. It is, therefore, strongly recommended for the next programming period to deploy a suitable Technical Assistance facility to finance mentoring and technical support to SMEs. Such a facility would leverage the existing networks and initiatives implemented at national level to support the SMEs in their development strategies. This role could be played by a social fund, i. e. a specialised investment fund using financial instruments to develop social enterprises, and enterprises in the social economy sectors, including cooperatives.

Motivating SMEs to retain their employees

Unemployment remains a main concern for the Slovak economy, and it has been shown through the analysis that small companies in particular are facing difficulties to retain their employees. Also, a current trend has been mentioned regarding the tendency of SMEs to use self-employed people in order to avoid costs related to social benefits and social security. Facilitating access to finance may have the result of companies being more willing to take on permanent employees.

g. Consider the design of specialised FIs to support the provision of leasing and export credits.

The analysis defined two important characteristics concerning SME financing in Slovakia. First, it was shown that leasing products are popular among SMEs and seem to have supported their investments in recent years. Moreover, SMEs intend to use leasing products in the future to support their growth strategies. This positive reputation of leasing products should be further supported through a specialised FI in the form of guarantees for leasing or in the form of a risk sharing facility that would reduce the cost of leasing. Such FIs could benefit specific size categories such as micro and small enterprises to access leasing financing which is not currently the case.

A second point that emerged through the analysis is the strong tradition of the Slovak economy toward export activities. Although the main share of exporting activities is generated by large companies, this tradition is also explored by SMEs and could help companies redirect their goods and services to new markets. Despite this exporting tradition, specific products to accommodate exporting companies are very scarce. The design of a FI in the form of a guarantee specialised in promoting export credits or bank guarantees would highly benefit these companies and would also motivate banks and other financing institutions to develop products to support exports.

h. Consider designing a FI to promote Energy efficiency.

The survey conducted for this report revealed that most SMEs that have implemented or are planning to implement investments to improve their energy efficiency are companies at a mature development stage. It can be assumed that the reason for this is the limited management bandwidth within start-ups or companies in their growth phase to consider investing in energy efficiency despite the fact that such investments would reduce their costs. It was also mentioned in interviews that the cost of borrowing for SMEs is perceived as being higher than the anticipated return of such investments. The design of a FI in the form of an interest free loan would help close this gap and motivate SMEs in all development stages and sizes to implement energy efficiency projects. Moreover, it seems that existing guarantee schemes are not being supportive to such investments again due to their generic nature. A specialised guarantee instruments for energy efficiency project would be more targeted and would raise awareness of the use of FIs also in specialised sectors and investment types.

9 Proposed Investment Strategy

This Proposed Investment Strategy was developed by the EIB Group with the purpose of assisting the Managing Authority in the Slovak Republic ("Slovakia") and the European Commission in the programming of financial engineering instruments under the ESI Funds 2014-2020. A portfolio of up to 8 instruments is proposed, to be included within and under the nationally agreed holding ("SIH") structure, for an aggregate budget from ESIF resources of EUR 245m coming from the R&I, Human Resources and Quality of Environment OPs. The overall leverage of these resources could reasonably be in the region of 2.5-3x and the instruments could be expected to contribute to objectives from the identified OPs as described.

9.1 SME Market Analysis (2014) – the Summary of Findings

The main market failures, and potential financing gaps, analysed in the previous chapters, are summarized in the following paragraphs in order to create a clearer linkage with the PIS:

Microfinance

- 90% of microenterprises stated they had difficulties with access to finance, with leasing and loans being the main source of finance to be sought in future. Microfinance institutions per se are not yet well known to microenterprises, and neither are the benefits of microfinance. No equity instruments were indicated in the survey as potential funding sources, suggesting lack of awareness of these products.
- Financing gaps (2014[183]): a potential financing gap[184] of EUR 744-822m has been identified, in addition to EUR 587m when social inclusion is to be specifically addressed.

Short-term lending (including overdrafts and credit lines)

- The identification of the potential financing gaps reveal difficulties for all three categories of SMEs in accessing short-term financing, with the gaps being higher for small and medium-sized companies due to a larger financing amount generally required per company. Commercial banks[185] continue to use a restrictive approach to loan applications from SMEs due to their high-risk profile. In addition, commercial banks report problems in identifying bankable SMEs with business plans that would conform to the banks' preferred risk profiles. According to the interviews with commercial banks, business owners and entrepreneurs lack financial and management skills, thus further limiting their access to bank financing.
- Financing gaps (2014): EUR 118-130m for Microenterprises and EUR 157-174m for SMEs.

Medium-to-long term lending

- The share of long-term loans in the total loan supply to SMEs has gone up from 2.5% to

183 The gaps for 2014 is also representative for the next two years, i.e. 2015-16.

184 Potential financing gaps were calculated with potential supply and potential demand. They are an indication of SMEs' financing needs in the overall economy of the Slovak Republic. Viable financing gaps (VFG) express a more targeted approach to identifying needs of growing SMEs that do not have access to finance, and provide an operational focus on the design of financial instruments. Taken together, this dual approach to gap analysis helps define a context in which public assistance could be deployed.

185 The term "bank(s)" is used in this document in a broader sense to include all financial intermediaries (e.g. banks, guarantee institutions, leasing companies, etc.) which are duly authorised to carry out financial operations in Slovakia.

4.1% between 2012 and 2013, suggesting a fairly strong upward trend in investment financing by the commercial banks. The main reason for the identified financing gaps is the reluctance of the banking sector to support the SMEs. Demand-side constrains primarily affect micro- and small enterprises, which find it difficult to meet the collateral requirements, but it also includes medium-sized enterprises despite their stronger asset-base.

- Financing gaps (2014): EUR 163-181m for Microenterprises and EUR 218-241m for SMEs.
- Strict collateral requirement is the main barrier for SMEs in accessing commercial debt finance. Guarantee instruments, could reduce risk exposure of the banks. This would enable them to lower their collateral requirements and offer better pricing conditions, tapping into their liquidity pool in the process.

Leasing

- Leasing products enjoy relatively widespread use, also due to the fact that leasing can be provided to non-bankable SMEs. Around 38% of all surveyed microenterprises used leasing as a funding source – and this trend is likely to continue over the coming years, with 95% reporting that leasing was the most relevant source of funding, and only 10% declaring not to have sufficient access to it.
- Amongst the social economy SMEs, which are mostly microenterprises, 53% reported leasing to be their main funding source apart from debt financing (57%), and they intended to use leasing and grants at a higher rate than the total SME population.
- Financing gaps (2014): EUR 451-498m for Microenterprises and EUR 102-113m for SMEs.

Equity

- The equity market in Slovakia is underdeveloped and the Business Angel (BA) environment is practically non-existent. Despite the inflow of FDIs, private investors are not active in Venture Capital (VC) or Private Equity (PE) investments. Problems with raising capital and the lack of fund management companies in Slovakia have remained among the most important barriers to developing equity markets, especially since the crisis of 2008.
- As a result, VC and PE funding has been provided mainly by public-sector institutional investors, such as the Slovak Business Agency (SBA), but with little impact on the creation, development and support of the SMEs as yet.
- The wide financing gap of EUR 138-643m reflects the outcome of the survey, and not necessarily an indication of third party capital investment being desirable or appropriate, but rather an expression of under-capitalisation more generally.

9.2 Proposed Investment Strategy and Implementation Arrangements

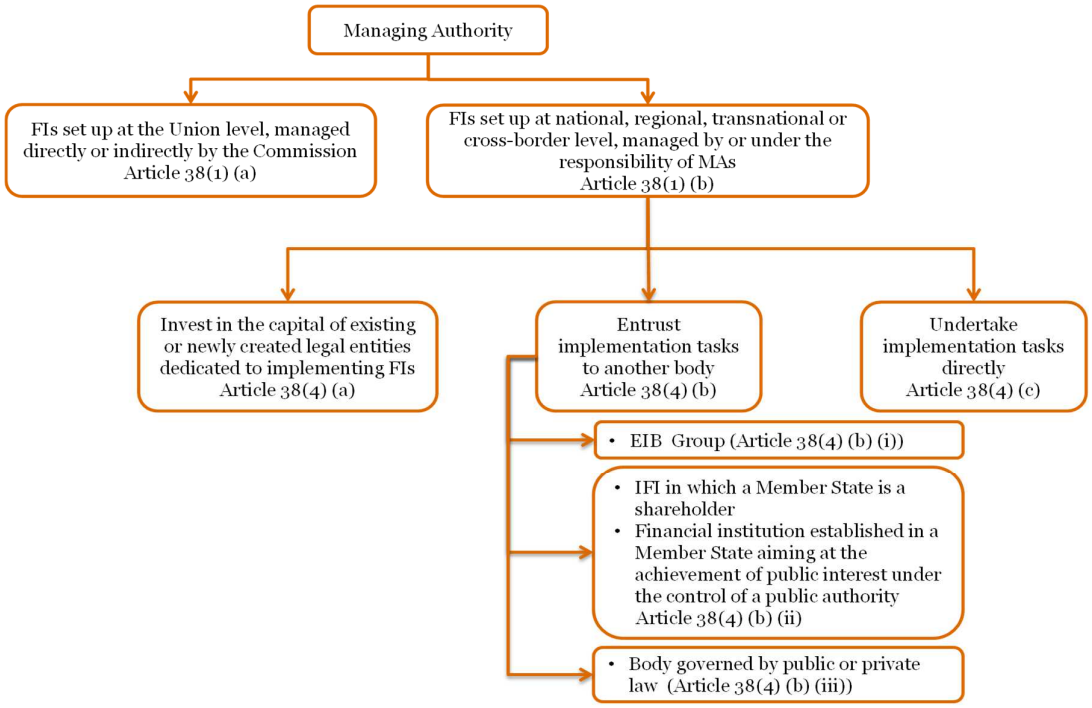
9.2.1 Options for implementation arrangements

Article 37 (2) (e) CPR specifies that the proposed investment strategy will include an examination of options for implementation as foreseen by Article 38.

A comprehensive picture of the implementation options for the setting up of a financial instrument,

as provided in the general ex-ante methodology[186], is shown in the figure below.

Figure 48: Implementation options for the setting up of an FI



Source: European Commission, EIB, PwC, 2014.

The proposed investment strategy includes an analysis of the following options:

A. Implementation options for financial instruments within the meaning of Article 38,
B. Financial instruments on offer,
C. Targeted beneficiaries and the proposed terms of combining financial instruments with grants.

Title IV, Financial Instruments, of the EU Regulation No. 1303/2013187 (the Regulation) offers a number of implementation options. This is due to the dispersed nature of the existing regional initiatives for SMEs, and the need to maximise the leverage potential of the regional FIs.

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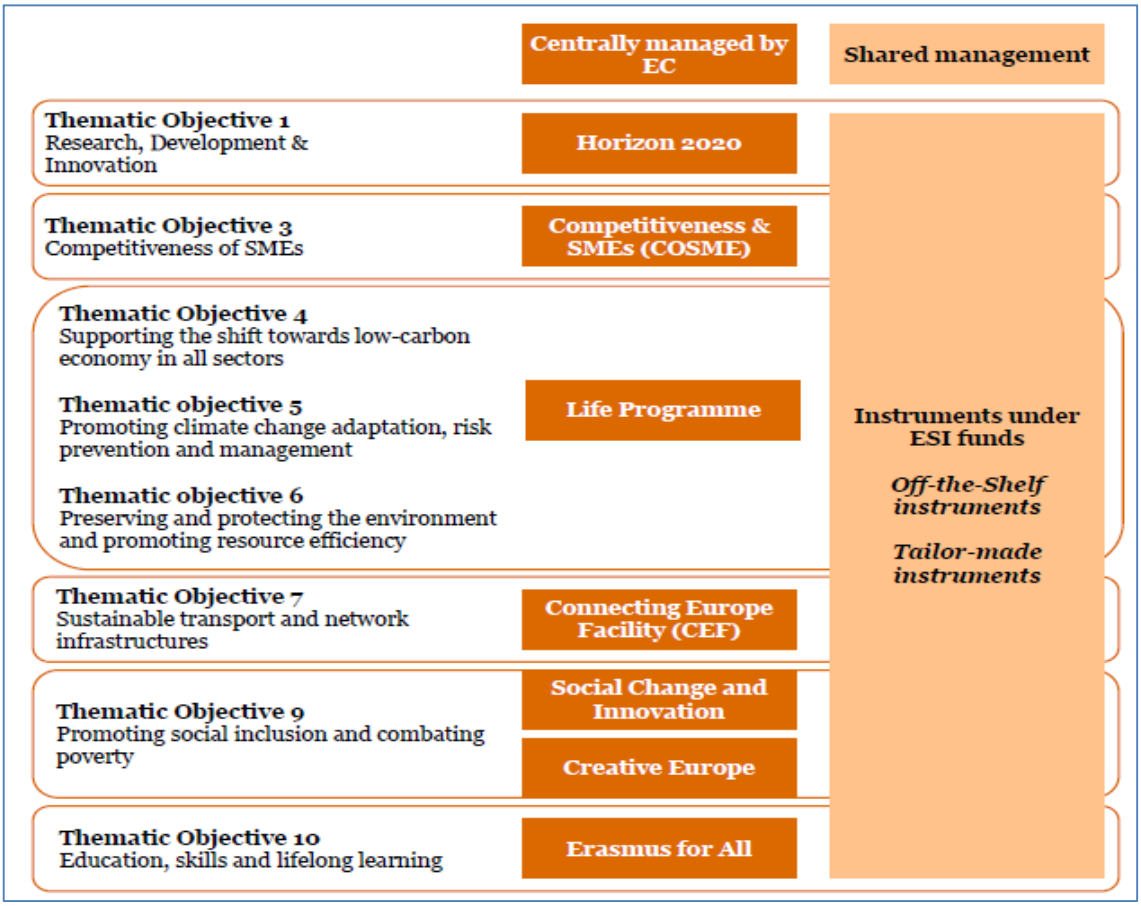
186 "Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period. General methodology covering all thematic objectives. Volume I", European Commission, European Investment Bank, PriceWaterhouseCoopers, April 2014.

187 REGULATION (EU) No 1303/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Fund for maritime affairs and fisheries, laying down general provisions on the European Development Fund regional, the European social Fund, the cohesion Fund and the European Fund for maritime affairs and fisheries, and repealing Regulation (EC) No 1083/2006 of the Council, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1303&from=EN

Financial Instruments created centrally at the level of the EU and managed directly or indirectly by the EC

The possibility to contribute ESI funds to centrally launched and managed instruments is a new possibility introduced for the 2014-2020 programming period and is foreseen in Article 38 (1)a).

Figure 49: Article 38 of the new CPR



Source: PwC Financial instruments in Cohesion Policy 2014-2020: Ex-ante assessment training, June 2014

Apart from the SME Initiative, covered further below, the centrally launched instruments, directly or indirectly managed by the EC, and which most target SME, are COSME and HORIZON 2020 (see table above). The implementation of these instruments has been mandated by the EC to EIF. In early August 2014, EIF launched calls for expression of interest with regard to COSME and HORIZON 2020[188], targeting financial intermediaries across the EU involved in lending, the provision of equity (venture capital), and others active in SME financing.

Under COSME, EIF will support equity investments as well as lending to eligible SMEs, including at the higher risk early stage and start-ups and, as always, through financial intermediaries. Under Horizon 2020, EIF will issue guarantees and counter-guarantees to interested and selected lending intermediaries for loans to innovative enterprises of between EUR 25k and EUR 7.5m.

These instruments will, therefore, allow Slovak intermediaries to apply directly as partners of EIF for

188 See: www.eif.org/what_we_do/news/2014/eu-finance-sme.htm

SME financing outside of any nationally-launched initiative.

Also at Union level is the EU SME Initiative: a joint instrument, blending EU funds available under COSME and Horizon 2020 and ESIF resources in cooperation with EIB/EIF, for which a single ex-ante assessment has already been prepared by the EIB Group and issued by the EC. Three implementation options are available: the Joint SME Guarantee Instrument and the Joint Securitisation Instruments for both new and existing SME loan portfolios. It is understood that Slovakia has already declined to contribute to the EU SME Initiative, however this option remains possible until 2015.

Table 59: Advantages and disadvantages of FIs managed by the EC

Financial Instruments created centrally at the level of the EU and managed directly or indirectly by the EC	
ADVANTAGES	DISADVANTAGES
• Effectively a delegation of tasks to an entity experienced with using EU structural funds for supporting SME access to finance. • Quicker implementation (selection of financial intermediaries, conclusion of funding agreements etc.). • A centrally managed instrument can contain several compartments and thereby achieve greater critical mass and benefit from certain economies of scale. • There would likely be no need for the managing authority to carry out on-the-spot checks, or any need for the audit authorities to cover either these operations or the associated management and control systems (to be confirmed by DG REGIO). • Allows for relaxing of ESIF eligibility criteria	• A certain loss of control at the level of the managing authority. • More detached monitoring and controls: the managing authority still remains responsible for the operations, including payments and reporting when contributing to a centrally managed instrument. • Limited synergies between the instruments.

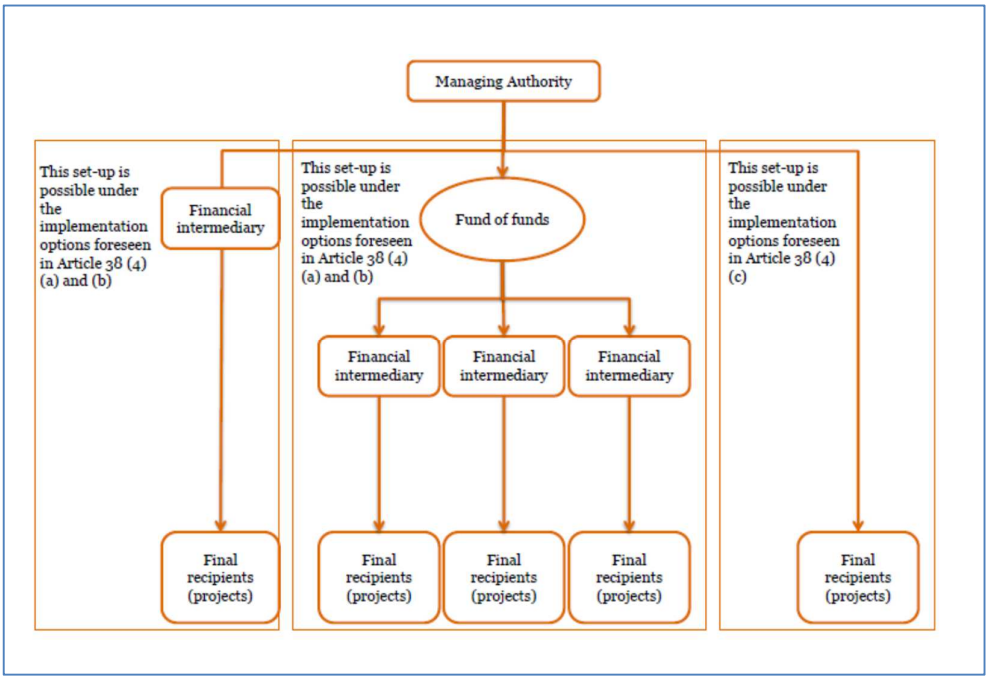
Source: EIB

In the general ex-ante methodology, it is further stated "this choice may be appropriate for instances when the technical capacity and/or the expertise of the MA is considered insufficient or where the critical mass for establishing an FI has not been reached and the existing EU-level instruments are well aligned with the Programme objectives. This option avoids duplicating FIs at lower levels and gives assurance to MAs that resources will be used through tested vehicles and experienced teams."

Financial Instruments created and managed directly by a managing authority or under its responsibility

The figure below displays the options available under this route.

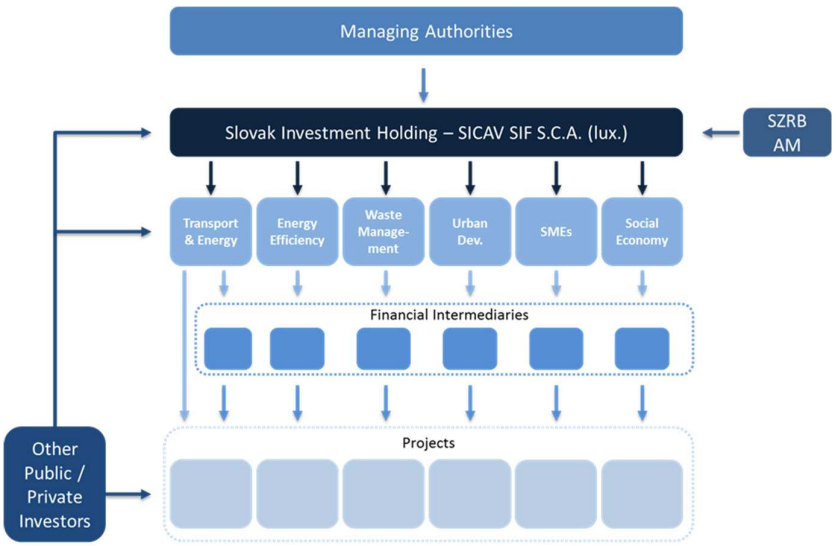
Figure 50: Implementation options for the governance of FIs



Source: PwC Financial instruments in Cohesion Policy 2014-2020: Ex-ante assessment training, June 2014

The individual options set out in the above figure, which are to be managed under the responsibility of the managing authority, will not be further explored here. The reason for this is that a government decision has already taken place in Slovakia, approving the establishment of the Slovak Investment Holding (SIH), and conferring the management of the SIH to the newly established subsidiary of SZRB, set up for this purpose, i.e. SZRB Asset Management. In the figure below the proposed SIH structure is presented, based on the market analysis and investment strategies of both Volumes I and II.

Figure 51: Proposed SIH structure



Source: SZRB Asset Management

Under the above-portrayed structure, the two sub-funds entitled SMEs and Social Economy would be relevant to SME financing and would implement the FIs proposed in the present investment strategy.

Table 60: Advantages and disadvantages of the SIH structure

The SIH structure presented by the Slovak Authorities	
ADVANTAGES	DISADVANTAGES
• A holding fund concept allows for synergies between instruments and/or flexibility in their deployment and (re-)allocation between them; • Raising of additional (private) funding possible also at the level of the holding fund; • The Luxembourg structure chosen offers flexibility and a respected and regulated oversight; • This would, by definition, ensure greater national coordination and coherence in the development and implementation of financial instruments; • Should be a sustainable model.	• The necessity to evaluate and comply with the specific requirements of a Special Investment Fund (SIF) under Luxembourg jurisdiction; • The investment manager is subject to CSSF approval, a typically stringent and time-consuming process; • The costs and operational complexities in ensuring the contracting of a local (Lux) custodian bank, external auditor, administrator and any other service providers; • If the appointed manager is under the direct or indirect authority of a national ministry, then there remains a risk of political influence.

Source: EIB

9.2.2 Other points with respect to implementation options

"Off-the-shelf" instruments

In the case of option B, the MA is also able to use "Off-the-shelf" instruments (outlined in article 38 (3)(a)). This is a possibility foreseen by the EC, which is working on the development of product specifications for such instruments.

For SMEs, these will consist primarily of:

i) A loan instrument;

ii) A guarantee instrument; and

iii) An equity instrument.

For each instrument, the EC develops term sheets. The declared objective of DG Regio is to ensure the exemption for these instruments from the need for a notification under state aid rules. By the end of August 2014, the validity of such exemption had not yet been known.

Table 61: Advantages and disadvantages of the "Off-the-shelf instruments"

Off-the-shelf instruments	
ADVANTAGES	DISADVANTAGES
• Benefit of defined product terms for convenience and speed of	• Even if the these instruments have been developed on the basis of EC experience from the 2007-2013 programming period, certain new parameters envisaged for these

Off-the-shelf instruments	
implementation; • Oversight over implementation terms and conditions; • These would represent clear examples of what the EC perceives as suitable financial instruments for ESI funds.	instruments are yet to have been deployed; • To be assessed whether the off-the-shelf instruments are able to cater for any potential national or regional specifics. The instruments would also need to potentially be adjusted for any local jurisdiction requirements; • Lack of assurance on the possibility of exemption from notification requirements under State aid rules, meaning that notification cannot be excluded.

Source: EIB

9.2.3 Proposed financial instruments, target market and target final recipients

Most of the financial instruments (FIs) currently or previously available in Slovakia, with perhaps the exception of the JEREMIE instruments, are, or have been, implemented by public institutions with little involvement of the private sector and little, if any, leverage of private financing. As the latter is a key benefit and target feature of using financial instruments, it is, therefore, important to develop a clear strategy for the design and implementation of FIs.

