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The role of small and medium enterprises in the economy of Slovakia

Jaroslav Kling
University of Nebraska at Omaha

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THE ROLE OF SMALL AND MEDIUM ENTERPRISES
IN THE ECONOMY OF SLOVAKIA

A THESIS

Presented to the
Department of Geography and Geology
and the
Faculty of the Graduate College
University of Nebraska
In Partial Fulfillment
Of the Requirements for the Degree
Master of Arts
University of Nebraska at Omaha

by

Jaroslav Kling

November 2001

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THESIS ACCEPTANCE

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University of Nebraska, in partial fulfillment of the
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James D. Hildner - Geography
Wally Bacon - Political Science

Chairperson: Mr. Hildner

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THE ROLE OF SMALL AND MEDIUM ENTERPRISES IN THE ECONOMY OF SLOVAKIA

Jaroslav Kling, M.A.

University of Nebraska, 2001

Advisor: RNDr. Petr Pavlínek, PhD.

Abstract

The aim of this paper is to analyze the role of small and medium enterprises in the economy of Slovakia. The changes of 1989 brought about the changes of society and economy as well. In the period of transformation of the Slovak economy, small and medium enterprises have been often considered to be a critical element of economic revival. The study answers to what extent this expectation has been met. Legal and institutional frameworks of the small and medium enterprises development are analyzed. Popular attitudes toward entrepreneurs, views and opinions of the key representatives of entrepreneurs and state representatives are included in the paper as well. The influence of small and medium enterprises on economy of Slovakia is measured through their contribution to different economic indicators and analyzed here. Finally, the relationship between economic development distribution and distribution of small and medium enterprises is presented. Major findings and suggestions for improvement of the small and medium enterprises development are included at the end of this study.

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1 INTRODUCTION

Collapse of state socialism in Central and Eastern Europe (CEE) in the late 1980s was followed by complex political, economic, social and cultural transformations in these countries¹. Since the early 1990s, we have been “witnessing one of the world's most daring economic and political experiments - the construction of capitalist system on the apparent deathbed of Communism” (Smith 1998:1).

Since the 1970s, capitalism has undergone significant structural changes. Global restructuring has been associated with the decline of the Keynesian social state, globalization of the economy, enlarging differences between North and South, social polarization in developed countries, flexible accumulation, and with new spatial division of the world economy. All the changes have also affected the region and regional development (Pavlínek 1993). Hence, the ongoing transformation in CEE must be seen in the context of this global restructuring, of which impact on the CEE economies will be even larger than in Western economies. This is due to the “higher pace of the structural changes in the former centrally planned economies accompanied with much deeper economic decline” (Pavlínek 1993:7)², and even larger social problems such as the decline of the living standards.

The transformation to capitalism also results in growing regional differences that the state planned regional policy under state socialism attempted to minimize (Pavlínek 1993, Pavlínek 1995, Smith 1998, Vozáb 1998, Balchin and Sýkora 1999). New types of regional policy were introduced in CEE countries based on the Western European experience. However, it was not (and still is not) appropriate to use these models as a mere blueprint for all countries of the region

¹ The state socialist economic system exhausted all the development resources; hence, further existence of socialist countries was not possible without a change of economic system. This explanation can be found in several publications (Pavlínek 1997, Smith 1998).

² References from the works written in Slovak and Czech are translated by author.

without respecting the different conditions of individual countries³. During the period of economic restructuring in Western Europe in the 1970s, regional policy designed to alleviate economic and social problems in regions most affected by structural changes was limited to the classical tools, such as capital subsidies, tax incentives and other forms of regional assistance. However, these approaches were no longer very successful. New approaches to regional policy emphasized the endogenous economic growth and new industrial regional strategies (Pavlínek 1993, Hudson 1994). It is believed that the equalization of regional differences based on the endogenous resources of the region can be achieved only when new approaches in regional policy, such as the decentralization of decision-making and the strengthening of the local and regional political administration are introduced.

1.1 Nature of the problem

The Slovak republic was established as an independent state in 1993 after the split of Czechoslovakia (officially the Czech and Slovak Federal Republic). The differences in regional economic development between the Czech lands and Slovakia were perceived and often also presented⁴ as one of the reasons of the break up of Czechoslovakia. At the same time, however, it was the regional policy of Czechoslovakia, which strongly shaped the current regional economies in Slovakia (see Pavlínek 1995).

The territory of Slovakia has always been the less developed (less industrialized) part of Czechoslovakia, whether in the pre-World War II Czechoslovakia or in the socialist republic after

³ This is similar to the criticism of the 'blueprint' transformation of the countries in CEE. The notion that the same tools and the same policies have to be used in all CEE countries was proven as wrong because 'blueprint' transformation did not respect specifics of individual countries. For further discussion see, for example, Pavlínek 1997, Smith 1998.

⁴ The political representatives of the nationalistic oriented parties in Slovakia (Movement for a Democratic Slovakia – HZDS, Slovak National Party – SNS, and others) gained their electoral points by describing Slovakia as an unequal partner in the federation with the Czech Republic. The most radical politicians did not hesitate to go further to label Slovakia as a workshop of the Czech Republic (due to the orientation of Slovak economy on heavy, not with high value-added, industry produced for the finalization in the factories localized in the Czech Republic)

the War. In 1918, Slovakia entered Czechoslovakia as a mostly agrarian region with underdeveloped industry. The regional discrepancies between the Slovak and Czech regions were targeted throughout the whole Czechoslovakia's history, but mostly after the Second World War. The equalization was attempted through the rapid industrialization of Slovakia – mainly during the period of the state socialism (1948-1989) (Pavlínek 1995, Smith 1998). The form of industrialization was strongly influenced by the Soviet model based on the heavy industry. The localization of industrial plants often pursued political interests of the state establishment more than economic interests and local settings of particular regions. Such industrialization resulted in mono-industrial regions, strongly dependent on the prosperity of a single large plant. Mistakes of the socialist equalization have been fully revealed after the collapse of the Soviet block in 1989. Many factories, established in the socialist period, went bankrupt and have had tremendous consequences on the regional economies of many Slovak districts.

One governmental strategy to deal with collapsing regional economies after 1989 was to support the development of small and medium-size enterprises (SME)⁵. This regional policy has faced the critique that SME are not the right tool to solve the economic problems of Slovak regions. The reasons why SME are unlikely to become 'engines' of regional growth in Slovakia are closely related to the existing industrial structure created by state socialist industrialization that established large enterprises and neglected the development of SME. Smith (1998), for example, argues that SME do not play (and