9.2.3.1 Proposed financial instruments

On the basis of the market failure analysis (while adjusted through existing experience with financial instruments) and pursuant to the priorities established in the Slovakia Partnership Agreement and the Operational Programmes, the following FIs are proposed to be deployed in the new programming period in Slovakia, with flexibility assumed for re-allocation between an OP's financial instruments, depending on the experience

Table 62: Financial Instruments – Programming Period 2014-2020 – The Slovak Republic

Financial Instrument	Proposed contribution EURm	Funding Source
Early-stage equity funds (Accelerator & seed fund and/or technology transfer fund)	15m	**OP Research and Innovation** PA 3 "Enhancing the Competitiveness and Growth of SMEs" PA 4 "Developing competitive SMEs in the Bratislava Region"
SME portfolio guarantee instrument	60m	
SME interest subsidy risk-sharing instrument*	100m	
SME equity fund for growth stage	25m	
Social impact investing instrument in support of social SMEs (part of the 'social subfund'/FOSFOR)	**15m**	OP Human Resources **PA 2 "Employment"** **PA 3 "Social Inclusion"** **PA 4 "Integration of marginalised Roma communities"** **PA 5 "Technical facilities in municipalities with presence of marginalised Roma communities", IP 5.2. "Support for social enterprises"**
Social microfinance interest subsidy risk sharing instrument (part of the 'social subfund'/FOSFOR)	10m	
Social microfinance guarantee instrument (part of the 'social subfund'/FOSFOR)	10m	
SME energy efficiency portfolio guarantee instrument	10m	OP Quality of Environment PA 4 "Energy efficient low-carbon economy in all sectors"
TOTAL[189][190]	**245m**	

Source: EIB

Under the structure of the SIH and the proposed allocation of funds per FI, the sub-fund SMEs would have an envelope of EUR 210m and the sub-fund Social Economy a respective envelope of EUR 35m.

Slovak Investment Holding

The government of Slovakia has approved the establishment of the Slovak Investment Holding (SIH). The management of the SIH has been conferred on the newly established subsidiary of SZRB, called SZRB Asset Management, as mentioned in the preceding section.

[189] Alternatively, the SME interest subsidy with grant element can be used

[190] Management costs impact not considered in the total

JEREMIE Slovakia

The full implementation of JEREMIE will certainly benefit the promotion of FIs in the Slovak Republic. JEREMIE should continue to be supported, and could become a part of the new holding fund as a key component of the SME financing support. In time, JEREMIE should serve as a good example of the recycling and leveraging of private funds in the Slovak market. The equity funds are expected to stimulate a more robust ecosystem for start-up and early stage investing. They are likely to produce a deal flow for further funding rounds beyond the timescale of the current JEREMIE program. Those banks which have successfully implemented loan-support products under JEREMIE could be interested in further cooperation within the new programming period. If feasible, the procedures for the extension or repetition of the JEREMIE instruments should be launched well in time before 2015.

Short-term Loans & Guarantees

Financing gaps have been identified for short-term loans for all size SMEs categories. SMEs need financing for working capital, improving cash-flow, and sustaining their every-day operations. They also intend to keep investing over the coming years, but they have problems in accessing debt finance (and especially microenterprises), caused by collateral requirements posed by the banks. Consequently, risk-mitigation products for such SMEs could either be developed or used to complement the existing guarantee products (e.g. counter-guarantees). Since the current guarantee instruments are SMEs-generic, new instruments for specific SME groups (e.g. according to their priorities, size or maturity) could help increase their impact and visibility in the market. They could help reduce the risk exposure feared by the banks, and support the SMEs' day-to-day business and investment strategies. A special instrument for small companies could also be envisaged, since they are currently more affected by the aftermath of the crisis than others, thus adding to the unemployment and reducing the overall pool from which medium-sized companies could eventually emerge.

Equity

Bona-fide equity market and business angel networks do not exist in Slovakia, and so their creation will need to be supported. The JEREMIE HF instruments, coupled with the experience of the SBA, should be used to cultivate a new business mentality in Slovakia. They should in equal measure help to raise awareness of the benefits of equity financing among the SMEs and boost the confidence levels of potential equity investors. Experience in other countries has shown that equity investments in SMEs through public assistance schemes tend to attract private investors and business angels, especially in these countries where raising capital remains a challenge.

Four types of companies would most likely benefit from equity financing in Slovakia:

1. Non-innovative, newly-created, microenterprises. They would benefit from seed funding in order to enhance their asset base and make them more attractive to commercial banks. Sole traders (i.e. the 0-employee companies), who currently predominate amongst the Slovak SMEs, could use seed funding to hire employees, so helping reduce unemployment.

2. Innovative SMEs of all sizes. As innovation levels remain low, Slovakia's potential to create innovative companies seems to remain untapped. However, innovation is often fostered by opportunity, so designing equity instruments for innovative SMEs could help them explore new

projects.

3. Small companies struggling since the crisis. Small companies seem to suffer the most from the effects of the crisis, and they appear to be downsizing. Equity financing could help them improve their asset base and redirect their business to more profitable sectors and markets.

4. Mature medium-sized companies with investment and/or turnaround strategies. SMEs plan to invest to support their growth over the coming years. However, they are often not capitalised enough to ensure the viability of their planned investments. Hence, mature companies, and particularly the medium-sized SMEs, need equity financing to solidify their equity structures in order to obtain investment financing from commercial banks.

Microfinance

The supply of microfinance in Slovakia is not clearly defined, and is often provided as standard bank loans. However, a clear socio-economic need to promote genuine microfinance has emerged, not only because of the persistently high level of unemployment, but also due to the continuing trend of micro-company creation, particularly sole traders. The deployment of a genuine microfinance facility to support the existing and potential entrepreneurs should, therefore, be considered. This facility should ideally be implemented through a specialised vehicle, especially in the social economy sector, or through a risk-sharing scheme via commercial banks. In the latter case, however, a clear distinction between microfinance and bank loans should be made, and the participating banks should be given the necessary incentives to de-collateralise. Furthermore, a mentoring component should also be financially supported (e.g. through a technical assistance instrument or/in combination with grants) due to the general lack of basic business skills of new entrepreneurs.

Grants

The promotion and support of the social economy have been singled out amongst the priorities of the central government. Social economy could be effectively sustained by supporting companies with a social mission in their business models, or through policies and instruments that focus on reducing unemployment and increasing social inclusion. Grants and targeted financial instruments could be combined to support social economy, business mentoring, and to help businesses retain staff.

Social Fund - Social Economy, Mentoring, Social Inclusion and Job Retention

One third of SMEs in the social economy sector are small or medium-sized companies, while two thirds are micro-companies. They all have similar needs to those in the general SME population in Slovakia. The creation of a dedicated socially-oriented sub-fund, such as the Fund of Social Development Capital Funds (FOSFOR) being developed by the Slovak authorities, could design and implement FIs for the support of such companies, thereby helping the social economy sector to grow from its current small base. It is important to mention here that the entity in charge of the socially-oriented sub-fund (e.g. FOSFOR) would need to have sufficient experience and/or demonstrate sufficient ability to act within the area of social economy to achieve its objectives.

SMEs that see themselves as social economy companies highlight the need to access finance both for working capital and investment purposes, and the existing FIs do not seem to be optimal to support them. Consequently, targeted guarantees (to reduce collateral requirements) and risk-sharing loans (to reduce interest rates), could help social economy SMEs support their day-to-day operations and acquire the necessary equipment, while the provision of equity financing through a

"social impact investment fund" or such like would support non-debt-based intervention.

Better provision of microfinance would be essential to promote social inclusion, but Slovak entrepreneurs do not have enough financial and business knowledge, which is a particular handicap in their negotiations with financial institutions. On top of that, they also have weak business development and planning skills. The creation of a supporting infrastructure for the social economy, through the use of technical assistance grants, ESF grants, or perhaps FIs with built-in mechanisms to support mentoring and counselling for entrepreneurs, would be of primary interest to Slovak SMEs. These options could provide add-on facilities for future FIs, or they could be new, separate instruments. It is, therefore, strongly recommended that a suitable Technical Assistance facility and/or ESF grants to finance the supporting infrastructure, including the mentoring services and technical support to SMEs, be deployed in the next programming period. This facility could leverage the existing networks and initiatives implemented at national level to support the development of the SMEs. This role could be played by a newly-created social fund and/or by the actors in the social economy sectors.

Unemployment remains a major concern for the Slovak economy, and small companies are facing particular problems with retaining employees. With the current trend amongst the SMEs to use self-employed people to avoid social benefits and social security costs, better access to finance might contribute to better job retention in Slovak SMEs.

Leasing and exports support

The ex-ante study defined two important characteristics of SME financing in Slovakia. First, it was shown that leasing products are popular among SMEs, and they seem to have supported their investments in recent years. Moreover, SMEs intend to use leasing products in the future to support their growth strategies. This positive reputation of leasing products should be further supported through a specialised FI. It could take the form of guarantees for leasing or of a risk-sharing facility to reduce the cost of leasing. These FIs could help specific size-groups, such as micro and small enterprises, to access leasing finance. A second point that emerged in the analysis concerns the strong exporting tradition of the Slovak economy. Although the lion's share of exports is generated by large companies, SMEs should also be encouraged to test new markets. Specific financial products to support SMEs exports are scarce, however. Hence, a guarantee instrument to underwrite exports credit could not only benefit exporting SMEs, but also motivate financing institutions to develop their own exports support products.

Energy Efficiency

The survey conducted for the ex-ante study revealed that most SMEs which have invested, or are planning to invest, in energy efficiency (EE) projects are mature, developed companies. A reason for this could be inadequate management capacity of SMEs to consider investing in EE, even though such investments could reduce their costs. Interviews revealed that the cost of borrowing for SMEs is perceived as being higher than the anticipated return of EE investments. Consequently, an interest free loan instrument could help motivate SMEs in all development stages and sizes to consider EE projects. Moreover, the existing, generic guarantee schemes are not supportive of EE investments, and so a specialized guarantee instrument would help alleviate this market deficiency .

9.2.3.2 Target market

It is already understood that the financial instruments are to be set up at national level through a fund of funds, thereby ensuring their cohesive, effective implementation, critical mass, and efficient deployment in the targeted regions and groups.

9.2.3.3 Target final recipients

As recognized in the general ex-ante methodology, predefining final recipients of future financial instruments "can be particularly challenging on a time horizon of up to ten years (i.e. the duration of the eligibility period, running until 31 December 2023), especially in some sectors such as microcredit. Therefore, the proposed investment strategy should set a target for the final recipients, leaving room for changes (e.g. sectors of industry classified as innovative may develop over time) and be sufficiently prudent when selecting the financial product. Indeed, during the implementation phase, a reasonable level of flexibility can be beneficial to the effective disbursement of the funds."

The target final recipients of the proposed FIs are:

- **SMEs**: for all financial instruments proposed here, with a particular focus on microfinance for the instruments to be financed from the Human Resources OP. For the avoidance of doubt, proof-of-concept projects would also be covered in the context of pre-seed or intellectual property based funding for Technology Transfer investment vehicles, seed and accelerator funds.
- Regarding microfinance, the proposed FIS also target people who are unemployed or on the verge of poverty in order to support them in the creation of a business or self-employment.
- Provide funding for all sectors eligible from the state-aid and ESIF point of view.
- For microfinance, eligibility criteria would apply to ensure compliance with the definitions of micro company and microcredit, and with the social impact envisaged under the instrument.

9.2.4 Envisaged combination with grant support

Eligibility rules under the ERDF-funded FIs in the 2007-2013 period did not allow for the combination of FIs and grants for the same eligible expenditure. This was seen as a problem by the Member States, especially given the difficulties faced by grant beneficiaries to secure the pre-financing or co-financing necessary to implement (especially large) investment projects.

Whilst pre-financing will continue to remain ineligible, in the 2014-2020 programming period the CPR allows a combination of grants and FIs, as detailed in the EC's Short Reference Guide: "For the combination of ESIF financial instruments with ESIF grants or other assistance, there are two possibilities.

- Firstly, it will be possible for certain types of grants (interest rate subsidy, guarantee fee subsidy or technical support as specified in Article 5 of the Delegated Act) and financial products to be combined within the same operation and to be treated as a financial instrument. Other types of grants cannot be presented under a single financial instrument operation.
- Secondly, it will be possible for the grant operation and financial instrument operation

support to be combined to finance the same investment at the level of final recipient, however as separate operations.

The overall guiding principle for all cases is that the same expenditure cannot be declared twice to the Commission. Grants shall not be used to reimburse support received from financial instruments and financial instruments shall not be used to pre-finance grants."

Practical examples of FI/grant combinations may include:

- Guarantee scheme with reduced or no guarantee fee under de minimis aid combined with interest rate subsidies also under de minimis aid for the same loan.
- Portfolio risk-sharing loan in which 50% of the loan is provided free of charge (under de minimis rules) and the final recipient also benefits from technical assistance for the preparation of a best practice business plan.
- In the case of accelerator and seed structure, investments into the share capital of final recipients combined with technical assistance for mentorship and product development expenses.
- Creation of a supporting infrastructure for the social-economy SMEs (mentoring; legal advice etc.).
- Combination of a micro-grant and a microloan in the case of social economy enterprises (especially start-ups).

In the instruments proposed for Slovakia, one of the issues raised by grant-FI combination is the compliance with state aid/de minimis aid cumulation rules. Final recipients may have the option to benefit from a grant and also from co-financing ESIF-funded loans, as long as the total aid intensity thereby provided does not breach the maximum intensity allowable under state aid rules. FIs and grant combination options could be even predefined at the instrument design stage, either by imposing certain structures derived ideally from the de minimis, or from the GBER rules for ease of implementation.

9.3 Lessons learnt

The Lessons learnt from the use of FIs have been developed and presented in Chapters 4 and 7. However, another overview is provided in the following section to complement the PIS.

9.3.1 The relevant past experience

The implementation of financial instruments in the 2007-2013 programming period was undertaken only to a limited extent in the European Union. Yet, given that SMEs were the main recipients of the instruments, that process provided sufficient experience to draw some lessons learnt for the purpose of this document.

As of the end of 2012, 816 specific funds for SMEs were established in 25 EU Member States. The main financial instruments offered by these funds were guarantees, followed by loans and equity. Out of these funds, EIF manages 14 regional and national holding funds, with a total capital of more than EUR 1.4bn.

Financial instruments were also created in Slovakia in the 2007-2013 programming period through the setup of the JEREMIE Holding Fund (JHF) managed by EIF. With an initial capital of EUR 100m, the JHF Slovakia is set to catalyse over EUR 300m in new SME financing available as either equity or

loans, through the instruments presented in the table below.

Table 63: Instruments under the JEREMIE Holding Fund

Financial Engineering Instrument 2007-2013	Financial allocation (EURm)
First Loss Portfolio Guarantee	43.0
Risk Capital (VC/Seed) funds	31.0
Portfolio Risk Sharing Loan	18.3
Reserve for management costs and fees	7.7

Source: EIB

9.3.2 Lessons Learnt – Slovakia 2007-2013

The Slovak Republic has used revolving forms of financing through public institutions since 1994. The main institutional vehicles employed in this process are the SZRB and the SBA, which have provided microfinance, direct loans, guarantees and equity financing to Slovak SMEs. The implementation of these instruments, however, has largely failed to create significant impact on the market. The SMEs are ill-informed about the availability of these products, the leverage of private funds has been weak and mostly generated by guarantees, and most instruments on offer remain generic without a clear targeting. JEREMIE Slovakia has introduced further financial instruments more recently, through the EIF acting on behalf of SZRF. This process has produced the following lessons learnt:

- Public bodies, specifically SBA and SRZB, often compete with other financial institutions, since they provide direct loans and direct equity, without intermediaries, and without leveraging private funds. This tends to create confusion in the market and fails to create synergies between the public and private sectors.

- Guarantees provided by the SRZB have been able to generate a leverage effect and promote cooperation with commercial banks. Their impact on the market, however, has been weak, as these guarantees remain generic vis-à-vis a more targeted approach.

- Equity financing in Slovakia is almost non-existent. The substantial inflow of FDIs and the availability of equity instruments from the SBA over the last twenty years have both largely failed to generate private investors' support for the SMEs in Slovakia. The main reason for this is that the SBA has provided direct equity without involving private investors and leveraging private funds. The overall impact of these instruments has been very weak.

- The newly established JEREMIE holding fund instruments are still at an initial implementation stage, and so it is still early to gauge their overall impact as yet. In spite of this, already more than EUR 50m of financing has been committed to SMEs, while less than 15% of resources have been yet deployed, which shows the impressive levels of leverage involved.

- JEREMIE portfolio guarantees have proven difficult to implement when carrying a guarantee fee which reduces the overall benefit for the SMEs. Sectoral and other ERDF-related restrictions as well as the exclusion of the Bratislava region, with the country's capital and economic engine, have also contributed to a slower deployment than anticipated.

- The JEREMIE Slovak Entrepreneurs Fund has resulted in some of the most successful (IT and other) Slovak entrepreneurs and businessmen committing significant personal wealth to the fund, thus putting their own money behind their belief in future Slovak high-growth success stories.
- The JEREMIE VC instruments were receiving an average of 1 investment proposal every single day in the early months which shows the effect on demand that well-communicated supply can bring.

- Microfinance instruments in Slovakia are often implemented as standard bank loans, defined as loans up to EUR 50,000. As a result of this, the impact of true microfinance (i.e. loans up to EUR 25,000) has been minimal, with only 24 microloans from the microfinance facility implemented by the SBA in 2010. Microfinance provided by NGOs, such as VOKA and ETP, approximated the ideal approach much more closely, even though their impact was limited due to the small volume of funds available to them and the beneficiaries are not necessarily SMEs

- There has been a marked predominance of new sole traders (i.e. 0-employee companies) coming into the SME market in Slovakia over the recent years. At the same time, there is a growing concern about a lack of training and skills of the entrepreneurs and SME employees in general, suggesting a relatively low level of technical knowledge of new business owners. Hence, apart from deploying financial instruments to facilitate SME access to finance, it would be helpful to design and implement targeted instruments to fund the provision of training and mentoring for such technical aspects of business as writing a business plan, applying/negotiating with financial institutions, accounting and book-keeping, etc.

9.3.3 Lessons Learnt – European Union 2007-2013

Clear, market-oriented and flexible eligibility rules

The implementation of the financial instruments at the very outset of the previous programming period has been impeded by the lack of clear regulatory provisions related to the implementation of financial instruments under Structural Funds. The publication of a comprehensive COCOF guidance note on the implementation of financial instruments in 2011 clarified the majority of questions relating to the eligibility of expenditure. It was later amended (in 2012) to address the urgent need for financing on working capital, which for instance continues to remain the bulk of demand in the current economic context.

The new regulatory framework generally represents an acceptable basis for the future implementation of decentralised financial instruments. At the same time there are certain elements, including inter alia eligibility of working capital, which will require further interpretation and guidance and which may, without harmonisation with market reality and needs, negatively affect market absorption.

Flexibility

Given that eligibility and state aid rules already hamper final recipients in benefitting from FIs, it is important to limit the eligibility rules only to the strictly necessary ones, and to try and preserve for the instruments as much flexibility in meeting demand as possible. It is also important to allow for an easy re-allocation of resources from the non-performing to performing instruments, by grouping them under a fund of funds at national level.

Suitability of the selected FIs

The role of the FIs in the deployment of funds is crucial to maximise such benefits of instruments portfolio as: utilisation of public resources, gearing of private resources and investors, deployment of the instrument in accordance with the contractual obligations to the HF manager to ensure transfer of benefits to the beneficiaries with transparency, accountability and compliance with national legislation and EU regulations. The selection of the FIs should be carried out in the framework of all the above with full impartiality, and on the basis of a thorough assessment that includes technical expertise and know-how.

Availability of funds

During the previous programming period, all funds were available at the beginning of the operations. This ensured that the HF manager could enter into agreements and deploy financial instruments of varying risk profiles and of duration exceeding the programming period. This could be achieved without any additional conditions that could reduce the benefits transferred to the final beneficiaries, diverge from market practice, or trigger additional legal provisions.

Combination with grants

As the new regulations allow to combine grants with financial instruments, it is up to the implementing bodies to decide if grants and instruments should work as an embedded product (and be managed by the financial instruments manager), or if the grant element would better work as an external component to be managed separately (perhaps in collaboration with a grant focussed authority).

Appropriate evaluation of financial results

An accurate evaluation of the results of financial instruments can only be made after the instruments have been wound down, the losses of debt instruments have incurred, and the equity funds have closed. It is well known that such instruments have a slow start and most equity gains or guarantee portfolio losses occur towards the end of their lives. Furthermore, the indicators used in the FIs evaluation must be different from those used in grant evaluation.

9.3.3.1 Lessons learnt in debt instruments (guarantees and loans)

Capital Relief

In the course of implementation of debt instruments under the previous programming period, the intermediaries expressed interest in the applicability of regulatory capital relief under guarantee and debt products. The provision of regulatory capital relief should be carried out in a way that is compatible with national legislation and capital markets regulatory framework in close connection with legal experts and the national regulator, respectively.

It is expected that the provision of regulatory capital relief will remain a key element for the future implementation of debt products under ESIF and for that reason it should be considered at the stage of Funding Agreement negotiation whether its provisions would be compatible with this objective.

In accordance with the Basel regulatory framework, the benefit of the capital relief can be fully utilised when the entity providing the guarantee enjoys the maximum credit rating.

Transfer of benefits

Most of the instruments that are deployed through banks as FIs incorporate an element of support that is directed at the final beneficiaries. Continuous monitoring and sophisticated reporting through contractual arrangements with the FIs are required to ensure that the full benefit is transferred to the SMEs in a transparent and uninterrupted manner.

9.3.3.2 Lessons learnt in equity instruments

Fundraising

Country-specific equity funds, especially in smaller and less attractive economies, usually experience fundraising problems. It is, therefore, important to consider whether local institutional investors will be able to invest in such equity funds. If not, tailor-made equity instruments need to be considered and additional financial incentives for investors may be needed (e.g. capped returns of public investors, fixed return vs hurdle, first-loss coverage for seed investments, etc.).

Market practice vs. ESIF rules

Whilst the new EC regulations allow for much closer alignment with market practice, the "absorption" rules and requirements, including timing, will always be key under ESIF instruments. Thus, it would be only natural that such instruments place substantial weight on the absorption potential together with the commercial outcome. To this end, it is important that solutions are devised to make the instruments appear as "business as usual" to market players, whilst ensuring compliance with the ESIF regulations.

Developmental aspect

ESIF resources by definition should address suboptimal market conditions. Thus it is inherent that instruments designed with ESIF resources may be embedded with provisions which are not fully aligned with market dynamics such as investing in asset classes with higher risk level, retaining fund managers that are not of the quality expected in developed markets or introducing non-market features in light of mobilizing private capital;

Attracting quality fund managers

Small country-specific funds rarely manage to attract top talent, as far as concerns fund managers, due to their size. To counterbalance that, equity instruments could offer an attractive fee/carry ratio. This approach would require a careful balancing act between the interests of fund managers and private investors, and must in any case retain the alignment of interest principle. A more attractive carry might make investors less interested, and so such incentives might only be possible with regard to public participation in the fund;

Local and committed teams

Strong local teams, or international teams with substantial capacity on the ground, have been shown to help an equity instrument achieve the impact sought by ESIF funding, especially from the developmental perspective.

9.4 Value added of the financial instruments

9.4.1 Value added of the proposed financial instruments

9.4.1.1 Qualitative value added

Given the market failures identified in the relevant chapter, the qualitative value added of financial instruments is significant in many respects, including:

- A more responsible approach, better performance and financial discipline at final recipient level in the case of financial instruments ("repayable assistance") compared to non-reimbursable assistance.
- Simplicity in obtaining assistance: the financial intermediary, such as a bank implementing a portfolio guarantee instrument as an example, is fully delegated to provide the instrument at SME level, without the need to obtain any further approval from the guarantee fund or FoF.
- Stimulation of a new generation of entrepreneurs in the innovative sector through the accelerator, seed funds and/or technology transfer instruments;
- Introduction of wholly new instruments, as for example the accelerator/technology transfer or the microcredit instruments (guarantees and interest subsidies) and the socially-oriented instruments;
- Supporting the build-up and modernisation of the financial system, including also the non-banking financial institutions previously not used as intermediaries under the ERDF FIs, by using new instruments and gaining new SME customers, including in the social economy.
- Creating competition among banks, fund managers, and other intermediaries which, as it has been shown in the past, usually leads to better terms for the final recipients;
- The mathematical leverage effect is supplemented by the stimulation of greater interest of private investors in a country or sector they would not have considered otherwise, potentially leading to further investments undertaken by them in the future.

9.4.1.2 Quantitative value added

The main element of quantitative value added of the proposed FIs is the leverage on ESIF resources. At instrument level, this ranges from a leverage of 1.1x in the case of seed funds and accelerators, where the qualitative dimension prevails through the funding provision for higher-risk early stage projects where traditional financing is harder to come by, to typically a minimum 5x leverage for portfolio guarantee instruments (depending on the results of the ex-ante risk analysis) addressing more mature companies with bankable projects.

However, the quantitative leverage is perhaps best viewed at the FoF or instrument portfolio level, which gives an overall aggregated account of the effectiveness in the spending of ESIF resources from the point of view of stimulating private financing. For example, the current Slovak JEREMIE Holding Fund produces a leverage effect at FoF level of approximately 3.3x.

Table 64: Leverage effect of the JEREMIE instruments

Financial Instrument	Budget EURm	Total SME loans/investments facilitated	Leverage
First Loss Portfolio Guarantee	43.0	245	5.7x
Portfolio Risk Sharing Loan (interest	18.3	36.6	2x

subsidy)			
Risk Capital funds	31.0	48.4	1.6
Management costs and fees	7.7	-	-
TOTAL	**100.0**	**330**	**3.3x**

Source: EIB

The leverage of the portfolio of instruments proposed here could be similar (not considering the impact of costs) as presented in the table below.

Table 65: Projected leverage effect for the proposed instruments

Financial Instrument	Proposed contribution EURm	SME impact EURm	Leverage
SME early-stage equity fund(s) (Accelerator & seed fund and/or technology transfer fund)	15	16	1.0x
SME portfolio guarantee instrument	60	300	5.0x
SME interest subsidy risk-sharing instrument[191]	100	200	2.0x
SME equity fund for growth stage	25	35	1.4x
Research and Innovation OP leverage	**200**	**551**	**2.8x**
Social impact investing instrument in support of social SMEs	15	15	1.0x
Social microfinance interest subsidy risk sharing instrument*	10	20	2.0x
Social microfinance guarantee instrument	10	25	2.5x
Human Resources OP leverage	**35**	**60**	**1.7x**
SME energy efficiency portfolio guarantee instrument	10	50	5.0x
Quality of Environment OP leverage	**10**	**50**	**5.0x**
TOTAL LEVERAGE	**245**	**661**	**2.7x**

Source: EIB

An important additional benefit to the leverage effect calculated above, while difficult to estimate in advance, consists in the revolving nature of the current (JEREMIE) and future ESIF FIs. Even with the assumed losses in the guarantee and loan subsidy instruments, the revolving resources, which will need to be again targeted towards SMEs, will add further value in the form of further "rounds" of SME financing.

9.4.2 Consistency of the proposed financial instruments with the OPs' objectives

[191] Alternatively, the SME interest subsidy with grant element can be used (leverage to be determined)

9.4.2.1 Research and Innovation OP

Operational Programme „Research and Innovation" benefits from a total financial allocation of EUR 2,266,776m from the EFRD.

Two Priority Axes (PA) have been designated for direct support of SMEs: PA3 "Enhancing the Competitiveness and Growth of SMEs" with an allocation of EUR 376.4m, and PA 4 "Developing competitive SMEs in the Bratislava Region" with an allocation of EUR 24.6m, giving the combined total allocation of EUR 401m.

Within PA 3, "Enhancing the competitiveness and growth of SMEs", Specific objective 3.1.1., "Enhancing the growth of new competitive SMEs", focuses on comprehensive solutions supporting the establishment of new SMEs and the acceleration of recently founded SMEs, as well as start-ups and spin-offs. The related measures will ensure systemic support during the initial business stages, and the creation of appropriate conditions for the growth of competitiveness of SMEs and for reducing the extent of their disappearance (e.g. creative industry)."

The results expected from attaining these objectives, include the following:

- "Increased share of knowledge-intensive business services (KIBS) in the total production of the business sector;
- Increased share of creative industry in GDP;
- Expansion and improvement of services supporting the establishment and development of innovative technological firms, including spin-offs and creative enterprises all over Slovak regions;
- Improved access to finance and venture capital for new SMEs and start-ups.
- Better conditions for maintaining employment and job creation in Slovak regions;
- Creation of conditions for the application of social innovation and for the entrepreneurship of disadvantaged groups of people."

Within PA 4, "Developing competitive SMEs in the Bratislava Region", Specific Objective 4.1.1, "Increasing the number of competitive SMEs in the Bratislava Region", focuses on "complex solutions supporting the establishment and development of new perspective SMEs in the Bratislava Region (BR), including start-ups and spin-offs, and their acceleration to enter the next phases of their life-cycle. Systemic support will be provided during all business stages, and the activity will also ensure the creation of appropriate conditions for the growth of competitiveness of SMEs and for reducing the extent of their disappearance. The activity will also support the development of new sectors (e.g. creative industry)."

The results expected from attaining these objectives, include the following:

- "Increased share of high and medium high-tech manufacturing enterprises and knowledge-intensive business services (KIBS) in the total production of the business sector in the BR;
- Expansion and improvement of services supporting the establishment and development of innovative technological firms, including spin-offs and creative enterprises in the BR;
- Improved access to finance and venture capital for new and existing SMEs;
- Increased share of profit-making enterprises in the Bratislava Region;

- Increased number of SMEs in the Bratislava Region conducting innovation activities;
- Maintaining employment and job creation;
- Creation of conditions for the application of social innovation and for the entrepreneurship of disadvantaged groups;
- Better links between domestic SMEs from the BR and suppliers of large multi-national corporations;
- Creation of conditions for increasing the innovation potential and competitiveness of SMEs in the BSGR to implement activities on the common market;
- Increased share of internet economy in the SME sector within the BR."

Providing well-targeted support for young SMEs to maximise their innovativeness and competitiveness, both nationally and in the Bratislava Region – with important focus on job creation and social/financial inclusion of the disadvantaged groups of people – is of strategic importance to the Slovak economy. It is so not only in the current programming period, but also with a long-term perspective.

Accordingly, to facilitate attainment of the specific objectives defined in the OP, the proposed financial allocation of EUR 200m to support the creation of SME early-stage equity funds i.e. (Accelerator & seed fund and/or technology transfer fund), a growth-stage fund, and two specialised risk-sharing instruments (i.e. guarantee and subsidy risk-sharing instrument), would aim to cover the full spectrum of the identified goals, and would also be expected to complement any available grant funding in this priority sector.

9.4.2.2 Human Resources OP

OP „Human Resources" benefits from a total financial allocation of EUR 2,205.0m from the ESF. It has a wide range of social development objectives, including job creation, social inclusion, and integration of marginalised Roma communities (MRC). An important objective of this OP is also support for social economy and entrepreneurship through social SMEs.

Four Priority Axes (PA) have been defined for direct support of these objectives: PA 2 "Employment" with an allocation of EUR 72.2m, PA 3 "Social Inclusion" with an allocation of EUR 845.9m, PA 4 "Integration of marginalised Roma communities" with an allocation of EUR 364.7m, and PA 5 "Technical facilities in municipalities with presence of marginalised Roma communities", IP 5.2. "Support for social enterprises" with an allocation of EUR 69.0m. The combined total of the allocations for these four PAs is, therefore, EUR 1,351.8m.

The overarching goal of PA 2 "Employment" is a contribution to "the fulfilment of one of the thematic objectives of the Europe 2020 strategy, i.e., to achieve a 75% share of the employed population aged 20 - 64."

PA 3 "Social inclusion" aims at "achieving one of the Europe 2020 Strategy objective, namely to reduce the number of persons at risk of poverty and social exclusion in the European Union by at least 20 million. In connection with the Europe 2020 Strategy objective the Slovak Republic has defined a specific objective in the area of poverty elimination, namely: 'To extricate at least 170

thousand people from the risk of poverty and exclusion by 2020'."

The principal objectives of PA 4 "Integration of marginalised Roma communities" reflect "the targets of the Europe 2020 Strategy in the area of employment (to boost the employment rate of the population aged 20 to 64 to 75%), in the area of education (to reduce the share of early school leavers to less than 10 %, and at least 40 % of the population aged 30 – 34 should have a tertiary degree) and in the area of poverty and social exclusion (at least 20 million fewer people should be at risk of poverty and social exclusion). It is aimed at people of marginalized Roma communities, who belong among the most vulnerable groups of the population suffering from high levels of deprivation and social exclusion."

PA 5 "Technical facilities in municipalities with presence of marginalised Roma communities", IP 5.2. "Support for social enterprises", has defined a specific objective (SP) 5.2.1 as "increasing the employment of MRC in social economy entities in areas with the presence of MRC". The premise for this approach is based on the realisation that the "current situation in the labour market is characterized by a lack of employment opportunities for the MRC. Existing social enterprises offer poor facilities in terms of technical equipment, technology and licensing, as well as limited space capacity." Support envisaged for the MRC in this sphere will focus on providing "investments in tangible and intangible assets of the social economy entities, since the creation of jobs depends on such investments …(and)…on the purchase of new technologies, equipment and licenses through which the production programme of the social enterprise can be supported."

Accordingly, three financial instruments, with a total allocation of EUR 35m, are proposed to help fulfil the social economy objectives outlined above.

1. A social impact investing instrument in support of social SMEs (proposed allocation of EUR 15m) could take the form of a social equity investment fund. It would provide equity investments into eligible social economy SMEs, thereby providing not only capital support but also business and managerial skills and mentoring.

2. A social microfinance interest subsidy risk sharing instrument – possibly combined with a grant element – (proposed allocation of EUR 10m) would offer a risk-sharing element focused on social microfinance. It would operate on the principle of loans made to the financial intermediaries on subsidised terms (e.g. at zero interest rate) on the condition that the entire benefit (absence of funding cost) is passed on to an SME or a micro company through significant reduction in the interest rate charged. The instrument and the intermediary provider of loans would share losses and recoveries on a pari-passu basis, with the aim of reducing collateral requirements sought by the intermediaries from the target groups of SME borrowers.

3. A social microfinance guarantee instrument (proposed allocation of EUR 10m) would underwrite losses on defaulting microloans offered by financial intermediaries to the target groups of SME borrowers.

The overall allocation from the OP Human Resources for the use of financial instruments is understood to be in the region of EUR 72m, out of which EUR 35m is proposed here for the support of the social economy SMEs. . The remaining part of the EUR 72m allocation is thus available for the recommended grant facility to complement the above FIs, and/or for those financial instruments which fulfil the goals of the OP Human Resources but fall outside the scope of this particular SME assessment.

9.4.2.3 OP Quality of Environment

OP "Quality of Environment" benefits from a total financial allocation of EUR 3,137.9m from the EFRD. The overarching objective of this OP is to provide support to "sustainable and efficient resource use ensuring environmental protection, active adaptation to climate change and promotion of an energy efficient, low-carbon economy."

While the OP encompasses both public and private target groups and beneficiaries, specific reference to SMEs has been made in PA 4 "Energy efficient low-carbon economy in all sectors", IP 2 4.2 "Promoting energy efficiency and renewable energy use in enterprises".

Specific objective 4.2.1 in this OP, entitled "Reduction of energy intensity and increasing the use of RES in enterprises" in less-developed regions of the Slovak Republic, "aims at introducing programs for support for energy audits at SMEs for objective determination of potential energy savings, based on which measures in the area of energy efficiency and use of RES [Renewable Energy Sources] will be proposed. Support for the implementation of such measures will reduce the energy intensity of production in enterprises, which will improve their competitiveness. Monitoring and control of energy consumption will contribute to sustaining and further reducing the energy intensity of production." This objective is expected to be fulfilled "through provisions for energy audits at SMEs (and) the implementation of measures arising from these audits."

"Increasing the share of RES in gross final energy consumption" is the goal of specific objective 4.1.1, "Increasing the share of RES in gross final energy consumption". The objective pertains to less-developed regions of the Slovak Republic and includes private-sector entities amongst its target groups and beneficiaries. It is expected to be fulfilled through the following actions:

1. Construction of plants using biomass by the means of renovation and modernization of existing energy plants with maximum thermal input power 20 MW combusting fossil fuels;
2. Construction of plants for
    - Bio methane production
    - Use of hydropower
    - Use of air thermal, hydrothermal or geothermal energy by using heat pumps
    - Use of geothermal energy for direct heat generation and eventually also in combination with heat pumps
    - Production and energy use of biogas, landfill gas, and gas from wastewater treatment plants
3. Construction of small-scale plants for use of RES.

Whilst the major three results expected to derive from this specific objective focus on the "reduction of greenhouse gas emissions, increasing the share of heat from RES in gross final energy consumption (and) increasing the share of electricity from RES in gross final energy consumption", a secondary important outcome envisaged will be the contribution of these actions to the reduction of unemployment through job creation in the RES plant construction projects.

Consequently, the SME energy efficiency portfolio guarantee instrument, with a proposed allocation of EUR 10m, would facilitate financing of energy efficiency related projects by providing portfolio

guarantees to financial intermediaries involved in lending for EE/RES projects to SMEs located in less-developed regions.

9.4.3 Consistency with other forms of public assistance addressing the same market

9.4.3.1 Consistency with current JEREMIE instruments

The JEREMIE First Loss Portfolio Guarantee and Portfolio Risk Sharing Loan instruments will no longer be supporting any new loans by the end of December 2015, therefore little or no overlap would exist with any new similar instruments that would be implemented under the new programmes, but rather a smooth continuation is expected to be welcomed by FIs.

The JEREMIE risk capital funds will end their investment periods at the end of 2015 and will only make follow-on investments for a limited time, in the case of Neulogy Ventures VC fund, in the existing portfolio afterwards. Allowing for a continuation of the availability of early stage equity financing is therefore considered important, especially as the existing funds have had to see their investment periods severely constrained due to SF regulations and the end of the programming period for declaring eligible expenditure. It may also be assessed whether possible to bridge or transition the two periods by means of an additional budget of funding to the existing JEREMIE managers in order to allow them to protect and maximise the value of their investments in subsequent funding rounds, or to support the companies through to exit, when in any case they are contracted to carry out their fund management tasks until 2024, given the 10-year lifetimes of the funds.

With regard to any revolved resources from the current JEREMIE Holding Fund, which will become available from 2016, and will have to again be put to use in support of financial instruments targeting SMEs, it can be considered that these resources will serve to supplement the budget accorded to SME financial instruments as a result of the ex-ante study and the resulting allocations from OPs under the new programming period.

9.4.3.2 Consistency with SZRB guarantee instruments and SBA equity instruments

Given the overall demand for loan guarantees in Slovakia, the availability of differing guarantee instruments should not create issues in their respective implementation in case the differences are readily understandable or clarified. The difference in guarantee rates (50% for the SZRB fast bank guarantees versus 70-80% for the newly proposed instrument), as well as in the product features (including individual versus portfolio guarantees), eligibility criteria and terms themselves), mean that it is very possible for the two instruments to operate in parallel. The portfolio guarantee, as currently backed by EIF's AAA rating, also allows banks with the requisite internal management systems to apply with the national regulator for regulatory capital relief, which can be an additional benefit to such larger, more well-established intermediaries. Other benefits include the full delegation for the loan inclusion process as well as the leverage enabling a wider client reach with comparable guarantee amounts.

The SBA equity instrument may not be fully consistent with the envisaged ESIF equity instruments due to the potential for a state-funded only VC instrument to out-compete a private fund manager on, for example, investment valuation, securing investments which may not ultimately be on

favourable terms for the state budget, while depriving the private fund managers of potentially valuable opportunities for completing the required number of investments to ensure a well-diversified portfolio. It would therefore be more sensible for proper coordination between SBA and SIH to ensure a complementary set of activities, targeting specific identified gaps within the overall funding ecosystem and using state funding where private funding cannot be sufficiently attracted (very early-stage, very high-risk).

9.4.3.3 Consistency with EU-level instruments managed by EIF

The newly launched COSME Loan Guarantee Facility (successor of the CIP SMEG) and InnovFin Guarantee (HORIZON 2020) instruments, both entrusted to EIF for implementation by the EC, do not specifically address the local market, although they are available for intermediaries in any Member State including Slovakia. In the past, their predecessors CIP and FP7 RSSF, as well as the first PROGRESS Microfinance, have been used only to a limited extent in the country. The EU-level instruments will be rolled out until 2020 through an open call for expressions of interest, whereas it is expected that the ESIF instruments will be contracted within 2015/16.

In the case of guarantee instruments under COSME LGF, the guarantee rate is 50%, whereas if the current portfolio guarantees under JEREMIE are assumed as suitable proxies, then the guarantee level under ESIF can be expected to be between 70-80% .

The InnovFin SME Guarantee Facility will provide both guarantees and counter-guarantees using a combination of the EU's Horizon 2020 Framework Programme for Research and Innovation (2014-2020) contribution ("Horizon 2020") and EIF's own risk capacity, and will target lending for innovation investments, which from local bank intermediary feedback is not expected to elicit great interest in Slovakia given the market's limitations.

9.4.4 Possible State Aid implications

As EU funds create advantages for SMEs on a selective basis, and their utilisation is decided upon by the state, they have the potential to be considered state aid under Article 107 of the TFEU. Although the new EC regulations for block exemption and de minimis aid entered into force in 2014, the principles of state aid are the same, with the following categories of financial instruments:

- State aid free instrument – e.g. loans at market rates, guarantees priced at market rates or at "safe harbour" rates, as defined by the EC
- Instruments with a state aid element but considered compatible with the TFEU and thus exempt from notification:
  - De minimis instruments under Reg. 1407/2013, not requiring notification – e.g. investments under the de minimis ceiling amount, or guarantees/loans where the aid element (gross grant equivalent) falls below the de minimis threshold.
  - Instruments exempt from notification under Reg. 651/2014, such as risk capital funds with at least 40% private participation and complying with all the other conditions set out in the GBER 651.

- Outside of these categories, instruments with a state aid element require a formal notification to the EC in coordination with the national state aid point of contact (in Slovakia, the Ministry of Finance).

Since notified instruments may take long to be approved, and state aid free instruments may not be interesting for market players and final recipients, the EIF's experience in the former programming period is that the block exemption rules (GBER and de minimis) are the best option to be used for financial instruments.

For each financial instrument, a careful assessment of state aid compatibility is needed, not only at final recipient level, but also at the level of the intermediary and (in the case of equity funds) of a private investor. As with any EU projects, it is essential to make the state aid elements a part of the instruments' design process, in tandem with the ESIF eligibility rules. This ensures that the principles are duly respected and, if required, a state aid, or a de minimis aid scheme, is proceeded with well in time for the implementation of the instruments.

9.5 Potential for additional resources to be raised by the financial instruments

9.5.1 Identification of potential sources of funding

It is understood that the Slovak Investment Holding (SIH) may be targeting a certain level of private fundraising at the fund of funds level. This can bring clear benefits, notably required private co-investment levels "in-built" but it is also worth taking into consideration that it could result, in some cases, in potentially depriving financial intermediaries themselves of valuable institutional fundraising targets, e.g. VC fund managers.

Sources of private funding, depending on the nature of the instruments, are:

- EU financial institutions operating on commercial terms, such as EIB Group (EIB and EIF) and other international financial institutions
- In the case of an equity fund, the fund managers themselves are usually required to invest around 1-2% of the fund size (depending also on existing wealth), in order to ensure an alignment of interest, and in parallel they seek to raise funds from private investors. Other private investors may include institutional investors, such as banks, asset managers and insurance companies. It is unfortunate that, for the time being, compulsory private pension funds in Slovakia are not allowed to invest in private equity, thus depriving any local private equity and venture capital funds from what constitutes one of the typically major limited partner funding sources for the industry.
- In the case of risk-sharing loan facilities, the banks are usually expected to contribute their own funds to the funding made available (such as 50% matching under current JEREMIE) at the SME level, which could also come from parent banks or from institutions such as EIB, leading to a leverage of ESIF resources.
- In the case of portfolio guarantees, the banks issue loans to SMEs from their own funding sources, which can be deposit-based or from parent loans or from funding lines extended by e.g. IFIs, thereby creating a leverage of typically 5x or more on the ESIF funds.

9.5.2 Leverage of the envisaged financial instruments

The potential leverage of the envisaged instruments is already covered in the sections on quantitative and qualitative value added under Chapter 6. Under the assumptions made, a portfolio of ESIF instruments of EUR 245m may result in a minimum leverage of 2.7x.

9.6 Consistency of the expected results with the operational programmes

In line with the objectives of the Operational Programmes and specific Priority Axes, the following are possible result indicators in the assessment of the performance of the proposed FIs.

Table 66: Potential result indicators to be monitored for the implementation of the proposed FIs

Financial Instrument	Funding Source	Result indicators
Early-stage equity funds (Accelerator & seed fund and/or technology transfer fund) SME portfolio guarantee instrument SME interest subsidy risk-sharing instrument* SME equity fund for growth stage	**OP Research and Innovation** PA 3 "Enhancing the Competitiveness and Growth of SMEs" PA 4 "Developing competitive SMEs in the Bratislava Region"	• Survival rate of new enterprises on the market after two years (PA 3) • Number of established enterprises (PA 3). • Year-to-year increase in the number of new enterprises in the Bratislava Region (PA 4) • Increase in SME profitability in the Bratislava region (PA 4))
Social impact investing instrument in support of social SMEs Social microfinance interest subsidy risk sharing instrument* Social microfinance guarantee instrument	**OP Human Resources** PA 2 "Employment" PA 3 "Social Inclusion" PA 4 "Integration of marginalised Roma communities" PA 5 "Technical facilities in municipalities with presence of marginalised Roma communities", IP 5.2. "Support for social enterprises"	• Number of social SMEs funded • Number of start-ups funded in the less-developed regions • Number of MRC* members / other MC* members employed by the social SMEs funded and remaining in employment for at least a year • Number of long-term unemployed hired and remaining employed for at least a year • Number of people below 25 years of age hired and remaining employed for at least a year
SME energy efficiency portfolio guarantee instrument	**OP Quality of Environment** **PA 4 "Energy efficient low-carbon economy in all sectors"**	• Number of EE projects supported • Number of SMEs receiving support • Share of RES** in gross final energy consumption • Estimated annual decrease of GHG*** • Number of energy-efficiency measures implemented in the companies • Number of energy audits • Number of energy-efficiency measures implemented in the companies • Number of enterprises with a registered Eco-Management and Audit Scheme and an established system for environmental management • PES**** savings in the company • Installed electric performance from

Financial Instrument	Funding Source	Result indicators
		RES • Installed heat performance from RES

Source: EIB

*MRC = Marginalised Roma Community (MC = Marginalised Community)

**RES = Renewable Energy Sources

***GHG = Greenhouse Gases

****PES = Primary Energy Saving

Annexes

Annex 1 – Article 37 (2 and 3) of the Common Provisions Regulation n°1303/2013 adopted on 17 December 2013[192]

2.

Support of Financial Instruments shall be based on an *ex-ante* assessment which has established evidence of market failures or sub-optimal investment situations, and the estimated level and scope of public investment needs, including types of Financial Instruments to be supported. Such *ex-ante* assessment shall include:

(a) An analysis of market failures, suboptimal investment situations, and investment needs for policy areas and thematic objectives or investment priorities to be addressed with a view to contribute to the achievement of specific objectives set out under a priority and to be supported through Financial Instruments. This analysis shall be based on available good practice methodology;

(b) An assessment of the value added of the Financial Instruments considered to be supported by the European Structural and Investment Funds, consistency with other forms of public assistance addressing the same market, possible state aid implications, the proportionality of the envisaged assistance and measures to minimise market distortion;

(c) An estimate of additional public and private resources to be potentially raised by the Financial Instrument down to the level of the final recipient (expected leverage effect), including as appropriate an assessment of the need for, and level of, preferential remuneration to attract counterpart resources from private investors and/or a description of the mechanisms which will be used to establish the need for, and extent of, such preferential remuneration, such as a competitive or appropriately independent assessment process;

(d) An assessment of lessons learnt from similar instruments and *ex-ante* assessments carried out by the Member State in the past, and how these lessons will be applied in the future;

(e) The proposed investment strategy, including an examination of options for implementation arrangements within the meaning of Article 38, financial products to be offered, final recipients targeted, envisaged combination with grant support as appropriate;

f) A specification of the expected results and how the Financial Instrument concerned is expected to contribute to the achievement of the specific objectives set out under the relevant priority including indicators for that contribution;

(g) Provisions allowing for the *ex-ante* assessment to be reviewed and updated as required during the implementation of any Financial Instrument which has been implemented based upon such assessment, where during the implementation phase, the managing authority considers that the *ex-ante* assessment may no longer accurately represent the market conditions existing at the time of implementation.

[192] The current study is addressing point (a) and an assessment of lessons learned from similar instruments in the country as per (d).

The *ex-ante* assessment may be performed in stages. It shall, in any event, be completed before the managing authority decides to make programme contributions to a Financial Instrument.

The summary findings and conclusions of *ex-ante* assessments in relation to Financial Instruments shall be published within three months from their date of finalisation.

The *ex-ante* assessment shall be submitted to the monitoring committee for information purposes in accordance with Fund-specific rules.

Annex 2 – Note on the sampling methodology of the online survey

The survey has been conducted in the Slovak Republic where 401,163 SMEs are operating. In order to define a suitable sample of the SMEs to be contacted through the online survey, the following procedure was followed.

The SME population in the Slovak Republic was defined and stratified on the basis of three dimensions:

- Sectors, using the NACE – Nomenclature rev. 2 classification;
- Regions using the location of the company
- The size of companies (micro, small, medium-sized), using the Statistical office figures current as of 1 January 2014.

Starting from this stratification, a suitable sample of the SMEs in the Slovak Republic was defined by using the Statistical office of the Slovak Republic databases and Government office of the Slovak Republic – ITMS department database based on the entities which asked for financial support from Structural Funds in PP 2007-2013. In particular, the proportions of the sampled SMEs by the number of employees and the sector were designed to match the proportions in the entire SME population in the Slovak Republic. All SMEs selected as a sample received an individual link to the online questionnaire via e-mail. The questionnaire was sent to a sample of more than 24,000 SMEs, representing approximately 6% of the SME population in the country. The online survey tool provided the real-time statistics on the respondents and information on each answer. The survey was closely followed. Overall, 375 companies gave valid answers to the online survey.

The questionnaire used for the online survey included 25 questions and is presented in Annex 8. The survey was sent out on May 12th and closed on June 6th 2014.

Responses were monitored and the survey was closed when the respondent population had achieved a representation of each stratum, based on the two dimensions, with a sufficient degree of freedom to implement a relevant statistical analysis.

Table 67 below provides a detailed description of the stratification with:

- The number of SMEs per size of enterprise, per region and per sector at the national level; along with the related percentage compared to the total SME population in the Slovak Republic.

- The number of SMEs that answered the online survey (respondents) per size of enterprise, per region and per sector. The related percentages are also provided.

Table 67: Stratification of respondents to the online survey in the Slovak Republic compared to the population of SMEs in the country

	SME population in the Slovak Republic		Respondents	
	Number	Percentage	Number	Percentage
Size of enterprise				
Micro enterprises	383,521	*95.5%*	255	69.7%
Small enterprises	14,898	*3.7%*	36	9.8%
Medium-sized enterprises	2,744	*0.7%*	75	20.5%
Region				
Bratislava region	83,921	*20.9%*	79	21.4%
West Slovakia	125,627	*31.3%*	96	26.0%
Middle Slovakia	96,632	*24.1%*	112	30.4%
East Slovakia	94,983	*23.7%*	82	22.2%
Sector				
A AGRICULTURE, FORESTRY AND FISHING	18,346	*4.6%*	12	3.3%
B MINING AND QUARRYING	172	*0.0%*	0	0.0%
C MANUFACTURING	51,090	*12.7%*	60	16.3%
D ELECTRICITY,GAS,STEAM AND AIR CONDITIONING SUPPLY	481	*0.1%*	8	2.2%
E WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	1,050	*0.3%*	3	0.8%
F CONSTRUCTION	62,238	*15.5%*	62	16.8%
G WHOLESALE AND RETAIL TRADE;REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	107,827	*26.9%*	51	13.9%
H TRANSPORTATION AND STORAGE	15,356	*3.8%*	13	3.5%
I ACCOMMODATION AND FOOD SERVICE ACTIVITIES	15,761	*3.9%*	18	4.9%
J INFORMATION AND COMMUNICATION	12,854	*3.2%*	28	7.6%
K: FINANCIAL SERVICES AND INSURANCE COMAPNIES	8,647	*2.2%*	4	1.1%
L REAL ESTATE ACTIVITIES	10,371	*2.6%*	3	0.8%
M PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	51,655	*12.9%*	9	2.4%
N ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	16,065	*4.0%*	11	3.0%
P EDUCATION	4,008	*1.0%*	10	2.7%

	SME population in the Slovak Republic		Respondents	
	Number	Percentage	Number	Percentage
Q HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	10,867	*2.7%*	11	3.0%
R ARTS, ENTERTAINMENT AND RECREATION	3,191	*0.8%*	3	0.8%
S OTHER SERVICE ACTIVITIES	11,176	*2.8%*	62	16.8%

Source: Statistical Office of the Slovak Republic, PwC, 2014.

The distribution of respondents by sector and region is closely aligned with the total population. For the size categories, it was more important to obtain sufficient responses by category size than to match the population, because these categories are examined separately in the analysis. However, where size categories are analysed together, an appropriate weighting was applied on a question-by-question basis so that the answers mirrored to the best possible extent the actual distribution of the SME population

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Annex 4 – Detailed analysis of the market environment of the Slovak Republic

The Slovak economy is an industrial economy which is still able to attract FDI and also to remain competitive in foreign markets. Despite a set-back in the beginning of the crisis, the economy demonstrated a quick recovery. However, it seems that this recovery has also initiated a transition phase for the Slovak Republic which seems to affect balances within the market.

More specifically, FDI inflows are mostly directed toward existing industries rather than new projects, thus larger companies are no longer able to meet the employment needs of the country. As a result unemployment remains high and well trained people remain in scarcity. Consequently, many people turn to entrepreneurship, as shown by the doubling of zero-employee companies created since 2009, however, without the necessary training, this "last resort" entrepreneurship is not focused on innovative sectors or other competitive activities which in the long run would be able to provide added value to the economy.

Overall, SMEs in the country have traditionally been depended on the industry sector and are securing their operations and their liquidity through this supply chain. Also, domestic demand is still strong allowing for positive prospects while exports will also remain a strong engine for the economy. However, SMEs are still not able to attract FDIs, and become more innovative. This high dependency on the industrial sector creates a comfort zone but it also creates an environment sensitive to external shocks which could cause concerns in the long term.

Characteristics of the economy and demographics of Slovak Republic

The overall economic and political development of the Slovak Republic, especially Gross Domestic Product (GDP) growth rates, inflation rates, and political and regulatory matters (e.g. fiscal conditions and tax policies), which for the most part define existing market conditions (e.g. investments, consumption and export growth) ultimately affect the performance and profitability of SMEs. Social indicators and conditions (e.g. the quality and costs of human resources) and demographics remain, as well, important components influencing the competitiveness of SMEs. Key macroeconomic data of the Slovak Republic are presented in the table below.

Table 68: The Slovak Republic – Map and key figures

Indicator	Figures and rates in the Slovak Republic for 2013	Source
Gross Domestic Product at market prices (GDP)	EUR 72,134m	Eurostat, 2013
GDP per Inhabitant (EUR)	EUR 19,600 in PPS (Purchasing Power Standards) per inhabitant	Eurostat, 2013
Real GDP Growth	1.8% in 2012 and 0.9% in 2013	Eurostat, 2013
Population	Total population reached 5,415,949. Life expectancy reached 75.7 years compared to the EU average of 79.6 (in 2012).	Statistical Office of the Slovak Republic, 2014; Eurostat, 2014
Activity rate	The activity rate of people aged 15-64 was 69.9% (77.2% for men and 62.5% for women); the rate is lower than the EU-28 average reaching 71.9%. Women constitute 44.4% of the workforce aged 15-64 as	Eurostat, 2014

Indicator	Figures and rates in the Slovak Republic for 2013	Source
	compared to the EU-28 average of 45.9%.	
Employment rate	59.9% (66.4% for men and 53.4% for women) of population aged 15-64 as compared to 64.1% for EU-28.	Eurostat, 2014
Employment in the market sector	1,224,425 employees (768,907 in the private sector and 455.518 in the public sector).	Statistical Office of the Slovak Republic, 2014
Unemployment rate	14.3% (14% for men and 14.6% for women), compared to the EU-28 average of 11%.	Eurostat, 2014

Source: Eurostat, 2013, 2014.

a) Economic and political overview

This section describes the political context currently in play and presents the key macroeconomic and demographic data for the Slovak Republic.

Political and administrative context

The Slovak Republic joined the EU in 2004 and the Eurozone in 2009. The Prime Minister Robert Fico is the leader of the largest party in the National Council, the SMER SD[193], a social-democratic political party, which won the parliamentary elections of 2012 with an absolute majority of 83 seats out of 150. The parliament consists of six parties with five of them well known to the public and one, namely "Ordinary People", which is a new centre-right party which won third place in the last parliamentary elections by winning 16 seats.

Regarding the administrative map of the country, the Slovak Republic is divided into four primary administrative levels and eight regions[194]. Specifically, the country is partitioned into four NUTS 2 units (self-governing units called VUC[195]), consisting of Bratislava Region, Western Slovakia, Central Slovakia and Eastern Slovakia. Each of these administrative levels is further subdivided into eight regions (Table 69). Respectively, the regions include 79 districts and 2928 municipalities. On the basis of the NUTS classification, the central government of the Slovak Republic transferred more than 400 competences to the VUCs and municipalities[196].

Since 2004, VUCs as self-governing regions are responsible for the management of the regional budget.

193 Direction – Social Democracy is a social-democratic political party in Slovakia.

194 These regions are corresponding to EU's NUTS level of local administration (Nomenclature of territorial units for statistics)for the purpose of framing EU's regional policies with regard to socio-economic analyses and the collection, development and harmonisation of statistical data (Eurostat, 2012).

195 VUC (Vyšší územný celok) – name of territorial divisions in the Slovak Republic.

196 According to the Law 515/2003 hl.BrE (statute book) on county and district councils, the integrated local state administration ceased to exist (EurActiv: Regional policy, 2010). http://www.euractiv.sk/regionalny-rozvoj/zoznam_liniek/regionalna-politika-v-sr#sthash.ts6jFV0k.dpuf.

Table 69: NUTS qualification of Slovak Republic

Bratislava Region	Western Slovakia	Central Slovakia	Eastern Slovakia
Bratislava Region	Trnava Region	Žilina Region	Prešov Region
	Trenčín Region	Banská Bystrica Region	Košice Region
	Nitra Region		

Source: Eurostat, 2014.

Figure 52: NUTS qualification of Slovak Republic

Source: http://chatamaja.wbl.sk/Mapa_Slovenska/Mapa_Slovenska1.GIF.

Macroeconomic overview

One of the most important objectives of the Slovak government is to redress the negative effects of the financial crisis. In this context, improving the business environment is considered a crucial condition in the effort to reach a sustainable economic growth. According to the National Reform Programme[197] (NRP) of the Slovak Republic, the government aims to reduce regulatory burdens at all stages of entrepreneurship by stabilising the legal environment and expanding e-Government services. The government recently announced to continue the ongoing fiscal consolidation and to control the development of public debt (IMF Country Report, 2013)[198]. The nominal budget deficit reached 2.8% of GDP in 2013 and is expected to remain below 3% of GDP also in the coming years, but an increase in the structural deficit is already expected by the European Commission (SWD (2014) 426 final).

[197] The National Reform Program is the main strategic document of the Slovak Government with respect to economic development and structural policies. It contains national-level measures to attain a sustainable economic growth, growth in employment and higher quality of life. At European level, the document presents measures to meet the objectives contained in the Europe 2020 strategy as defined in the 2013 Annual Growth Survey and the Europe 2020 Integrated Guidelines, as well as to comply with the country-specific recommendations made by the EU Council to Slovakia.

[198] The government outperformed the 2012 deficit target with 4.3%. Gross public debt reached 52% of GDP, due in part to contributions of 2 percent of GDP to euro area firewalls (the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM)) and some pre-funding (Eurostat, IMF country Report, 2013).

Based on the Partnership Agreement with the European Commission[199], the Slovak Government aims to optimise the use of EU funds to fulfil its strategic goals such as enhancing economic growth, promote basic infrastructure development and employment. Hence, the cohesion policy will support the implementation of the NRP by playing a stronger role in the funding of these structural policies during the next programming period 2014-2020.

Since the beginning of major structural reforms through the introduction of market-oriented government policies (2001 – 2002), the Slovak economy has grown stronger. The competitiveness of the country, which further enhanced with EU accession in 2004, resulted in a strong inflow of FDI, high export rates and above average economic growth rates in comparison to EU-28 (10.4% in 2007 according to Eurostat).

However, when the financial crises triggered global recession, the small open Slovak economy showed its vulnerability to international trade shocks. Reduced international demand and weakened domestic demand resulted in a negative growth rate of -4.9% in 2009 and a general slowdown of economic growth in the following years. Among the Visegrad Group[200], only Poland was less hit during this year (growth of 1.6%), while the Czech Republic (-4.5%) experienced a similar decrease in growth (Figure 53).

Table 70: Major economic indicators of the Slovak Republic over 2008-2013

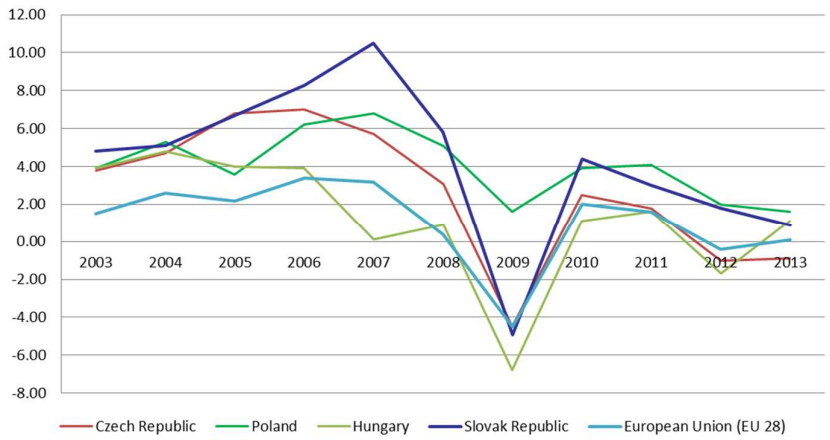
	2008	2009	2010	2011	2012	2013
GDP at market prices	64,413	62,794	65,897	68,974	71,096	72,134
GDP Growth	5.8	-4.9	4.4	3.0	1.8	0.9
HICP	3.9	0.9	0.7	4.1	3.7	1.5
Current Account Balance in % of GDP	-6.2	-2.6	-3.7	-3.8	2.2	2.1
Unemployment Rate	9.6	12.1	14.5	13.7	14.0	14.2

Source: Eurostat database, 2014.

[199] In February 2014, the Government adopted the Partnership Agreement of the Slovak Republic for 2014-2020 as a strategic document for drawing EU funds from the European Structural and Investment Funds in the current programming period.

[200] The Visegrad Group, also called the Vinegar Four (V4), is an alliance of four Central European states – Czech Republic, Hungary, Poland and Slovakia for the purposes of furthering their European integration as well as advancing their military, economic and energy cooperation with one another.

Figure 53: Real GDP growth rate of the Slovak Republic over 2009-2013



Source: Eurostat database, 2014.

After 2009, the Slovak Republic demonstrated one of the most rapid recoveries from the crisis among all European Union countries, fuelled, in particular, by the rapid recovery in exports and related industrial production (IMF Country Report, 2014). However, growth of 4.4% and 3.0%, in 2010 and 2011 respectively, slowed to 1.8% in 2012, and to 0.9% in 2013 (Eurostat). As domestic demand further declined by 4.0% in the first half of 2013, net exports have become the sole driver of growth, as it was the case in 2012 (DG ECFIN Economic Forecasts, 2013). Figure 53 illustrates how the revitalisation of the European economy was slowed down by a new recession wave in 2011 and 2012 with the Slovak Republic and Poland experiencing over average growth.

In 2013 the nominal Gross Domestic Product (GDP) of Slovakia amounted to EUR 72.1bn and to EUR 71.1bn in 2012 respectively. Moreover, n 2012, the nominal GDP per capita ratio in purchasing power standards (PPS) was at 76% of the EU-28 average.

Regarding sectors of activity in the country, the industry sector contributed to roughly 25% of total GDP output in 2013 (of which 82% accounted for manufacturing), followed by wholesale and retail (including repair, storage and transport) with a contribution to total GDP of 21%. The developments of these sectors are of particular importance to SMEs as Slovakia's SME sector is characterised by a high concentration of small and medium-sized businesses in the manufacturing, and wholesale and retail sectors, in respect to the EU average (SBA Fact Sheet Slovakia 2013)[201].

The negative effects of the economic crisis in 2009 had a strong impact on the SME sector, leading to a decline in the total number of companies and employees, especially for micro-enterprises (as shown in detail later on in this chapter). However, on the other hand, the recovery of the economy which started already in 2010 allowed for an increase in employment rates and the number of companies during the following years. This development was supported by the responsiveness of the government streamlining and simplifying administrative services (registration, documentation and lower fees), which lead to the creation of new start-ups and further employment possibilities[202].

[201] The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). The SBA Fact Sheets are published annually and aim to improve understanding of recent trends and national policies affecting SMEs.

[202] In 2007, the government published a document entitled "Better regulation in the Slovak Republic: Action programme for reducing

According to Eurostat, prospects are positive for the next two years, with growth expected to reach 2.2% in 2014 and 3.1% in 2015. This growth is expected to be fuelled by net exports[203] while domestic demand will also improve. Regarding SMEs, they remain concerned about the overall economic context according to the survey conducted for the present study. In the short-term (<1 year), the economic context is the second major concern, while in the medium term (between 1 and 3 years), SMEs are mostly worried about limited demand on the local market[204]. Concerning the long-term perspective, nearly 40% of SMEs are concerned about the general economic context. It is also important to mention, that more than 40% of SMEs raised concerns about the effect of corruption to their business. The issue of corruption posing threats to business development in the Slovak Republic is echoed by the World Economic Forum's Global Competitiveness Report 2013-2014 where Corruption is ranked as the second most problematic factor for doing business in the country[205].

Foreign Direct Investment

Foreign Direct Investments (FDI) are the second driving force of Slovakia´s growth after exports, but their development is highly affected by the global financial crisis and the economic slowdown in most countries worldwide.

Constant positive inflows of FDI are reported in the country since 2000, mainly because of the country's favourable geographic location, low taxes, low labour costs and relatively well educated labour force. Over time, the Slovak Republic constantly improved its comparative advantage in specialised sectors such as the automobile industry and electronic appliances – making it an attractive investment destination. Figure 54 shows the development of FDI inflows from 2005 to 2012: While the flow of FDI turned negative in 2009, the inflow of FDI gradually recovered but without reaching its pre-crises levels yet. This evolution of FDI is in contrast to the Czech Republic and Hungary, who managed to surpass considerably their pre-crises levels of annual inflows in 2012.

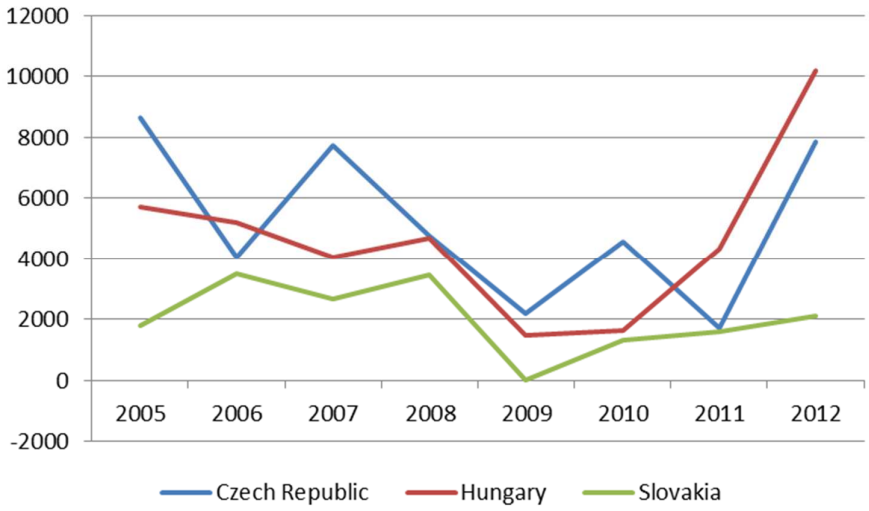
administrative burdens in Slovakia 2007–2012". As a part of its stimulus plan to ease the impact of the economic downturn, the Slovak government reduced the administrative burden by 25 % by 2012 (SBA Fact Sheet Slovakia 2012). In 2009 and 2010, laws covering various areas were assessed, including business law, accounting, bankruptcy and restructuring, market regulation, taxes, custom duties, investment incentives, other financial regulations. Further recommendations that came from the process included reducing paperwork for SMEs and using more electronic tools (SBA Fact Sheet Slovakia 2012).

[203] The Economic sentiment indicator (ESI), as per the Statistical Office of the Slovak Republic, shows a general positive trend of expectations among companies in the country. Nevertheless, ratings are still far below 2008 results. More details available on the official website of the Statistical Office of the Slovak Republic: http://portal.statistics.sk/showdoc.do?docid=82837#a.

[204] According to the SME's Access to Finance survey conducted by the European Commission and the European Central Bank, 43.6% of interviewed enterprises stated that finding customers is the most pressing problem they are facing. This percentage is much higher than the EU-28 average of 22.4% (European Commission, SME's Access to Finance survey, 2013).

[205] Surveyed business executives report that public funds are often diverted to companies, individuals or groups due to corruption, and the lack of ethical behaviour by companies in their interactions with public officials, politicians and other companies represents a serious business disadvantage for the country.

Figure 54: Annual Foreign Direct Investment inflows in EUR Mil.



Source: OECD International Direct Investment Statistics, 2013.

Over the years the targeted sectors of FDI flows also changed substantially. While in 2008 nearly 84% of investments were directed to the service sector, in 2010 the majority of the investments were redirected (nearly 47%) toward the manufacturing sector[206] (OECD FDI Statistics, 2013). Moreover, while in the years before the crisis FDI flows were directed towards large Greenfield investments, FDI flows are nowadays directed towards existing plants, again in the manufacturing sector. These investments have mostly been undertaken to secure the viability of existing operations, which implies that the inflow of new, large, wage-cost sensitive and job-creating FDI projects has decreased (Fidrmuc, J. et al., 2013).

When comparing the breakdown of FDIs by region, Bratislava is the most important target of investments. The region of Bratislava attracts most of the FDI inflows, with a share of circa 73% of total inflow, followed by Žilina and Košice (NBS, 2012).

This strong dependency of the local industries on the neighbouring markets, especially for the automotive and electronic industry, as observed in 2009, is one of the main structural disadvantages for FDI in the country. Another long-term weakness in terms of attracting FDI is the overall slow process of the transition to a knowledge economy, Slovakia particularly lacks investments in education and research and development. Overall, FDIs do not seem to contribute to finance innovative activities in the country. In fact, during the period between 2006-2011 foreign investments in R&D in Slovakia represented even less than 1% of total FDIs (EOI Country Report 2013).

Despite the setback of the crisis, the country seems to remain an attractive destination for FDI. However, the largest share of these investments seem to be attracted to more labour and capital

[206] One of the most important foreign investors is the Republic of South Korea with total FDIs approaching EUR 1.9 billion by 2011. Overall, more than 80 South Korean companies have invested into Slovakian production, particularly in the automotive and electrical industries. Hence, South Korean Investments have significant influence on business in general and employment in particular. The most important investor is KIA Motors Slovakia s.r.o, followed by Samsung as the largest Korean employer (Annual Report of the National Bank of Slovakia 2013).

intensive sectors which by definition are composed of large companies. SMEs are still not able to attract foreign investment since innovative sectors that could become a target for investors are not sufficiently developed.

Exports

Exports have been the main driving force behind Slovakia's robust growth in the last few decades. Exports nearly doubled in the last ten years (from roughly 55 percent to 95 percent of GDP between 1995 and 2012[207]), allowing the Slovak Republic to outpace most of the EU economies with regard to the growth rates of its exports. Nevertheless, exports in current prices were hit particularly hard in 2009 as they fell by about 21% (from EUR 53.7bn in 2008 to EUR 44.3bn in 2009) as compared to 18.7% in the EU-28 (Eurostat, 2014). The subsequent recovery in 2010 increased exports to EUR 61.7bn in 2011 and EUR 70.4bn in 2013 respectively.

The biggest share of Slovakia's exports includes vehicles, machinery and electrical equipment, base metals and chemicals and minerals. The country exports, above all, manufacturing goods as the overall exports of vehicles, machinery and electronic products account for 38% of Slovakia´s total exports (IMF, 2013).

Germany is the largest trade partner for Slovakia with a proportion of 24% of total exports, followed by Czech Republic (14%), Poland (8%), Hungary (7%) and Austria (6%, IMF Country Report, 2013). About one fourth of Slovakia´s exports to Germany are re-exported to third countries. Outside of the EU, the highest proportion of Slovak products is exported to the Russian Federation and China.

In 2010, SME's contributed between 30% to 40% of the overall exports to other EU Member States, compared to about 19% outside the EU (SBA Fact Sheet Slovakia, 2013)[208]. The manufacturing sector has the highest share of exports to the EU (70%), followed by the wholesale, retail trade and transport sector. While the share of exporting SMEs is only 26% among exporting companies in the manufacturing sector, the share of SMEs in the wholesale, retail trade and transport sector comprises of almost 90%.

Even though these exporting SMEs are well integrated into the global supply chains[209] and have a comparative advantage in knowledge-intensive manufacturing (SBA 2013), they remain specialised in more downstream stages of production in a few sectors (automobiles and electronics, in particular). These sectors are mainly capital intensive and firms' investments have aimed at improving productivity at the expense of employment in recent years in comparison to the total population of SMEs, where the contribution to exports is relatively low. The rest of the SME sector however is even less competitive.

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[207] IMF Country Report 2013.

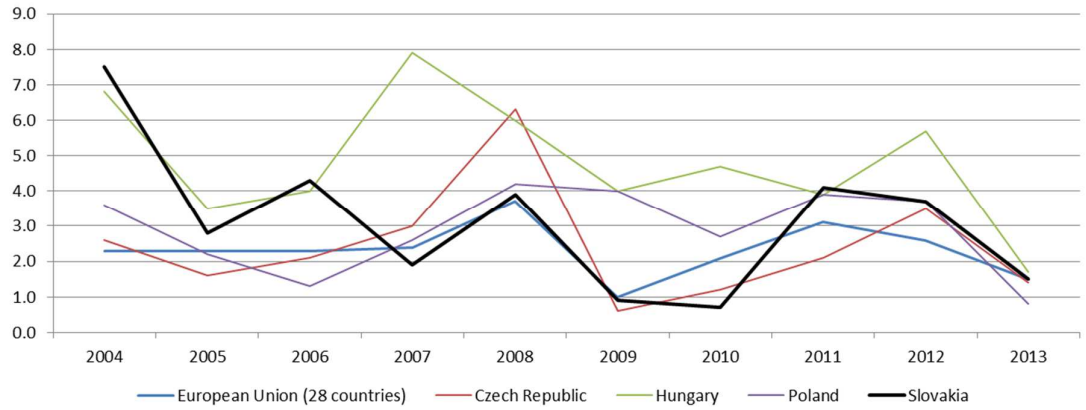
[208] SME´s contribution to imports is even larger: about 50% of total imports from the EU and 16% from outside EU.

[209] Indicators recently compiled by the Organisation for Economic Cooperation and Development demonstrate that the Slovak Republic's exports exhibit the second-highest degree of integration in global value chains among its 34 members (EBRD Transition Report 2013).

Inflation

Since joining the EU, the inflation rate in Slovakia has been reasonably stable and has been following the general trend of the EU-28 average (Figure 55). According to Eurostat data, the inflation rate in Slovakia in 2013, expressed as the annual percentage of average consumer prices, was 1.5% - which was very close to the Euro Area average (1.4%) and equal to the European Union average (1.5%).

Figure 55: Harmonized Index of Consumer Prices (HICP), annual average rate of change



Source: Eurostat, Tables; Graphs and Maps Interface (TGM), 2014.

It is predicted that the HICP will remain in the short term at low levels, but may increase together with the increase in economic activities by the end of 2014 (Eurostat). Increase in indirect taxes which are included in the plans for fiscal consolidation, could also affect the HICP in 2014 (0.2 percentage points). Eurostat forecasts that this inflation development over the projection horizon will be nevertheless moderate as energy prices will be declining at the same time.

This price stability experienced in Slovakia combined with projections for increase in domestic demand, create positive prospects for businesses. Overall, prices do not seem to be of the main concerns for SMEs. However, the increase in indirect taxes such as VAT could affect SME liquidity.

Financial sector

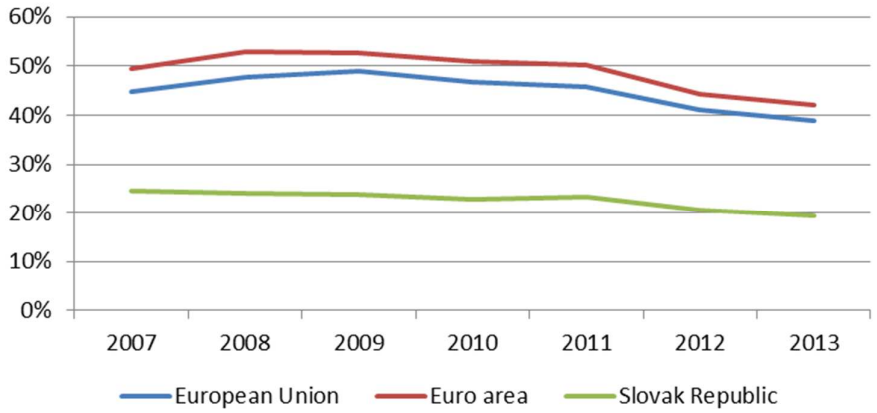
The overall slightly improved economic situation in the Euro area and interventions by the European Central Bank to reassure the markets had a positive influence on the Slovak financial sector. Current interest rates are now on historically low levels with the ECB interest rate at 0.15%.

According to the National Bank of Slovakia, 28 credit institutions, mainly foreign banks' branches and nine domestic credit institutions, with two banks funded by 100% domestic capital were operating in the country in 2013.

Increasing competition was observed in 2013 as the market shares of large banks decreased in favour of small and medium sized banks. Also, the market share of foreign bank branches expanded by nearly one third (NBS, Annual Report 2014).

Despite the fact that the Slovak banking sector is well-capitalised according to the central bank[210], the overall percentage of loans to GDP has decreased over the last years. This development can be observed also at EU level as illustrated in Figure 56. The loan to GDP ratio decreased since 2007 from 24.5% to 19.5% in 2013, far below the euro area average of 42% and the EU average of 39%.

Figure 56: Outstanding loans as **percent of GDP in the Slovak Republic**

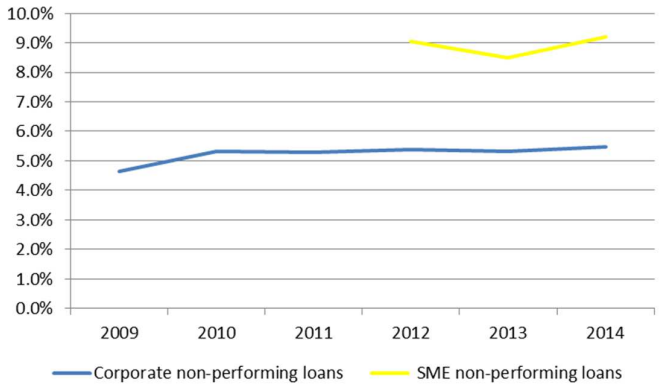


Source: National Bank of the Slovak Republic, 2014.

According to the NBS, corporate lending decreased in 2013 even though SME lending increased slightly. While the volume of corporate loans decreased in most of the sectors, an upturn of lending could be recorded only for the agriculture and transport sectors.

The percentage of non-performing loans to outstanding loans is constantly between 5.3% and 5.5% since 2010 (NBS, 2014). According to the National Bank of Slovakia the non-performing loan (NPL) rate for SMEs was 9.1% in 2012, and 8.5% in 2013, while in April 2014 the rate is at 9.2% (Figure 57).

Figure 57: Percentage of non-performing corporate loans to all loans



Source: National Bank of the Slovak Republic, 2014.

[210] Bank capitalisation is solid with a core Tier I capital ratio of 14.7 percent in 2012, up more than 2 percentage points from 2011, reflecting in part the NBS's strict rules on profit distribution (IMF Country Report, 2013; NBS, Annual Report 2014).

Interest rates in the last two years were particularly low ranging between 1.91% and 2.40% (2013) for new loans with a maturity of less than one year, in contrast to those with a maturity of over one year, which were ranging between 1.8% and 5.33%. These rates place the Slovak Republic below the Eurozone average for short term loans (2.28% in November 2013 according to the ECB). As of November 2013, Slovak rates (1.90%) were higher than in Germany (1.70%) but lower than in Italy (2.76%) and Spain (3.48%)[211].

Interest rates for SMEs remain naturally higher than larger companies however, as already mentioned these interest rates remain low compared to the EU. Overall, NPLs and interest rates show a financial system which remains prudent and conservative. This on the one hand is positive for the stability of the financial sector within a very volatile financial environment in Europe but on the other hand it creates limiting conditions for access to finance for SMEs (Figure 58).

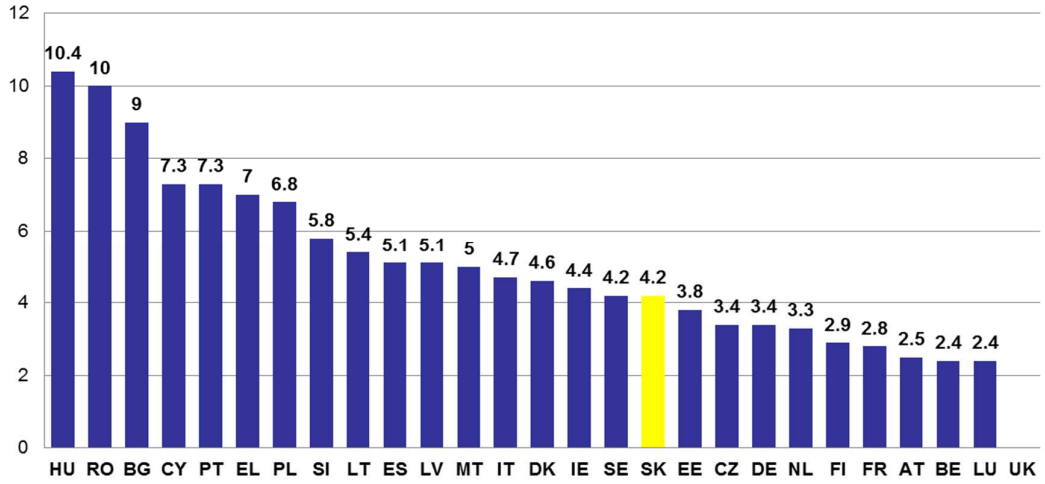
Figure 58: Evolution of Interest rates in the corporate sector

Source: National Bank of the Slovak Republic, 2014.

Figure 59 and Figure 60 below show a more complete picture of interest rates at European level between January and September 2012: 15 countries recorded higher interest rates and 9 countries lower rates than Slovakia (4.2%). In terms of overdrafts, an average interest rate of 3.2% was recorded, placing the Slovak Republic among a group of six countries with the lowest rates in the EU.

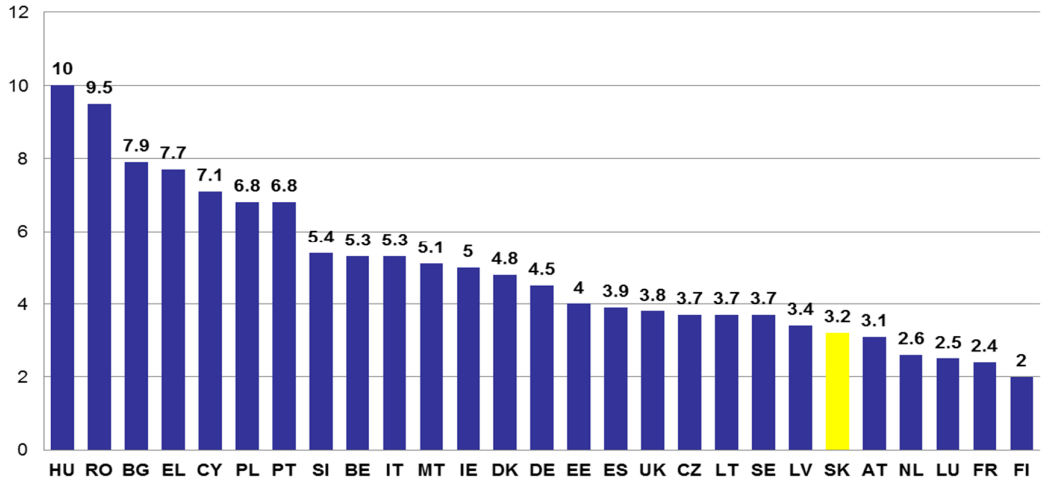
[211] Data from European Central Bank – interest rates applied in November 2013 by Monetary Financial Institutions in the Eurozone (09/01/2014).

Figure 59: Interest rates for loans up to EUR 1m in the EU in 2012 (from January to September)



Source: European Commission, 2013.

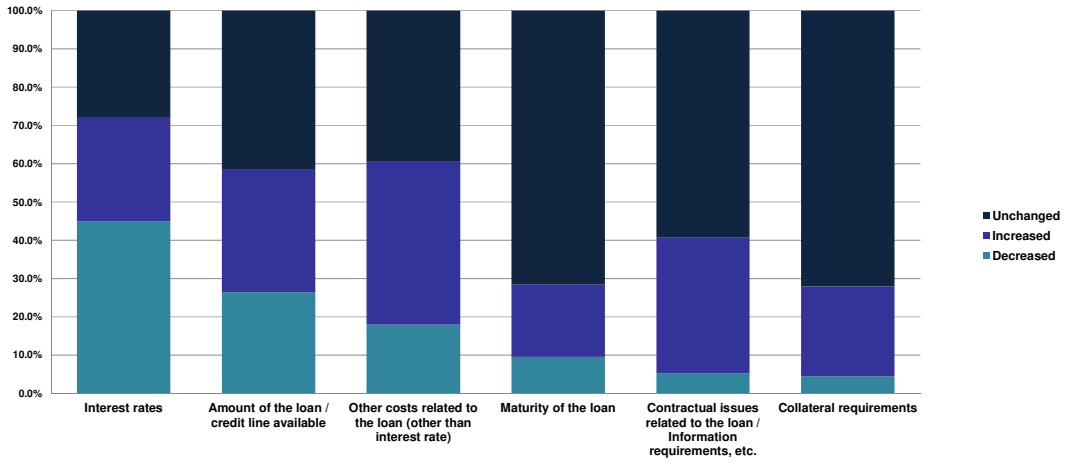
Figure 60: Interest rates for overdrafts in EU in 2012 (from January to September)



Source: European Commission, 2013.

According to the survey conducted for the present study, SMEs do not perceive any specific changes in conditions related to access to finance (collateral, maturity, other costs and contractual issues).

Figure 61: Perception of the evolution of financial conditions over the last 12 months by Slovak SMEs[212]



Source: PwC, SME online survey in the Slovak Republic, 2014.

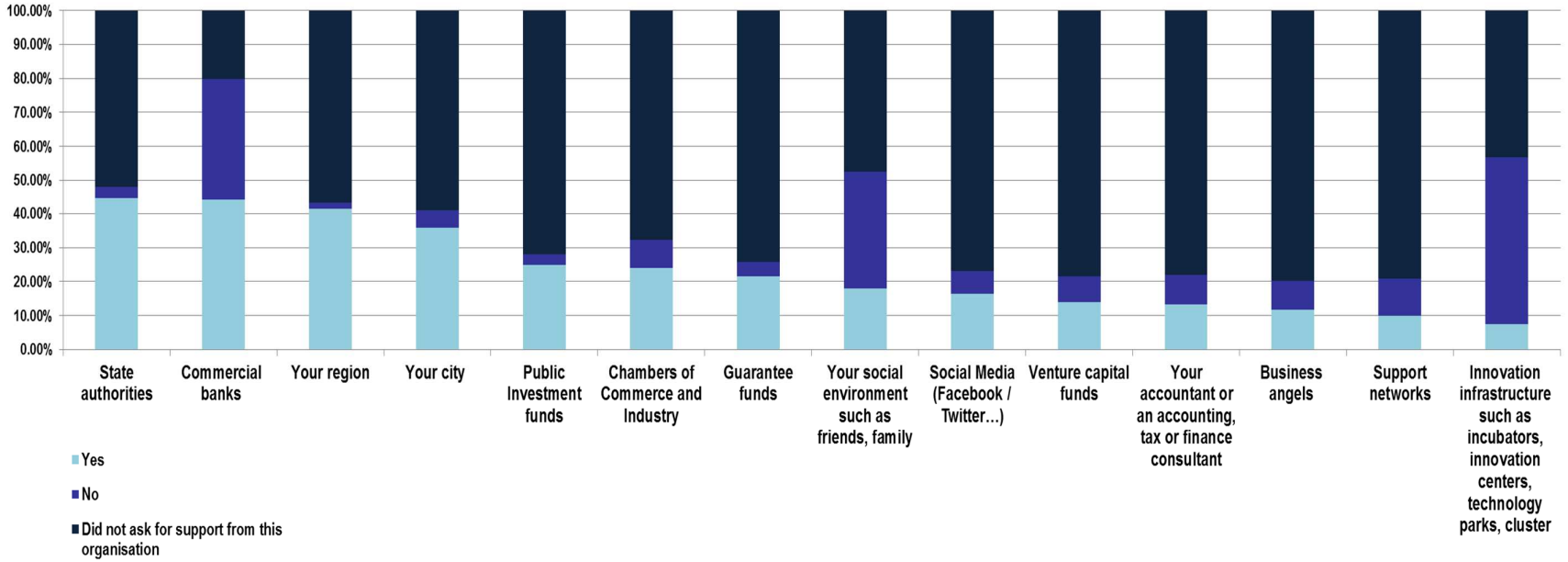
Representatives of the banking sector confirmed their willingness in supporting and financing SMEs. However, the target of banks are companies with sufficient own capital sources, healthy credit history and stable revenues. While on one hand banks are providing the biggest part of financing to the SME sector, their conservative approach excludes other SMEs perceived as non-bankable. This ambiguity is reflected by the survey conducted for this study, as 44% of SMEs feel supported by banks, while 36% do not feel supported by them in accessing finance[213] - both answers are among the highest results (Figure 62). According to the SME's Access to Finance survey conducted by the European Commission and the European Central Bank, 53% of interviewed Slovak enterprises stated to have applied successfully for bank loans while only 15% had been rejected. However it has to be noted that rejection rates are not always accurate since often SMEs are discourage from officially applying to a bank and are therefore silently rejected. According to the SAFE survey the EU-28 average rejection rate is 12.6% which is well below the rejection rates that have been presented by relevant SME stakeholders.

SMEs feel least supported (approximately 50%) by innovation infrastructure such as incubators, innovation centres, technology parks and clusters when looking for finance. In contrast to interviews carried out, a considerable number of SMEs does feel supported by public bodies like state authorities (45%), their region (41%), their city (36%) or public investment funds (25%).

212 Number of SMEs having provided an answer: 104.

213 Number of SMEs having provided an answer: 116. Only 20% of respondents stated to not have asked commercial banks for support.

Figure 62: SME perceptions of support by different actors in accessing finance[214]



Source: PwC, SME online survey in the Slovak Republic, 2014.

214 Number of SMEs having provided an answer: 128.

b) Characteristics of the demographics

Slovakia's changing demographics have an extensive influence over most domestic social indicators, and may have an important impact on the local business environment, and the development of SMEs. On the one hand, the wide availability of an inexpensive labour force represents a competitive advantage for the country, serving as a lever to attract investment. On the other hand, the aging population and the strong competition for well-educated employees are causes for concern for the long term prospects of SME development in the country.

As of 2013, the population of Slovakia amounted to 5.4 million inhabitants. This accounts for 1.1% of the total EU population which is comparable to countries such as Denmark (5.6 million) or Finland (5.4 million) (Eurostat, 2014).

There has been only a slight increase in the total number of inhabitants in recent years. Since 2003, the Slovak Republic has registered a growth of its population of only 36 thousand inhabitants , while people migrating to Slovakia mostly originate from neighbouring countries (13% from Hungary, 8.5% from the Czech Republic, and 5% from Romania, Statistical Office of the Slovak Republic, 2014).

Age of the population

Similar to most European countries, Slovakia has an aging population (Table 71).

Table 71: Share of the main age groups and dependency ratios in 2013

	Share of the age group			Dependency ratio	
	0-14	**15-64**	**65+**	**Young-age**[215]	**Old-age**[216]
Slovakia	15.4 %	71.5 %	13.1 %	21.5	18.4
EU-28	15.6 %	66.2 %	18.2 %	23.6	27.5

Source: Eurostat, 2014.

The youngest part of the population (aged 0-14) represents approximately 15 % of the total population, which is similar to the EU-28 average; however the number of actively working young people (per 100 people) is below the European average as shown by the young-age-dependency ratio.

The main structural difference in comparison to the EU-28, lies in the share of elderly people aged 65 and older, which is significantly lower in Slovakia. This fact is underlined by a much lower old-age-dependency ratio. This is related mainly to the shorter life expectancy in Slovakia, which reached 75.7 years in 2012 compared to the EU average of 79.6 years (Eurostat, 2014).

215 Number of young people (under 15 years of age) per 100 people (working age from 15 to 64).

216 Number of elderly people (aged 65 and over) per 100 people (working age from 15 to 64).

Geographical distribution of population

The distribution of the Slovak population within the regions is very unbalanced. As illustrated in (Table 72), the highest density of inhabitants is concentrated in the west of the country, in the area surrounding the capital city Bratislava. The area consisting of two NUTS 2 regions (Bratislava region and West Slovakia), covers approximately one third (34.8 %) of the total territory of Slovakia, nevertheless, almost half of the population (45.3 %) is settled in this region.

Table 72: Characteristics of the population in NUTS 2 regions in 2013

	Population	Share of total population	Area (square km)	Population density
Bratislava region	612,682	11 %	2,053	298
West Slovakia	1,838,136	34 %	14,992	123
Middle Slovakia	1,348,611	25 %	16,263	83
East Slovakia	1,611,407	30 %	15,728	102

Source: Eurostat, 2014.

In 2013, the region surrounding the capital Bratislava was also the region registering the highest growth in population, mainly through migration (Statistical Office of the Slovak Republic, 2014).

Marginalised Roma communities

The Roma community accounts for an estimated 402,000 people in the Slovak Republic, or around 7.4% of the total population, with most living in the central and eastern parts of the country (72%). A much lower proportion of the community resides in the affluent western part near the capital, Bratislava. In addition, it is reported that approximately 17% of the Roma community live in 'urban segregated concentrations'.

Slovakia's Roma community faces inherent challenges and social exclusion, and in addition to poor educational attainment, high illiteracy and sub-standard living conditions, a high level of unemployment. This further contributes to integration difficulties. Some estimates report that the Roma unemployment rate is systemically increasing, exacerbating social exclusion[217]. The Ministry of Interior purports that the main reasons for the community's high unemployment level are account for by:

- A low level of qualifications;
- Employer resistance based on a lack of job vacancies;
- Low work morale; and
- A lack of job opportunities, mainly in the territories with a high concentration of Roma communities.

The Slovak Ministry of Interior estimates that 11% of the Roma community does not have regular access to clean drinking water, and so use other sources such as wells and streams. Furthermore, an

[217] http://www.minv.sk/?zamestnanost_priorita.

alarming statistic is that around 45% of Roma communities are not connected to a sewage system, cesspit or sewage treatment plant. These factors combine to pose a real threat to the long-term health of Slovakia's Roma community.

Slovakia's NRP sets out the key policy measures that the government intends to take in the coming years in the context of receiving European funds. Part of this enshrines social policy measures that may be enacted to maximise social inclusion, particularly for the Roma community. National priority 3 of the Partnership Agreement focuses on growing human capital and participation in the labour market, which is further expanded upon in the thematic objectives. Thematic objective 10, for instance, includes a focus on "the inclusive dimension of provided education, in particular for the Marginalised Roma Communities. It is imperative that marginalised groups have equal access to education and job opportunities".

Among the policy recommendations outlined in the European Commission's 2014 dossier on Slovakia's NRP, are improving childcare facilities and implementing early intervention measures for access to the labour market. In such, the Commission argues that by enhancing childcare and crèche facilities, people may be more able to reintegrate into the labour market. Furthermore, it argues that early intervention through a Youth Guarantee, for instance, will assist marginalised young people to attain the skills they need to find work, thus reducing social exclusion. However, the Commission notes that more measures to reduce the overall unemployment rate are needed to improve Roma integration strategies.

Active workforce population

The following sub-section highlights a critical part of the Slovak socio-economic characteristics, namely the activity of its population and recent unemployment trends. In 2013, the active workforce rate of people aged 15-64 was 69.9% (77.2% for men and 62.5% for women). This rate is lower than the EU-28 average of 71.9% in the same year. Women account for 44.4% of the workforce between 15 and 64, which is below the EU-28 average of 45.9% (Eurostat, 2014).

In terms of employment, the employment rate of people aged 15-64 was 59.9% (66.4% for men and 53.4% for women) as compared to 64.1% for the EU-28 average in 2013. The unemployment rate in Slovakia is very high; in 2013 the rate reached 14.3% (14% for men and 14.6% for women), while the EU-28 average stood at 11% (Eurostat, 2014). Among European countries, Slovakia has the 6th highest unemployment rate (Figure 63). Regional differences are severe as some regions count at over 3 times higher unemployment rate than the capital (Bratislava 5.7%, East Slovakia 19% in 2012). The long-term unemployment is the highest in the EU as 70% of Slovak unemployed do not have a job for over 1 year, half for at least 2 years and 29% for at least 4 years (Eurostat 2014). Over the past 20 years the share of unemployed for longer than 2 years increased from 19% to 45% (Statistical Office of the SR). According to the OECD and European Commission, Slovakia has the lowest labour turnover in the EU due to the strict employment protection which has negative effects mostly on low-skilled, young and long-term unemployed people[218]. The further consequence for

[218] The flexibility was further decreased by the Labour Code amendment enforced from 1 January 2013 and automatic extension of higher collective agreements to all employers with 20 and more employees in a given sector enforced from 1 January 2014.

SMEs is a likely reluctance to hire permanent staff, relying instead on the self-employed.

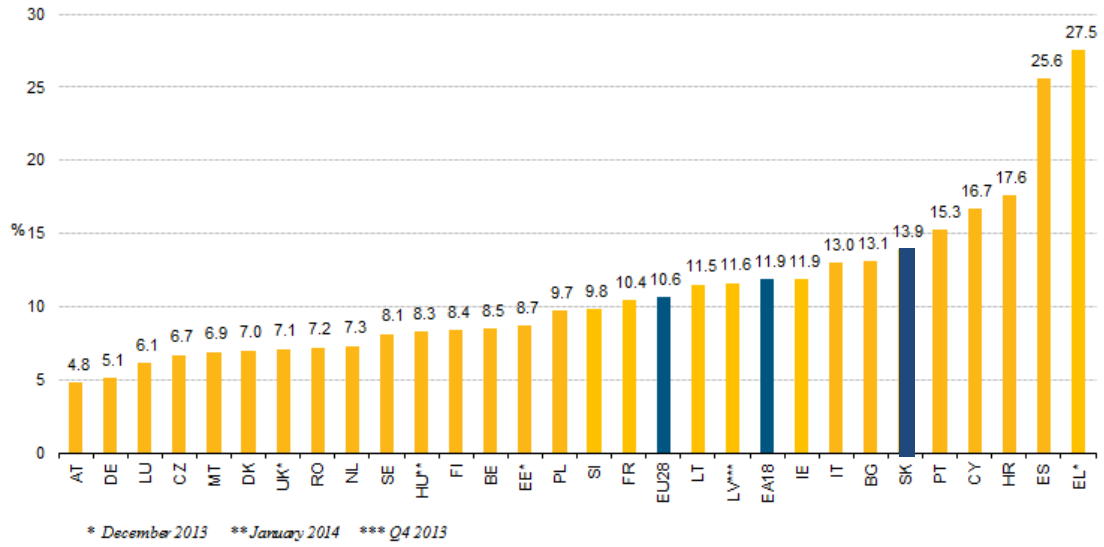
Given the pre-existing problems of the Slovak labour market, the current situation possess a mixture of structural and cyclical challenges, as despite the strong growth rates in the boom period 2003-2008, the unemployment rate was already among the highest in the EU.

Regarding the quality of the labour force, in 2013, only 17.7% of population aged 15-64 had a university diploma (first or second stage), compared to 25.3% in the EU-28 countries. There is considerably scope for improvement in the area of quality of labour force in Slovakia. According to several business stakeholders interviewed, is it difficult for SMEs to attract highly technically-qualified workers, despite the high rate of unemployed workers. "Loss of existing workers" is the major concern for SMEs in the short term, according to the conducted online survey, while "limited availability of suitable personal" ranks third. Another survey carried out by the Slovak Business Alliance in 2013, showed how inappropriate taxes and legal and administrative conditions have furthermore a negative impact on job creation among employers[219].

Both, the high unemployment rate and concerns of SMEs regarding experienced and educated employees, are indicating a mismatch between current supply and demand of labour. The European commission remarked, that "School-to job transition is still slow and the education system does not respond readily to labour market needs" (SWD (2014) 426 final). SMEs themselves express a concern about retaining or finding well trained employees while at the same time, companies seem to become smaller in size thus putting more pressure on the unemployment rates. These trends seem to highlight the need to improve schemes for life-long learning in order to support an economy that has an industrial tradition to transition to a more entrepreneurial environment.

[219] Employers list "high payroll taxes" as the biggest barrier to creating new jobs. In October 2013, the Business Alliance of Slovakia ran a survey among Slovak employers asking them to choose the 5 biggest barriers they face when creating new jobs. From among 170 participants 72% listed "high payroll taxes for employees" among the biggest barriers, 45% listed "high tax burden for businesses", 44% "weak law enforcement", and 38% "inflexible labour code".

Figure 63: Unemployment rates, February 2014



Source: Eurostat, 2014.

SME characteristics and environment in the Slovak Republic

a) Structure of Slovak SMEs

SMEs represent more than 99% of companies in Slovakia. As per 2013, the lowest proportion of all SMEs are medium-sized enterprises with a share of less than 1%, followed by small enterprises (3.5%), while micro-enterprises have a share of approximately 95% of SMEs. Figure 64 illustrates the trend of an increasing share of micro-enterprises among SMEs. Since 2010 the number of micro-enterprises has been gradually increasing with the total number of employees in this company size group also increasing from 140,000 in 2009 to nearly 500,000 in 2013. According to stakeholders interviewed, this increase can be explained by the following main factors:

- Improved streamlined and simplified administrative steps implemented by the government in the framework of its action programme in order to reduce administrative burdens in Slovakia 2007–2012[220].
- A large number of SMEs prefer hiring self-employed persons as full time employees. For employers, this approach is preferred as it reduces payments for health and social insurance.
- Despite the GDP growth rates in the country, unemployment remains high, motivating many people to start their own company out of necessity.

As a result of these factors, for the first time the proportion of micro-enterprises is above EU

[220] In 2007, the government published a document entitled "Better regulation in the Slovak Republic: Action programme for reducing administrative burdens in Slovakia 2007–2012". As a part of its stimulus plan to ease the impact of the economic downturn, the Slovak government reduced the administrative burden by 25 % by 2012 (SBA Fact Sheet Slovakia 2012). In 2009 and 2010, laws covering various areas were assessed, including business law, accounting, bankruptcy and restructuring, market regulation, taxes, custom duties, investment incentives, other financial regulations. Further recommendations that came from the process included reducing paperwork for SMEs and using more electronic tools (SBA Fact Sheet Slovakia 2012).

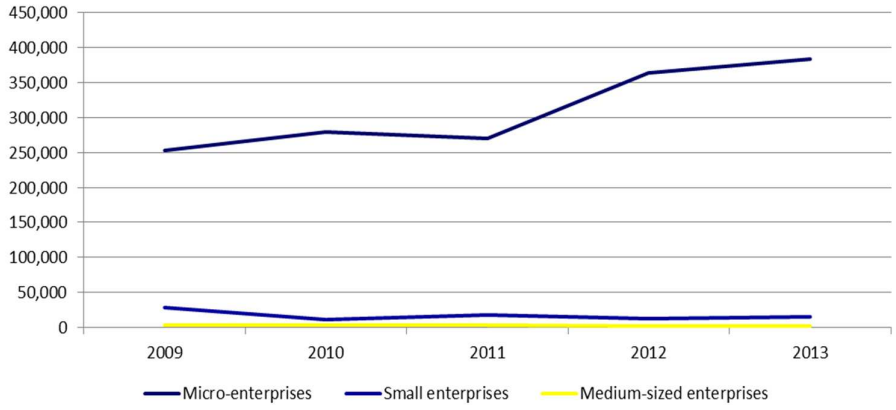
average (SBA Factsheet 2013).

Table 73: Distribution of SMEs by company size and number of employees

	Number of enterprises					Number of persons employed				
	2012		2013		Change 2012/2013	2012		2013		Change 2012/2013
	Number	% of total	Number	% of total enterprises	% change 2011/2012	Number	% of total	Number	% of total employment	% change 2011/2012
Micro-enterprises (0-9)	363,923	95.7%	383,521	95.5%	5.4%	489,527	33.4%	498,935	33.3%	1.9%
Small enterprise (10-49)	13,121	3.5%	14,898	3.7%	13.5%	243,200	16.6%	249,558	16.7%	2.6%
Medium-sized enterprises (50-249)	2,653	0.7%	2,744	0.7%	3.4%	253,654	17.3%	259,591	17.3%	2.3%
Total SME	**379,697**	99.8%	**401,163**	99.8%	5.7%	**986,381**	67.3%	**1,008,084**	67.4%	2.2%
Large Enterprises (+250)	615	0.2%	626	0.2%	1.8%	479,048	32.7%	488,582	32.6%	2.0%
TOTAL	**380,312**	100.0%	**401,778**	100.0%	5.6%	**1,465,428**	100.0%	**1,496,666**	100.0%	2.1%

Source: Statistical Office of Slovak the Republic[221], 2014 and SBA Fact Sheet 2013.

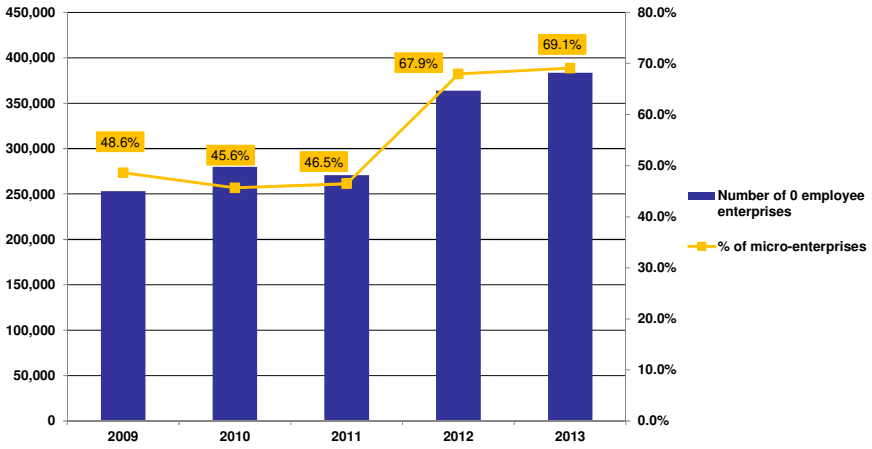
Figure 64: SME distribution by size of company



Source: Statistical Office of the Slovak Republic, PwC analysis, 2014.

[221] Data on SME population used throughout the study, and especially in this chapter, was provided per request by the Statistical Office of the Slovak Republic and is not officially published.

Figure 65: Number of companies with 0 employees in the Slovak Republic and their proportion in all micro-enterprises



Source: Statistical Office of the Slovak Republic, PwC analysis, 2014.

The Slovak Republic belongs to the European countries with some of the lowest survival rates of new enterprises (Partnership Agreement of the SR, 2014). According to Eurostat data, 74.9% of businesses remain active after the first year of their incorporation. After the fifth year of incorporation, only 44.4% of businesses remain active, compared to the EU average in excess of 50%.

Overall company creation in the Slovak Republic has been increasing since 2009 with a slight decline in 2011. The overall number of SMEs significantly increased by 40% from 2009 to 2013 (Table 74), while GDP increased by 15% in the same period. The trend is even stronger when analysing all company sizes separately as this development was mainly driven my micro-enterprises (51%), due to two main reasons. Firstly, many companies fell from the bigger size categories into the category of micro-enterprises as the number of enterprises with over 9 employees declined by 55 % between 2008 and 2013. Secondly, due to the high unemployment rate and new regulations many new start-up companies were established.

Stakeholders discussed during interviews a low survival rate of many newly set up enterprises, especially the smallest ones with 0 employees. A large part of these companies will be weak in the market, with only limited room for expansion, introduction of new business lines, innovation, and the creation of new jobs (Partnership Agreement of the SR, 2014). Furthermore, these self-employed may abandon their business if and when suitable employment is found.

Table 74: Percentage change in the number of SMEs in the Slovak Republic

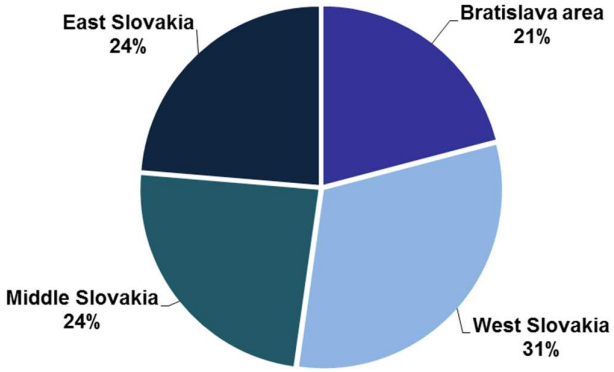
	2009	2010	2011	2012	2013
Number of companies	285,557	294,558	291,497	379,697	401,163
Year-on-year percentage change		*1.55%*	*-0.5%*	*13.3%*	*5.6%*

Source: Statistical Office of the Slovak Republic, 2014.

Figure 66 illustrates that SMEs are equally distributed in the country, despite the regional economic

differences between the eastern and western parts. The annual growth of the number of SMEs ranges between 4% and 7% in all regions. The largest increase of 7.3% can be observed in Bratislava region. Noticeable, the number of medium-sized enterprises is 52% higher in the Bratislava and Western region than in the two eastern regions.

Figure 66: Geographical distribution of SMEs in the Slovak Republic by region



Source: Statistical Office of the Slovak Republic, 2014.

Table 75: Regional development of SMEs in 2012 and 2013

	2012				2013				
	(0-9)	(10-49)	(50-249)	*Total*	(0-9)	(10-49)	(50-249)	Total	*Change 2012-13*
Bratislava region	73,738	3,356	691	77,785	79,522	3,635	764	83,921	*7.3%*
West Slovakia	114,425	4,316	878	119,619	119,813	4,293	891	125,627	*4.8%*
Middle Slovakia	88,922	2,604	561	92,087	92,924	3,131	577	96,632	*4.7%*
East Slovakia	86,838	2,845	523	90,206	91,262	3,209	512	94,983	*5.0%*
Total SMEs	**363,923**	**12,121**	**2,653**	**379,697**	**383,521**	**14,898**	**2,744**	**401,163**	*5.4%*

Source: Statistical Office of the Slovak Republic, 2014.

With regard to the distribution of SMEs by sector, Table 76 illustrates that almost 70% of SMEs operate in the four main sectors, namely manufacturing, construction, wholesale and retail trade, professional scientific and technical activities. Slovakia's SME sector is characterised by a significantly higher concentration of small and medium-sized businesses, in the manufacturing sectors.

Table 76: SME distribution by sector, company size and number of employees in 2013

Economic activity (Industry sector)	Number of enterprises				
	0-9	10-49	50 - 249	Total SMEs	%[222]
A AGRICULTURE, FORESTRY AND FISHING	17,233	900	213	18,346	*4.6%*
B MINING AND QUARRYING	115	39	18	172	*0.0%*
C MANUFACTURING	47,141	2,992	957	51,090	*12.7%*
D ELECTRICITY,GAS,STEAM AND AIR CONDITIONING SUPPLY	334	117	30	481	*0.1%*
E WATER SUPPLY;SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	896	111	43	1,050	*0.3%*
F CONSTRUCTION	60,374	1,659	205	62,238	*15.5%*
G WHOLESALE AND RETAIL TRADE;REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	103,641	3,808	378	107,827	*26.9%*
H TRANSPORTATION AND STORAGE	14,238	930	188	15,356	*3.8%*
I ACCOMMODATION AND FOOD SERVICE ACTIVITIES	14,654	1,032	75	15,761	*3.9%*
J INFORMATION AND COMMUNICATION	12,410	359	85	12,854	*3.2%*
K FINANCIAL AND INSURANCE ACTIVITIES	8,497	112	38	8,647	*2.2%*
L REAL ESTATE ACTIVITIES	9,836	486	49	10,371	*2.6%*
M PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	50,514	1,023	118	51,655	*12.9%*
N ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	15,037	836	192	16,065	*4.0%*
P EDUCATION	3,941	54	13	4,008	*1.0%*
Q HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	10,575	203	89	10,867	*2.7%*
R ARTS, ENTERTAINMENT AND RECREATION	3,060	105	26	3,191	*0.8%*
S OTHER SERVICE ACTIVITIES	11,025	129	22	11,176	*2.8%*
Total	383,521	14,895	2,739	**401,155**	*100%*

Source: Statistical Office of the Slovak Republic, 2014.

Manufacturing is the key sector in the Slovak Republic and accounts for approximately 10-14% of the national added value between the years 2010-2013. The manufacturing sector stands out in respect to the EU average, both in terms of value added and employment, establishing this sector as the backbone of the Slovak economy (SBA Fact Sheet 2013). Another important sector in terms of value added is the construction sector with an added value between 5-6% (Table 77).

Table 77: Added value by sector in the Slovak Republic

[222] This column refers to the percentage of the number of SMEs in the respective sector compared to the total number of SMEs in the country.

Activity (sector)	Gross added value per type of activity (EUR Mil.)				
	2009	**2010**	**2011**	***2012***	**2013**
Mining and quarrying	89	86	84	82	85
Manufacturing	2,705	4,124	4,069	4,334	4,485
Electricity, gas, steam and air conditioning supply	703	695	713	714	736
Water supply; sewerage, waste management and remediation activities	132	171	169	171	177
Construction	1,016	2,135	2,052	2,050	2,113
Wholesale and retail trade; repair of motor vehicles and motorcycles	3,131	5,889	4,822	4,787	5,023
Transportation and storage	398	930	835	836	864
Accommodation and food service activities	239	406	384	387	400
Information and communication	544	755	796	811	839
Real estate activities	409	1,021	993	964	998
Professional, scientific and technical activities	1,151	1,808	1,508	1,521	1,604
Administrative and support service activities	825	1,055	950	951	999
Total (in EUR Mil.)	22,683	38,147	34,750	35,215	**36,645**

Source: SBA Fact Sheet Slovak Republic, 2013.

b) Social economy

The actors in the social economy sector are mainly associations, foundations and private companies, including cooperatives. They exist to promote projects of common or social interest rather than for profit maximisation.

The concept of social economy in Slovakia is still underdeveloped similar to most of the new EU member states. A majority of recently conducted researches among EU members could only partially cover the Slovak Republic, indicating that the sector is not very active (Centre for Philanthropy, 2012)[223].

The Slovak Republic adopted the amendment Act No.5/2004 on Employment Services, which came into effect in September 2008, with the purpose to promote social enterprises as a complementing tool to public employment policies. The act has defined following characteristics for social economy companies:

- They should employ at least 30 per cent of people who were classified as disadvantaged job-seekers;
- They should provide assistance and support to these people in their job search;
- They should reinvest at least 30 per cent of their profits, toward the creation of new jobs or to improve working conditions; and

[223] Social Economy and Social enterprises in Slovakia, available only in Slovak: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf.

- They should be registered in the registry of social enterprises (Central Office of Labour, Social Affairs and Family, 2013).

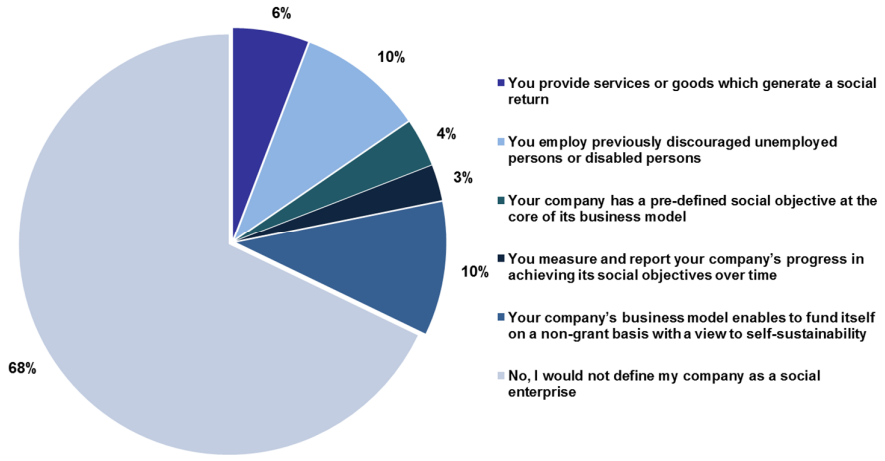
Applicants for the status of social enterprise may be:

- A legal entity;
- A natural person, who satisfies the obligations of Act No.5/2004 on Employment Services for the granting of SE position;
- A legal entity, which is a municipality[224], autonomous region, municipality associations, association of self-governing regions under a special regulation, legal entity, whose founder is the municipality or self-governing region;

Social economy companies are monitored through an annual report submitted to the Central Office of Jobs, Social Affairs and Family, the government body in charge of social enterprises.

The number of registered social economy companies in March 2014 is 44, while 42 social enterprises were abolished and 8 had their entry into registry withheld (Central office of Labour, Social affairs and family 2013). According to stakeholders interviewed, the motivation to establish social enterprises was weakened after more strict criteria were imposed in order for a company to be registered as a social economy company. As shown in the figure below, 68% SMEs consulted in the online survey do not perceive any social characteristics in their operations[225].

Figure 67: Distribution of companies in terms of their social activities



Source: PwC, SME online survey in the Slovak Republic, 2014.

Social entrepreneurship, as defined in Act No.5/2004 on Employment Services and as understood in other EU countries, covers only a small part of active enterprises with social goals in the country. Therefore, entities behaving as social enterprises can also be considered. Many of these companies are not registered under the law for social economy companies, but their activities have a social impact. This includes social enterprises established by municipalities and cooperatives, even though

[224] Stakeholders engaged in the social economy pointed out that companies established by a municipality are not involved.

[225] The number of SMEs having provided an answer: 358.

the total number of the former is still very limited as only individual pilot projects had been set up to date.

Some other local authorities expressed the wish to implement social enterprises as limited companies which could, with a very small investment lead to job creation, as was the case for municipality of Spiski Harhov (Spišský Hrhov)'s investment of EUR 8,300 into a paving company now employing 26. However, lack resources and know-how for the initial phase. Stakeholders expressed that these types of municipal owned social companies were one of the most appropriate models for Slovakia to be supported by public funds.

Another approach is established by the Ministry of Labour, Social Affairs and Family, since 2013, supporting the establishment of so called "Enterprises of inclusive employment". Through this programme grants are intended to support small local companies which will provide small-scale public services (local and regional territorial autonomies, road maintenance and water management institutes etc.). Three quarters of employees should be long-term unemployed and disadvantaged people. To be applied on a larger scale, this scheme requires further legislative changes (Employment Institute, 2013). Also NGOs and non-profit organisations are supplementing community services by providing social services to their community in various forms from health services to micro lending, such as ETP Slovakia. ETP Slovakia (Centre for Sustainable Development) is a successful example of a non-profit organisation that works with small communities in Slovakia, supporting and assisting disadvantaged and marginalised groups, refugees, specifically Roma from marginalised settlements, in order to improve their social and economic situation. Among financial inclusion programmes, ETP proposes a micro-credit initiative granting non-interest-bearing micro-loans of EUR 1,200 over a period of 4 years in combination with financial literacy programmes[226].

Furthermore there are various types of cooperatives operating in the Slovak Republic such as production, housing, commodity and agricultural cooperatives. All are independent legal entities and some of them are associated in the Cooperative Union of Slovak Republic. The total number of cooperatives in Slovakia has been stable at the level of 1500 since 2009.

According to several stakeholders interviewed, cooperatives play only a marginal role in the social economy sector. The situation for existing genuine cooperatives seems not to be supported by the legal environment. While many other EU Member states have specific laws covering the whole area of the Social Economy, with cooperatives prominently supported as an important type of social enterprise, this is not the case in Slovakia. Instead, cooperatives are legally defined as a possible form of a business in the Commercial Code. While this provides legal certainty for this type of collective enterprise, cooperatives gain no special advantages in the law, despite their potential to create a higher social impact and possible involvement in active labour market policies[227]. The situation is further complicated by the self-identification of the cooperative movement: While the existence of farmer-owned supplying cooperatives is more common in other EU countries, the existence of production cooperatives, usually composed of landowners and employees, dominates the CEEC agricultural sector.

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[226] These micro-loans are intended to enable the beneficiaries to follow a progressive financial inclusion path. From 2006 to 2012, ETP granted 583 micro-loans.

[227] For the moment, active market policies are supporting 0-employe start-ups but no cooperatives: While there is a one-off financial contribution of up to EUR 4,300 available for unemployed people (as specified in the Employment Service Act), there is no such financial incentive provided for setting up a collective company.

There are only limited examples of successful support for cooperatives. One is Coop Product Slovakia which is an umbrella association gathering producers' cooperatives and providing them access to credit. Coop Product Slovakia proposes loans up to EUR 150,000 to other cooperative organisations in order to enable them to finance their development. These loans are funded by the association's activities, offering a yearly maximal lending capacity of EUR 4m. These loans present especially favourable financing conditions (reduces interest rates; revised payment schedule)[228].

In order to support enterprises in the social economy sector, the Ministry of Finance intends to incorporate The Fund of Social Development Capital Funds (FOSFOR), financed by the EU Structural Funds under the Slovak Investment Holding (SIH) scheme[229]. The initial key idea was to support a very specific type of social enterprise, namely start-ups which operate in less developed regions of the country, employ at least a significant proportion of previously long-term unemployed persons, and operate at a sustainable, but not necessarily significantly profitable level.

c) Innovation

Enterprises active in innovation are those that introduce new or significantly improved products or process to the market, additionally abandoned or on-going innovation activities are also included. The Innovation Union Scoreboard 2013[230] rates the performance of Slovakia together with those of the Czech Republic and Hungary as "moderate innovators", which is below that of the EU average.

Overall Research and Development (R&D) expenditures in the Slovak Republic reached EUR 302m corresponding to 0.82% of the GDP in 2012. As shown in Table 78, the performance of the Slovak Republic is below the European average and significantly far from the target of 3% set by the Europe 2020 strategy. With regard to previous analysis, it is evident that the Slovak economy tries to have a comparative trade advantage based on inexpensive labour costs rather than high technology. The inefficient structure of public expenditures and the lack of interest in procuring technologically advanced products by the government, contributes to the low level of R&D spending[231].

Table 78: Research and development expenditures in the Slovak Republic and EU-27

	Slovak Republic				EU-27			
	2009	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**
R&D expenditures in relation to GDP	0.48%	0.63%	*0.68%*	0.82%	2.01%	2.01%	2.05%	2.06%
R&D expenditures intramural (EUR Mil.)	302.9	416.3	*468.4*	585.2	236,887	246,580	259,123	266,568
R&D expenditures per inhabitant (EUR)	56.3	77.2	*86.9*	108.3	474.7	492.8	516.2	529.6

[228] Coop Product Slovakia considers 50 loan applications per year on average, for amounts between EUR 50,000 and EUR 80,000. The association thus enables cooperatives to access credit under favourable conditions.

[229] The Slovak Investment Holding initiative for the 2014 - 2020 programming period is currently being prepared to cover the implementation of several Financial Instruments in the SR through a fund of funds (Partnership Agreement of the SR for the years 2014 – 2020).

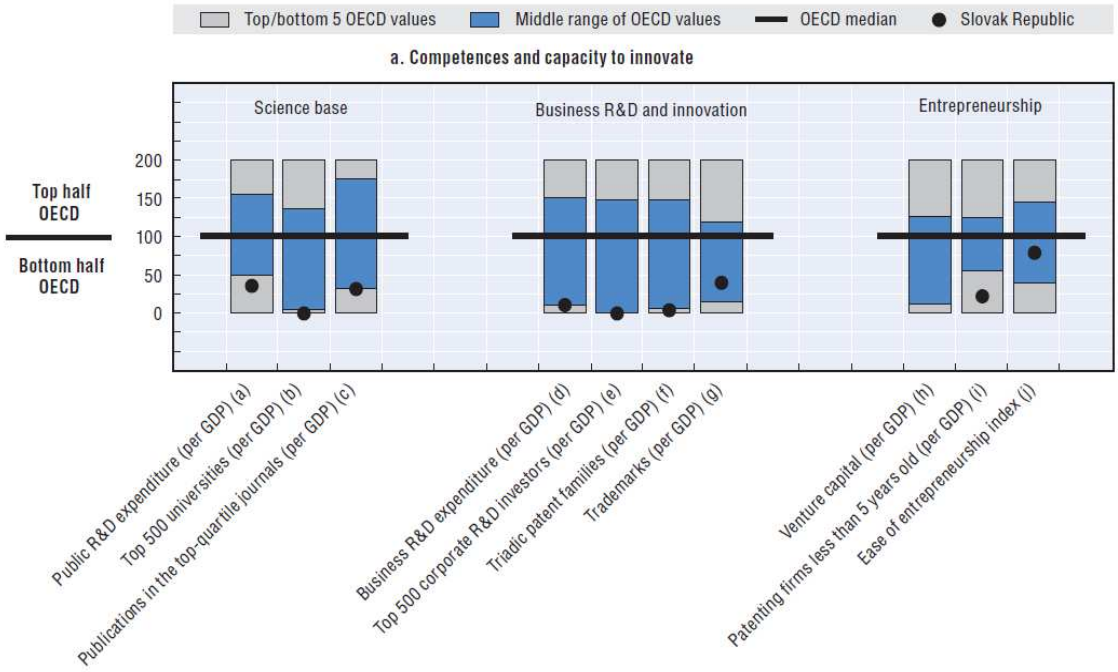
[230] The annual Innovation Union Scoreboard provides a comparative assessment of the research and innovation performance of the EU Member States and the relative strengths and weaknesses of their research and innovation systems.

[231] OECD Science, technology and industry outlook. Science and Innovation: Slovak Republic, OECD Publishing.

Source: Eurostat data, 2014.

According to the OECD, R&D is concentrated in a few medium-technology industries (machinery and transport equipment, 42%; rubber and plastics, 10%) or in R&D services (25%, OECD, 2012). In comparison with the OECD median in the fields of Science base, Business R&D and innovation and Entrepreneurship, ranks the country far below average (except for the ease of entrepreneurship index).

Figure 68: Innovation trends in the Slovak Republic



Source: OECD data, 2012.

Comparing the country with EU-27 and internationally, it is visible, that the lagging behind in innovation is caused by a combination of the following factors:

- Lack of public infrastructure to support innovation; weak cooperation between universities and companies (industry funds only 9% of public research)[232];
- Low quality of R&D institutions, capacity for innovations and the availability of scientists and researchers;
- Inadequate enterprise expenditures on R&D as outputs are among the lowest in the OECD;
- Lack of funding instruments for innovative companies to finance growth in the critical development stages; and
- A low number of patenting firms.

[232] In spite of low R&D investments, the Slovak Republic has 7.1 researchers per 1 000 employees, which is above the EU27 average. Its 6% of top performers in science in the PISA ranking remains modest, but the doctoral graduation rate is well above the OECD median, on a par with Austria or France (OECD, 2012).

The weak innovation environment contributes the falling behind in the field of development of innovation clusters, low quality of the graduates and a discrepancy between qualifications with the demands of the private sector as shown in previous sections. However, the Slovak Republic is strongly integrated in global networks: 48% of scientific articles and a high percentage (48%) of patent applications are produced with international collaboration.

The Intellectual Property Office of the Slovak Republic (UPV), recorded 256 patent applications in 2012, representing 20% less than in the previous year. The number of applications filed by domestic applicants (168) decreased sharply by 24.7% while an increase of 6.1% from external applicants (35) was recorded. The largest shares of the total 35 foreign patent applications were applicants from Poland (11), Czech Republic (9), Germany (6) and USA (4). The final number of patents granted in 2012 was 161, which represents a decline by 42.9% to the year 2011 (IPOoSR, 2012)[233].

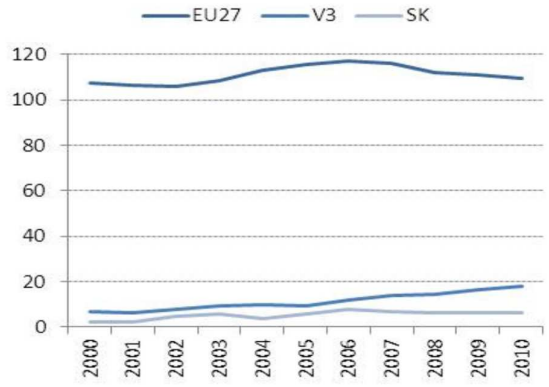
Table 79: Number of patent applications in the Slovak Republic

Applications filed by:	2009	2010	2011	2012
Domestic applicants	176	235	223	168
Foreign applicants	63	47	33	35
From the Patent Cooperation Treaty	45	35	18	14
Total applications	239	282	256	203
Patents granted	554	376	317	161

Source: Industrial Property Office of the Slovak Republic, 2012.

In terms of patenting, the Slovak Republic shows in comparison with EU-27, EU-15 and V4 the lowest number of granted patents per million inhabitants. In 2010, Slovakia granted around 6 patents per million of inhabitants while the EU-27 average was 109 (Figure 68).

Figure 69: Number of patents (EPO) per million of inhabitants



Source: Eurostat, 2012.

As much as 75 % of the research capacity is located in the Bratislava region and, conversely, 70 % of the industrial base is outside this region. International comparisons showed that the performance of

[233] Industrial Property Office of the Slovak Republic, Annual Report 2012.

research and development in the Bratislava region is poor and faces similar structural problems as those faced by other regions in the SR. Innovation is becoming an increasingly important phenomenon for the economy and activities based on intellectual property are also turning into an important commodity.

Systemic support for enterprises in the Bratislava region was, therefore, of vital importance to the development of the innovation potential of this region as the country's key economic centre. As regards the envisaged utilisation of Financial Instruments for supporting SMEs, their economic viability under commercial conditions, without making the Bratislava region eligible, is highly problematic. The importance of promoting universities in the Bratislava region is also based on the fact that more than 75 % of students of the two largest Slovak universities come from regions of Slovakia outside the Bratislava region, which means that educational activities, including the preparation of a new generation of research workers and workers for key industrial sectors, also have a significant impact on the less developed regions of Slovakia.

Scientific teams from research institutions in Bratislava cooperate with businesses, a large proportion of which are located outside the Bratislava region and are of great importance to the Slovak economy as a whole, whether this concerns the automotive industry, mechanical engineering, the energy sector or other sectors. Educational institutions in Bratislava provide education to a substantial portion of the total number of students in Slovakia, who are also needed by the industry in regions outside the Bratislava region in order to be competitive. In the area of R&D, the establishment of various types of research centres (centres of excellence, competence centres, university science parks, research centres of national importance) was promoted in the 2007-2013 programming period.

Finally, as underlined by several stakeholder interviews, SMEs are discouraged to invent or implement innovative solutions as the market does not provide initiatives for companies to develop their innovative potential. As a result, the share of innovative SMEs cooperating in the field of innovative activities with other stakeholders is 8.3 % among all SMEs (the EU average is 11.7 %)[234]. SMEs are highly depended on large enterprises, not only for business development, but also for knowledge transfer: According to a survey from 2013, one large company owned by a Slovak entity (not multinational) is linked directly to 600-1200 SMEs as sub-suppliers (except for self-employed persons) (RIS3, 2013). This dependency, plus the lack of financial sources and capabilities to manage a long-term process of innovation and the daily business at the same time, consolidates SMEs' position in the supply chain.

The Slovak Republic is aware of the current situation and approved the Research and Innovation Strategy for Smart Specialisation in November 2013 (RIS3, 2013). Its objective is to stimulate a structural change in the Slovak economy towards growth based on increasing innovation ability and excellence in research and innovation in order to support sustainable income growth, employment and quality of life. Its main goals are the deepening integration and embeddedness of key industries, an increased contribution of research to maximise economic growth and improving the quality of human resources.

[234] While the share of innovative SMEs cooperating in the field of innovative activities with other stakeholders this is lower than the EU average, it is higher than that in Poland and Hungary (RIS 2013).

Annex 5 – List of interviews

Table 80: Stakeholders interviewed for the study in the Slovak Republic

Stakeholder group	Institution interviewed
Banks	Slovak Guarantee and Development Bank
	Tatra Bank
	OTP Bank
	SLSP (Slovak Savings Bank)
	VUB Bank
Associations	Leasing Association of Slovakia / CSOB Leasing
	Slovak Association of Factoring Companies
	Slovak Association of Small enterprises
	Entrepreneur Association of Slovakia
	Slovak Chamber of Commerce and Industry
	Club 500
State Managing Authorities	Ministry of Economy of the Slovak Republic
	Ministry of Agriculture and Rural Development of the Slovak Republic
	Ministry of Labour, Social Affairs and Family of the Slovak Republic
	Ministry of Environment of the Slovak Republic
	Ministry of Education, Science, Research and Sport of the Slovak Republic
	Ministry of Finance of the Slovak Republic
	Office of the Government Plenipotentiary for Civil Society
	Office of the Government Plenipotentiary for the Roma Communities
European Institutions with Offices in the Slovak Republic	European Investment Fund (EIF), the Slovak Office
	"European Bank for Reconstruction and Development (EBRD) Bratislava Resident Office "

Stakeholder group	Institution interviewed
Social finance	Regional development partnership
	Rural Organisation for Community Activities (VOKA)
	ETP Slovakia
	Municipal Office Sveržov
	Municipal Office Spišský Hrhov
	Sociology Department, , Comenius University
	3LOBIT
	NESsT Slovakia
	Cooperatives' Union of the Slovak Republic
Agencies	Slovak Business Agency (SBA, ex-NADSME)
	Slovak Investment and Trade Development Agency (SARIO)
	Slovak Innovation and Energy Agency (SIEA)
Universities	Slovak University of Technology, Faculty of Electrical Engineering and Information Technology (STU FEI Bratislava)
Equity investment providers	Slovak Venture Capital and Private Equity Association (SLOVCA)
	Slovak Association of Asset Management Companies (SASS)

Source: PwC, 2014.

The minutes from these interviews are attached to the present study in a separate file.

Annex 6 – Glossary

Common Strategic Framework (CSF)	Common Strategic Framework translates the objectives and targets of the EU strategy for smart, sustainable and inclusive growth (Europe 2020 Strategy) into key actions for the CSF Funds (also called ESI Funds).
CSF Funds	Common Strategic Framework Funds for the next programming period. This includes: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the future European Maritime and Fisheries Fund (EMFF). They are also collectively called the European Structural and Investment (ESI) Funds.
***Ex-ante* assessment**	Identifies "market failures or suboptimal investment situations, and investment needs" as established under Article 37 of the regulation n°1303/2013 (Common Provisions Regulation) and as amended. Member States / Managing Authorities are required to conduct ex-ante assessments prior to supporting Financial Instruments, including: rationale / additionality against existing market gaps and demand / supply, potential private sector involvement, target final recipients, products and indicators.
FEI	Financial Engineering Instruments in the programming period 2007-2013, as established under Article 44 of Council Regulation (EC) 1083/2006 and as amended.
FI	Financial Instruments in the programming period 2014-2020 as established under Article 37 of the regulation n°1303/2013 (Common Provisions Regulation) and as amended.
GAFMA	"Guidelines for SME Access to Finance Market Assessments". A methodological toolbox developed by the European Investment Fund to be used in preparing market assessments to identify market failures, suboptimal investment situations, and investment needs of SMEs.
Guarantee	A guarantee-offer commitment by a third party called the "guarantor" to pay the debt of a borrower when the latter cannot pay it. The guarantor is liable for covering any shortfall or default on the borrower's debt under the terms and conditions stipulated in the agreement between the guarantor, the lender, and / or the borrower.
Holding Fund	Holding Fund, as defined in Article 44 of Council Regulation (EC) 1083/2006 and as amended. It is a fund set up to invest in several equity funds, guarantee funds, loan funds, or other incentive schemes that provide equity, loans, guarantees for repayable investments, or equivalent instruments for SMEs.
JEREMIE	Joint European Resources for Micro to Medium Enterprises, is an initiative of the European Commission developed together with the European Investment Fund. It promotes the use of Financial Instruments to improve access to finance for SMEs via Structural Funds.
Managing Authority (MA)	Managing Authority, as defined in the Community regulations of Structural Funds.
Operational	An "Operational Programme" referred to in Part Three of the Common

Programme (OP)	Provisions Regulation and in the EMFF Regulation, and a "Rural Development Programme" referred to in the EAFRD Regulation. A document approved by the European Commission, comprising a set of priorities which may be implemented by the Structural Funds or by other Financial Instruments.
Thematic Objectives	The objectives supported by each ESI Fund in accordance with its mission to contribute to the European Union strategy for smart, sustainable and inclusive growth (See Article 9 of the Common Provisions Regulation).

Annex 7 – List of indicators used

Table 81: Indicators used to perform the market assessment

Indicator	Definition	Source	Analysis
Macroeconomic indicators			
GDP	Gross Domestic Product	Eurostat, 2013	Historical analysis
GDP per capita	Gross Domestic Product divided by the total population	Eurostat, 2013	Comparison analysis
Real GDP Growth	Year-to-year change in GDP adjusted for price changes	Eurostat, 2013	Historical analysis
Inflation (HICP)	Comparable index of consumer prices produced by each EU Member State in Council Regulation 2494/95.	Eurostat, 2014	Historical analysis
Value Added Tax rate (VAT)	Tax rate on products collected in stages by enterprises	SBA Fact Sheet, 2013	Comparison analysis
Market indicators			
R&D expenditures as % of GDP	Research and Development expenditures divided by GDP	Eurostat, 2013	Comparison analysis
Foreign Direct Investment (FDI)	% of active workforce employed by foreign-owned companies	OECD, 2013	Comparison analysis
Company creation	Number of companies created in a given year	Statistical Office of the SR, 2014	Historical analysis
Number of patent applications	Number of patent applications to the European Patent Office per one million inhabitants	IPO, 2012	Historical analysis
New loans	Amounts of new loans disbursed to companies located in the Slovak Republic	NBS, 2014	Comparison analysis Gap Analysis
Gross loan portfolio (bank loans)	Outstanding loans provided to SMEs	NBS, 2014	Comparison analysis Gap Analysis
Micro-loans portfolio (financial institutions providing micro-loans)	Outstanding micro-loans provided to SMEs by microfinance providers	Microfinance providers, 2014	Comparison analysis Gap Analysis
Interest rate on loans and overdrafts	Average interest rate on loan products based on currency, amount and maturity	NBS, 2014 European Commission, 2013	Historical analysis Comparison analysis
Leasing products portfolio	Outstanding loans provided to SMEs	Association of Leasing Companies of the Slovak Republic, 2014	Comparison analysis
Equity investment (BA, Private Equity, Venture Capital)	Amount of equity finance invested	Multiple providers, 2014	Comparison analysis
Factoring market turnover	Total value of factoring products disbursed to market	AFC, 2014	Comparison analysis
Social indicators			
Population	Number of inhabitants	Eurostat, 2014	Historical analysis Comparison analysis

Indicator	Definition	Source	Analysis
Number of inhabitants per region	Number of inhabitants per NUTS 2	Eurostat, 2014	Historical analysis Comparison analysis
Activity rate	Ratio of the labour force to the working age population	Eurostat, 2014	Historical analysis Comparison analysis
Employment & unemployment rates	Working population (non-working population) divided by the population in working age	Eurostat, 2014	Historical analysis Comparison analysis
Employment in the market sector	Employment in the sector where goods are sold at economically significant prices	Statistical Office of the Slovak Republic, 2014	Historical analysis Comparison analysis
Labour force in SME	Share of labour force employed in SME	Eurostat, 2014	Comparison analysis
People at risk of poverty or social exclusion	Share of population at risk of poverty within the total population	EU SILC, 2011, 2014	Historical analysis

Source: PwC.

Annex 8 – Questionnaire for the online survey

(I. Questions on general information for the SME)

1. In which territorial area is the main business activity of your company based? (Please select from the list below.)

- ❍ Bratislava area
- ❍ West Slovakia
- ❍ Centre Slovakia
- ❍ East Slovakia

2. In which sector does your business primarily operate? (Please select from the list below.)

- ❍ Agriculture, forestry and fishing
- ❍ Mining and quarrying
- ❍ Manufacturing
- ❍ Electricity, gas, steam and air conditioning supply
- ❍ Water supply; sewerage, waste management and remediation activities
- ❍ Construction
- ❍ Wholesale and retail trade; repair of motor vehicles and motorcycles
- ❍ Transportation and storage
- ❍ Accommodation and food service activities
- ❍ Information and communication
- ❍ Financial and insurance activities
- ❍ Real estate activities
- ❍ Professional, scientific and technical activities
- ❍ Administrative and support service activities
- ❍ Public administration and defence; compulsory social security
- ❍ Education
- ❍ Human health and social work activities
- ❍ Arts, entertainment and recreation
- ❍ Other service activities
- ❍ Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
- ❍ Activities of extraterritorial organisations and bodies

3. Would you define your company as a social enterprise according to the list of activities presented below? (Please select one or more points from the list below)

- ❍ You provide services or goods which generate a social return (e.g. children services, services for elderly people, aid for disadvantaged people)
- ❍ You employ previously discouraged unemployed persons (e.g. long-term unemployed, people with basic education, ex-prisoners, ethnic minorities) or disabled persons
- ❍ Your company has a pre-defined social objective at the core of its business model
- ❍ You measure and report your company's progress in achieving its social objectives over time
- ❍ Your company's business model enables to fund itself on a non-grant basis with a view to self-sustainability
- ❍ No, I would not define my company as a social enterprise

4 Over the last three years (2011, 2012, 2013), on average how many full-time staff and full-time staff equivalent ("FTE") were working in your company? (Please select from the list an answer for each year)

	0	1 to 9 employees	10 to 49 employees	50 to 249 employees	> 250 employees
2013					
2012					
2011					

5. At which growth phase would you currently position your company / activity? (Please select from the list below.)

- ❍ Initiation [business model is created, no commercial activity]
- ❍ Creation [commercial activity initiated, product not marketed]
- ❍ Post-creation [activity has begun, no profit]
- ❍ Development [profitable growth phase]
- ❍ Maturity [stable activity with frail or stagnant growth]
- ❍ Reorganisation [implementing or planning future restructuring processes in order to become profitable]
- ❍ Takeover / transfer to new ownership/ buy-out

6. How did the following factors change between 2011 and 2013, in your opinion? (Please indicate your answers in the fields provided below.)

	Much worse	Worse	Unchanged	Better	Much Better	No opinion
The financial situation of your business						
Turnover						
The cost (interest and other) of obtaining finance for your business						
The debt / turnover ratio of your business						
Other terms or conditions of finance (e.g. loan maturity, collateral levels, etc.)						
The burden or effort to obtain finance for your business						
The willingness of banks to provide finance						

(II. Access to finance questions)

7. Over the last three years (2011, 2012, 2013), which source(s) of funding has your company used? (Please indicate all the sources of finance you have used.)

Sources of funding	2011-2013
Microloan from a microfinance institution (< 25,000 euros)	❍
Short-term loans, bank overdrafts and credit lines (< 1 year)	❍
Medium and long-term loans (> 1 year)	❍
Loans guaranteed by a public or private entity	❍
Loan provided with interest rate subsidy	❍
Loan obtained from mother company	❍
Leasing	❍
Bank guarantees (including export guarantees)	❍
Factoring	❍
Investment funds	❍
Venture capital funds, i.e. capital provided by investors acting together in a fund set up for the purpose of providing finance to start-up and small businesses	❍
Business Angels i.e. individuals investing in start-ups and entrepreneurs and often providing mentoring	❍
Technology transfer funds	❍
Equity from national, regional or foreign institutions	❍
Rescue / turnaround and buyout capital	❍
Mezzanine or hybrid financing i.e. combining loans and equity)	❍
Public grants	❍
Corporate bonds	❍
Other private investors	❍
Private grants or donations	❍
Retained earnings (21)	❍
Capital contributions of shareholders (22)	❍
External capital contributions (family or friends) (23)	❍
Other financing sources	❍

8. How successful were you in obtaining each type of the products listed below over the last three years (2011, 2012, 2013)? Please indicate the level of success for each of the following sources, where “partially successful” refers to not getting the requested amount or receiving it with unsatisfactory terms.

Sources of funding	Successful	Partially successful	Unsuccessful
Microloan from a microfinance institution (< 25,000 euros)	❍	❍	❍
Short-term loans, bank overdrafts and credit lines (< 1 year)	❍	❍	❍
Medium and long-term loans (> 1 year)	❍	❍	❍
Loans guaranteed by a public or private entity	❍	❍	❍
Loan provided with interest rate subsidy	❍	❍	❍
Loan obtained from mother company	❍	❍	❍
Leasing	❍	❍	❍
Bank guarantees (including export guarantees)	❍	❍	❍
Factoring	❍	❍	❍
Investment funds	❍	❍	❍
Venture capital funds, i.e. capital provided by investors acting together in a fund set up for the purpose of providing finance to start-up and small businesses	❍	❍	❍
Business Angels i.e. individuals investing in start-ups and entrepreneurs and often providing mentoring	❍	❍	❍
Technology transfer funds	❍	❍	❍
Equity from national, regional or foreign institutions	❍	❍	❍
Rescue / turnaround and buyout capital	❍	❍	❍
Mezzanine or hybrid financing i.e. combining loans and equity)	❍	❍	❍
Public grants	❍	❍	❍
Corporate bonds	❍	❍	❍
Other private investors	❍	❍	❍
Private grants or donations	❍	❍	❍
Retained earnings	❍	❍	❍
Capital contributions of shareholders	❍	❍	❍
External capital contributions (family or friends)	❍	❍	❍
Other financing sources	❍	❍	❍

9. For what purpose did you seek finance in the last three years (2011, 2012, and 2013)? (Please select one or more options from the list below.)

- ❍ Finance working capital
- ❍ Ensure debt consolidation
- ❍ Acquire another company
- ❍ Acquire land / building
- ❍ Rent land / building
- ❍ Acquire machinery / equipment
- ❍ Rent machinery / equipment
- ❍ Launch a new product / service
- ❍ Develop international activities / enter a new market (geographic expansion)
- ❍ Finance export sales
- ❍ Finance R&D and innovation
- ❍ Transfer ownership
- ❍ Acquisition of an intangible asset
- ❍ Improve energy efficiency of your company
- ❍ Other needs

10. During the last three years (2011, 2012, 2013), in your opinion, what were the reasons for any difficulties in obtaining finance that you experienced? (Please indicate one or more options from the list below.)

- ❍ The financial situation of your business
- ❍ The cost (interest and other) of obtaining finance for your business
- ❍ The debt / turnover ratio of your business
- ❍ Other terms or conditions of finance (e.g. loan maturity, collateral levels, covenants, guarantee, conditions, duration, etc.)
- ❍ The burden or effort to obtain finance for your business
- ❍ The lack of expertise of your team to find or negotiate the best option
- ❍ The limited availability of equity investors
- ❍ The difficulties related to file the application
- ❍ The willingness of banks to provide finance
- ❍ Corruption
- ❍ Not applicable: Our company did not experience any difficulties

11. Over the last three years (2011, 2012, 2013), have you ever felt discouraged from seeking finance? (Please indicate one or more of the options listed below.)

- ❍ Never
- ❍ Rarely
- ❍ Occasionally
- ❍ Often
- ❍ Always

12. Over the last three years (2011, 2012, 2013), what type of guarantee did you provide for your loan(s)? (Please indicate one or more of the options listed below.)

- ❍ Owner's assets
- ❍ Family and friends
- ❍ Company assets
- ❍ Business partners
- ❍ Mutual guarantee schemes such as cooperatives
- ❍ Other guarantee schemes (Private, public, national or regional)
- ❍ Other institution
- ❍ Not applicable: Our company did not use loan financing
- ❍ Not applicable: Our company did not need to provide collateral

13. Over the last three years (2011, 2012, 2013), which do you believe were the reasons for being unsuccessful - or partially unsuccessful - in receiving loan financing? (Please indicate one or more of the options listed below.)

- ❍ Poor credit rating
- ❍ Lack of own capital
- ❍ Insufficient collateral or guarantee
- ❍ Insufficient potential or too high a risk (of the business or project)
- ❍ Already too much debt
- ❍ No credit history
- ❍ Poor credit history
- ❍ No reason given
- ❍ Interest rates were too high
- ❍ Other conditions of the loan were unacceptable (e.g. maturity, covenants)
- ❍ Not applicable: Our company did not request loan financing or was successful in receiving loan financing over these years

14. Did you experience changes in bank financing terms and conditions over the last three years (2011, 2012, 2013)? (Please indicate any changes per option provided.) If you have not had any bank financing during this period, please, leave blank.

	Increased	Decreased	Unchanged
Interest rates			
Other costs related to the loan (other than interest rate)			
Amount of the loan / credit line available			
Maturity of the loan			
Collateral requirements			
Contractual issues related to the loan / Information requirements, etc.			

15. Over the last three years (2011, 2012, 2013), what sources of equity finance did you use? (Please indicate all the equity sources you have used for the time period shown.)

Sources of equity finance	2011-2013
Existing shareholders	❍
Directors in your company who were not previously shareholders	❍
Other employees of your business	❍
Family, friends or other individuals	❍
Venture capital funds i.e. capital provided by investors acting together in a fund set up for the purpose of providing finance to start-up and small businesses	❍
Business angels i.e. individuals investing in start-ups and entrepreneurs and often providing mentoring	❍
Mezzanine or hybrid financing i.e. combining loans and equity	❍
Initial Public Offering (IPO) or other stock market offerings i.e. the first issue of shares by a private company to the public in order to generate capital	❍
Banks	❍
Other financial institutions e.g. subsidiaries of banks	❍
Other companies	❍
Public equity funds	❍
Other equity finance source	❍
Not Applicable: Our company did not seek for equity finance in these years	❍

16. What amount of loan and equity funding did you SEEK during the last three years? (Please provide an estimate in thousands of Euros of the financing amount sought for loan and equity.)

	2011-2013 (thousands EUR)
Debt (all types of loan or credit)	
Equity finance (all types of equity and quasi-equity financing)	
Grants or subsidies	

17. What amount of loan and equity funding did you OBTAIN during the last three years? (Please provide an estimate in thousands of Euros of the financing amount obtained for loan and equity.)

	2011-2013 (thousands EUR)
Debt (all types of loan or credit)	
Equity finance (all types of equity and quasi-equity financing)	
Grants or subsidies	

18. Do you feel you have sufficient access to the following financing sources in Slovakia?

Sources of funding	Yes	No	Type of financing not relevant for me
Microloan from a microfinance institution (< 25,000 euros)			
Short-term loans, bank overdrafts and credit lines (< 1 year)			
Medium and long-term loans (> 1 year)			
Loans guaranteed by a public or private entity)			
Loan provided with interest rate subsidy			
Loan obtained from mother company			
Leasing			
Bank guarantees (including export guarantees)			
Factoring			
Investment funds			
Venture capital funds			
Business Angels			
Technology transfer funds			
Equity from national, regional or foreign institutions			
Rescue / turnaround and buyout capital			
Mezzanine or hybrid financing			
Public grants			
Corporate bonds			
Other private investors			
Private grants or donations			
Retained earnings			
Capital contributions of shareholders			

External capital contributions (family or friends)			
Other financing sources			

19. Please select the 5 forms of financing you prefer

Sources of funding	❍
Microloan from a microfinance institution (< 25,000 euros)	❍
Short-term loans, bank overdrafts and credit lines (< 1 year)	❍
Medium and long-term loans (> 1 year)	❍
Loans guaranteed by a public or private entity)	❍
Loan provided with interest rate subsidy	❍
Loan obtained from mother company	❍
Leasing	❍
Bank guarantees (including export guarantees)	❍
Factoring	❍
Investment funds	❍
Venture capital funds	❍
Business Angels	❍
Technology transfer funds	❍
Equity from national, regional or foreign institutions	❍
Rescue / turnaround and buyout capital	❍
Mezzanine or hybrid financing	❍
Public grants	❍
Corporate bonds	❍
Other private investors	❍
Private grants or donations	❍
Retained earnings	❍
Capital contributions of shareholders	❍
External capital contributions (family or friends)	❍
Other financing sources	❍

20. What amount of each of the following financing sources have you already requested or do you intend to request in 2014? (Amount in thousands of Euros

Sources of funding	2014 (Thousands EUR)
Microloan from a microfinance institution (< 25,000 euros)	
Short-term loans, bank overdrafts and credit lines (< 1 year)	
Medium and long-term loans (> 1 year)	
Loans guaranteed by a public or private entity)	
Loan provided with interest rate subsidy	
Loan obtained from mother company	
Leasing	
Bank guarantees (including export guarantees)	
Factoring	
Investment funds	
Venture capital funds	
Business Angels	
Technology transfer funds	
Equity from national, regional or foreign institutions	
Rescue / turnaround and buyout capital	
Mezzanine or hybrid financing	
Public grants	
Corporate bonds	
Other private investors	
Private grants or donations	
Retained earnings	
Capital contributions of shareholders	
External capital contributions (family or friends)	
Other financing sources	

21. For what purpose is this funding being sought? (Please indicate one or more options.)

- ❍ Finance working capital
- ❍ Ensure debt consolidation
- ❍ Acquire another company
- ❍ Acquire land / building
- ❍ Rent land / building
- ❍ Acquire machinery / equipment

- ❍ Rent machinery / equipment
- ❍ Launch a new product / service
- ❍ Develop international activities / enter a new market (geographic expansion)
- ❍ Finance export sales
- ❍ Finance R&D and innovation
- ❍ Transfer ownership
- ❍ Acquisition of an intangible asset
- ❍ Improve energy efficiency of your company
- ❍ Other needs

(III. General market conditions/ supporting institutions)

22. When looking for finance, do you feel you lacked support from:

Sources of funding	Yes	No	Did not ask for support from this organisation
Your city			
Your region			
State authorities			
Guarantee funds			
Public Investment funds			
Venture capital funds			
Business angels			
Commercial banks			
Chambers of Commerce and Industry			
Social Media (Facebook / Twitter…)			
Support networks			
Your accountant or an accounting, tax or finance consultant			
Innovation infrastructure such as incubators, innovation centres, technology parks, cluster			
Your social environment such as friends, family			

23. Please rank the following factors limiting business growth in Slovakia by importance: Please rank the five most important factors in the short-term (up to 1 year), the five most important factors in the medium-term (from 1 to 3 years) and the five most important factors in the long-term (from 3 to 5 years). 1 = least important factor; 5 = most important factor

	Short term	Mid-term	Long-term
General economic situation			
Political situation			
Limited demand in the local / domestic markets			
Limited demand in foreign markets			
Limited availability of suitable new personnel			
Loss of existing personnel			
Business transfer problems e.g. inheritance			
Cost of labour increasing			
Inability to finance necessary investment into equipment			
Products getting outdated (R&D necessary, product lead time)			
Difficulty keeping up with technological change			
Change in the competition (as new entrants in the market)			
Price competition / small margins			
Unfair competition, e.g. dumping			
Regulatory framework (related to issues such as labour code, public procurement procedures, tax regulation)			
Lack of fiscal incentives			
Not enough supply of financing			
Available financing not appropriate to your need			
Corruption			
Do not see constraints (nothing ticked above)			

(IV Energy Efficiency)

24. If you have financed and implemented a project aiming at improving the energy efficiency of your company in the last three years (2011, 2012, 2013), what were the reasons for doing so? (Please select one or more option.)

- ❍ Reduce energy consumption
- ❍ Reduce emissions
- ❍ Develop a product in the energy efficiency market

- ❍ Improve production process with an aim to reduce the energy footprint of your company
- ❍ Not applicable

25. If you intend to finance and implement a project aiming at improving the energy efficiency of your company in the next three years (2014, 2015, 2016), what are the reasons for doing so? (Please indicate one of more options

- ❍ Reduce energy consumption
- ❍ Reduce emissions
- ❍ Develop a product in the energy efficiency market
- ❍ Improve production process with an aim to reduce the energy footprint of your company
- ❍ Not applicable

Annex 9 – Interview guide

Investments in the sectors related to SMEs

1. Could you please briefly describe what the **role** of your institution is in the sector?
2. Could you briefly describe the three key **solutions/products** that you are currently offering to finance projects in the sector?
    a. What is the volume invested in each product and your capacity for the next three years?
    b. What are the eligibility criteria for each solution?
    c. Are you adopting a single or multi-player approach? If *Yes*, which actors do you involve in the process (co-investment)?

    Please, find below options for answers:

Description	Volume	Eligibility criteria	Challenges and obstacles	Approach
debt, interest subsidies, guarantee, other	Quantify	e.g. size of investment, sector, location, type of investment (target activities / objectives)	e.g. cost, market acceptance, legal complexity, expectations for guarantees, risk profile	Single or multi-player

Your investments in SME sector

1. What type of investment is preferred among the actors in this sector?
2. What are the types of projects that you typically fund? And what is the typical volume of those projects?
3. What are the key Strengths, Weaknesses, Opportunities and Threats of your current funding provision to projects in this sector?
4. What are some of the reasons why you declined applications for financing (e.g. related to management, product, commercial considerations, guarantee, legal complexity, etc.)?
5. What are the main risks and obstacles the potential beneficiaries face on these projects (such as cost, market acceptance, legal complexity, expectations for guarantees)?
6. What specific obstacles do you face as a bank / promotional bank / agency investing in your region or in Slovakia as a whole (e.g. cost, market acceptance, legal complexity, expectations for guarantees, risk profile, better conditions outside Slovakia)?
7. What type of financing needs should be secured by the public sector so that these projects are implemented, e.g. guarantees, equity, etc.?

Market trends and challenges

8. How would you assess the total market demand for the Financial Instruments in this sector?
9. What types of projects in your territory fit into your potential pipeline?
10. What actors and projects would you say are most likely to experience growth in demand in Slovakia? What would be the most likely objectives or target areas for investment?
11. In which regions do you foresee the most significant growth in the future?
12. What are the key challenges for funding projects in this sector in Slovakia?
13. What are the emerging trends in financing this sector in Slovakia in terms of:
    a. Instruments from the private sector
    b. Instruments and mechanisms from co-operation between the private and the public sector
    c. Policy framework
    d. Others, please state
14. Is market demand higher than the current supply? Is there a funding gap in Slovakia?

Prospective solutions

15. Which are the most effective models to fund projects in this sector?
16. How do you see the role of private funding for supporting public sector funding in this sector?
17. What is the difference between projects promoted by the private sector compared to projects developed by the public sector?
18. What type of incentives do you see in the use of Financial Instruments that use public funding: longer term to maturity, lower interests, subordinate loans, provisional equity, etc?

Annex 10 – Minutes of the interviews

The minutes of the interviews are attached in a separate document.

Annex 11 – Allocation of funds by Operational Programme for the programming period 2014-2020

Table 82: Allocation of funds by OP for the programming period 2014-2020

	Operational Programme	EU Financing	Fund	Managing authority/ intermediary MA Department	Total allocation	Priority axis/ Priority of EU	Allocation for programming period	Thematic objective	National co-finance		Total co-finance	Rate of co-finance	Specific targets /focus areas
									National public sources	National private sources			
1	Research and Innovation	2,266,776,537.0	EFRD	MoESRS	996,529,741.0	1	856,934,847.0	1	115,145,647.0	1,179,264,907.0	5,414,651,681.0	41.86%	To increase the efficiency of R&D through horizontal support technology transfer and ICT. Increase the participation of the Slovak Republic in international cooperation projects. Increase research activities by improving coordination and consolidation of R&D potential of research institutions .Increase private investment via collaboration of research institutions and the business community.
						2	104,106,580.0	1	N/A	N/A	N/A	N/A	The increase in research activity BR through the revitalization and strengthening research and educational innovation and entrepreneurial capacities of research institutions in Bratislava. Increase private investment via building research and development centres in Bratislava.
						5	35,488,314.0	TP	103,236,982.0	50,071,866.0	188,797,167.0	0.0%	Promoting and enhancing expertise of administrative capacity, training and exchange of experience. Support and development of the technical infrastructure and equipment. Support activities related to the preparation, management, monitoring, evaluation, information and communication, networking, complaint handling, control and audit.
				MoE	1,270,246,796.0	1	794,499,032.0	1	N/A	N/A	N/A	N/A	The growth of R&D and innovation capacities in industry and services.
						2	40,189,069.0	1	17,029,412.0	239,500,000.0	296,718,484.0	0.0%	The growth of R&D and innovation capacities in industry and services in Bratislava region.
						3	376,415,000.0	3	24,984,150.0	0.0	401,399,156.0	0.0%	The growth of new, competitive SMEs. Increase the internationalization of SMEs and exploitation of the EU single market. Increasing the competitiveness of SMEs in the development phase.
						4	24,632,009.0	3	N/A	N/A	N/A	N/A	Increase the number of competitive SMEs in the Bratislava region.

						5	34,511,686.0	TP	12,000,000.0	0.0	46,511,691.0	0.0%	Promoting and enhancing expertise of administrative capacity, training and exchange of experience. Support and development of the technical infrastructure and equipment. Support activities related to the preparation, management, monitoring, evaluation, information and communication, networking, complaint handling, control and audit.
2	Integrated Infrastructure	3,966,645,373.0	CF	MoTCaRD	2,307,139,166.0	1	725,839,166.0	7	128,089,265.0	0.00	3,557,732,142.3	11.15%	Modernisation and development of major railway lines and nodes of transport important in terms of international and national transport. Rail infrastructure quality implementation of selected elements TSI on the most important routes for international traffic. Improve service quality of public railway passenger transport by restoring rolling "
						2	1,142,500,000.0	7	201,617,648.0	0.00	1,344,117,657.0	0.0%	Remove key bottlenecks on the road TEN-T infrastructure through the construction of new motorways and expressways.
						3	322,350,000.0	7	33,805,883.0	23,079,412.0	379,235,305.0	0.0%	Increasing the attractiveness of public transport by improving the quality of ITS infrastructure and urban transport Drahovo. Increase the attractiveness and accessibility of public transport through the renewal of rolling runway stop.
						4	116,450,000.0	7	11,555,883.0	8,994,117.0	137,000,011.0	0.0%	Improving the quality of services provided by the public port in Bratislava and create conditions for improving the navigability of the Danube waterway.
			EFRD	MoTCaRD	832,239,455.0	5	282,232,227.0	7	53 026 276.00	0.0	1,167,497,970.0	0.0%	Modernisation and development of railways and related objects of transport important in terms of international and domestic traffic (outside TEN-T CORE). Rail infrastructure quality implementation of selected elements TSI on the most important routes for international transport (TEN-T outside CORE).
						6	484,757,228.0	7	88 765 982.00	0.0	573,523,223.0	0.0%	The removal of key bottlenecks on the road TEN-T infrastructure through the construction of new expressways Improving the accessibility of road TEN-T and regional mobility through the construction and modernization of state roads.
						8	65,250,000.0	TP	N/A	N/A	N/A	N/A	Providing support OPII by stabilizing personal capacities and increase their professional competence. Increasing the efficiency of the implementation OPII through technical support. Achieve the objectives OPII through networking and security expert support implementation OPII external capacities. Raise awareness of EU support for OPII Exhibit Systems. ensuring effective communication OPII.
				MoF	827,266,752.0	7	805,516,752.0	2	148,414,721.0	0.0	1,781,198,234.0	0.0%	Increasing the coverage of broadband / NGN. Increasing innovation capacity, particularly SMEs in the digital economy Increase the quality, standard and availability of e-Government services for businesses. Increase the quality, standard and availability of e-Government services for citizens Improving the overall availability of government data in the form of open data. Improving digital skills and inclusion of disadvantaged individuals into the digital market. Facilitate the modernization and rationalization of government ICT resources. Rationalization of information systems using e-Government cloud. Increase cyber security company.

						8	21,750,000.0	TP	15,000,000.0	0.0	36,750,008.0	0.0%	Providing support OPII by stabilizing personal capacities and increase their professional competence. Increasing the efficiency of the implementation OPII through technical support. Achieve the objectives OPII through networking and security expert support implementation OPII external capacities. Raise awareness of EU support for OPII Exhibit Systems.. Ensuring effective communication OPII.
3	Human Resources	2,204,983,517.0	ESF	MoESRS	476,299,489.0	1	458,746,509.0	10	58,607,914.0	4,186,281.0	3,202,823,721.0	68.8%	To improve the quality of education at primary and secondary schools reflecting the needs of the labour market with emphasis on supporting vocational education and training. Enhance the quality of university education and development of human resources in research and development with a view to linking university education with labour market needs Improve the quality and effectiveness of lifelong learning with an emphasis on the development of key competencies, deepening and career. Improve the professional competence of teaching and professional staff at all levels of education, including vocational training teacher.
						7	17,552,980.0	TP	N/A	N/A	N/A	N/A	Effective management of the program cycle operational program.
				MoLSAaF	72,175,259.0	2	72,175,259.0	8	N/A	N/A	N/A	N/A	Increase employment, employability and participation of young people, especially NEET (Not in Education, Employment, or Training - Non-inclusion in education, employment or retraining), the labor market,
				MoLSAaF	1,210,624,028.0	3	845,924,737.0	8	160,395,431.0	521,781.0	2,217,465,988.0	0.0%	To increase employment, employability and combat unemployment, with special emphasis on the long-term unemployed, low-skilled, older and disabled people Increase employment by supporting job creation, mobility for obtaining employment, adaptability of workers and enterprises, supporting self-employment, start-ups and agricultural and non-agricultural activities in rural areas. Improving conditions for reconciling work and family life increase employment of persons with parental responsibilities, especially women. Reduce horizontal and vertical gender segregation in the labor market and vocational training. Improve the quality and capacity of public employment services to an adequate level in response to changing needs and requirements of the labor market, transnational labor mobility, and increase the participation of partners and private employment services in facing the challenges of employment.
						4	364,699,291.0	9	55,672,262.0	2,725,216.0	423,096,782.0	0.0%	Increasing the participation of the most disadvantaged and vulnerable people in society. Prevention and elimination of all forms of discrimination. Transition from institutional to community care. Improving accessibility to quality health care through standardization of clinical practices and procedures for the exercise of prevention.

				MoI	69,000,000.0	5	69,000,000.0	9	8,411,765.0	411,765.0	146,823,544.0	0.0%	To increase the educational level of the MRC at all levels of education with an emphasis on pre-primary education. Reduce the unemployment rate of Roma men and women Promote access to health care and public health, including preventive health care, health education and improving the living standards of hygiene.
				MoLSAaF and MoI	61,047,020.0	7	61,047,020.0	TP	N/A	N/A	N/A	N/A	Effective management of the program cycle operational program.
			EFRD	MoI	243,662,462.0	6	243,662,462.0	9	27,549,310.0	13,774,656.0	528,648,905.0	0.0%	The growth of the number of Roma households with access to improved housing conditions. Improve access to quality education, including education and early childhood care. Improve people's access to the MRC social infrastructure Increase the employment rate in the MRC social economy entities in areas with the presence of MRK.
			IZM (Initiation to support young)	MoLSAaF	72,175,259.0	2	72,175,259.0	8	12,736,811.0	0.0	N/A	N/A	Increase employment, employability and participation of young people in the labor market.
4	Quality of Environment	3,137,900,110.0	CF	MoE	1,861,112,261.0	1	1,441,766,000.0	6	189,231,788.0	171,209,713.0	3,977,109,780.0	7.8%	To ensure the waste facility in accordance with the waste hierarchy, and for the purpose of meeting the requirements of the environmental acquis. Encourage ensure fulfillment of the obligations of the Slovak accession to the EU in the field of treatment and discharge of urban waste water. Support for ensuring a sufficient supply of safe drinking water for the population of the Slovak public water. Achieve the necessary degree of surveillance and monitoring of water and water bodies, ensuring the creation of a set of conditions for actions leading to the achievement of good ecological status and potential for groundwater and surface water and water bodies Ensure conditions for the conservation of biological diversity and improving the ecosystem in the country. Reduce air pollution and improve its quality. Ensure remediation of environmental burdens in urban environments, as well as brownfield sites (including areas undergoing change).
						2	419,346,261.0	5	74,002,281.0	0.0	493,348,549.0	0.0%	Mitigate the negative impacts of climate change implementation of adaptation measures, especially preventive measures for flood protection. Improve the effectiveness of redevelopment, revitalization and security repositories extractive waste.
			EFRD	MoI	N/A	3	260,901,369.0	5	N/A	N/A	N/A	N/A	"Increase the level of preparedness to deal with emergencies affected by climate change.Increase the effectiveness of prevention and adaptation measures to eliminate environmental risks (except for flood control). Increase the efficiency of the management of complex emergencies affected by climate change.
				Slovak innovation and energy agency (SIEA)	260,901,369.0	4	938,886,480.0	4	73,862,320.0	590,809,873.0	2,542,445,161.0	0.0%	Increasing the share of renewables in gross final energy consumption. Reduce energy consumption and increase the use of RES in enterprises. Reducing energy consumption in the operation of public buildings. Promoting energy efficiency, use of renewable

													energy and reducing greenhouse gas emissions by providing advice, information and monitoring. Promoting energy efficiency, use of renewable energy and reducing greenhouse gas emissions through regional and local action plans for sustainable energy development and energy services Development of more efficient district heating based on a useful heat demand. Installation of small plants for the use of RES in the Bratislava Region.
					938,886,480.0	5	77,000,000.0	TP	103,603.0	3,881,109.0	157,984,717.0	0.0%	Promoting and improving adm. Capacity, education and skills of employees. System and Technical Support, support management processes and implem. OP Our department and building support for AK recipients.
5	Integrated regional OP	1,754,490,415.0	EFRD	MoLSAaF	1,754,490,415.00	1	421,000,000.0	7	65,182,355.0	5,405,884.0	2,421,527,703.5	7.2%	Improving accessibility to road infrastructure and the TEN-T roads of Class. Development integ. transport systems and increasing the attractiveness of public transport. The development of non-motorized transport (especially cycling).
						2	492,913,197.0	9	N/A	N/A	N/A	N/A	Deinstitutionalisation, Healthcare Infrastructure
						3	263,000,000.0	10	121,100,010.0	7,017,648.0	391,117,668.0	0.0%	Pre-primary education - kindergarten ,Primary Education -Primary School , Secondary vocational schools.
						4	215,860,548.0	8	42,593,257.0	2,558,605.0	261,012,421.0	0.0%	Groundwater Resources, Reconstruction of water supply and sewerage, Building a green infrastructure elements, Recovery and use of unused buildings and sites (brownfields)
							111,388,554.0	4	N/A	N/A	N/A	N/A	Improve energy efficiency of. residential buildings (SR MDVaRR -
						5	88,328,116.0	6	32,001,924.0	1,484,239.0	121,814,285.0	0.0%	Capacities for CLLD, 5.1.2 Development of entrepreneurship and innovation at the local level. Public services and public
						6	100,000,000.0	9	2,214,474.0	2,996,055.0	105,210,543.0	0.0%	Evaluation and Studies, Preparation, implementation, monitoring, control. Information and publicity
6	Effective public administration	278,449,284.0	ESF	MoI	278,449,284.0	1	267,311,313.0	11	41,502,521.0	4,000,000.0	869,712,414.0	32.0%	Improving systems and optimization of processes with a focus on citizens and businesses. Modernization of human resources management and increasing employee competences. Streamline the judicial system and law enforcement. Ensure transparent and effective application of public procurement rules and support. consistent application of the principles 3E
						2	11,137,971.0	TP	1,965,524.0	0.0	13,103,497.0	0.0%	Promoting and improving administrative capacity, education and skills of employees,. System and Technical Support Ensure effective communication OP EVS.
7	Technical support	159,071,912.0	EFRD	Central committee	159,071,912.0	1	97,043,956.0	TP	18,890,109.9	0.0	434,077,890.9	36.5%	Implement proper and transparent system of regulation ESI + . Increase the efficiency of financial management, audit and control ESI + . Increase the quality AK involved in the management, control

													and audit ESI + through education. Improve the quality and efficiency of management, monitoring, evaluation, information and communication, networking, handling requests and suggestions, control and audit expert support through ESI +. Ensure effective information and communication.
						2	57,027,955.9	TP	10,063,756.9	0.0	67,091,714.8	0.0%	Increase the quality, standard and availability of IS for ESI +
						3	5,000,000.0	TP	882,352.9	0.0	5,882,355.9	0.0%	Prepare and implement and extend the FN FN FN further, to build an integrated, centrally managed system FN. Increase the effectiveness of the implementation of FN through technical assistance for project preparation.
8	Fisheries	15,785,000	EMFF	MoAaRD	15,785,000.0	2	9,406,530.0	3&a 6	N/A	N/A	N/A	N/A	Improving the competitiveness and viability of aquaculture enterprises, including improving safety and working conditions, particularly in SMEs. Protection and restoration of aquatic biodiversity and enhancement of ecosystems related to aquaculture and promotion of aquaculture, resource efficient..
						3	1,400,000.0	6	N/A	N/A	N/A	N/A	The improvement and provision of scientific knowledge, as well as improving data collection and management .Providing support for monitoring, control and enforcement, thereby improving institutional capacity and efficient public administration without increasing the administrative burden.
						5	N/A	N/A	N/A	N/A	N/A	N/A	Improving the organization of the markets in fishery and aquaculture products . Stimulating investment in the processing and marketing
						0	4,031,370.0	3	N/A	N/A	N/A	N/A	Promoting and enhancing expertise of administrative capacity, training and exchange of experience. Support and development of the technical infrastructure and equipment . Support activities related to the preparation, management, monitoring, evaluation, information, communication, control and audit OPRH.
9	Rural development	1,545,272,844.0	EAFRD	MoAaRD	1,492,603,831.9	3	285 544 286.20	3	N/A	N/A	N/A	N/A	Increasing the competitiveness of primary producers through their better integration in the agri-food chain by systems of quality, adding value to agricultural products, promotion in local markets and short supply chains, groups and producer organizations and inter branch organizations . Support risk management of farms and their prevention
						4	663 561 477.90	5.6	N/A	N/A	N/A	N/A	Restoration, preservation and enhancement of biodiversity, including the Natura 2000 areas and areas with natural or other specific constraints and agricultural activities with a high nature value and restoring, preserving and improving the state of Europe's landscapes. Improved water management, including the use of fertilizers and pesticides. Preventing soil erosion and improve its management

						5	83 769 539.70	4.6	N/A	N/A	N/A	N/A	Increasing the efficiency of water use in agriculture. Increasing the efficiency of energy use in agriculture and food processing . Facilitating the supply and use of renewable energy, by-products, wastes, residues and other food raw material for the purpose of bio-economy. Reducing greenhouse gases and ammonia from agriculture. Support conservation and carbon sequestration in agriculture and forestry.
						6	217 294 393.40	2,8,9	N/A	N/A	N/A	N/A	Facilitating diversification, creation and development of small businesses and job creation . Support local development in rural areas. Extension accessibility, use and quality of information and communication technologies (ICT) in rural areas.
			EAFRD	MoAaRD	52,669,012.0	N/A	52 669 012.04	TP	N/A	N/A	N/A	N/A	Effective management of the program cycle operational program.
10	Food and materiál support	55,306,117.0	FEAD	MoAaRD	55,306,117.0	N/A	55,306,117.0	N/A	N/A	N/A	N/A	N/A	Corresponding distribution of food and basic material assistance and accompanying measures.

Source: European Investment Fund, 2014.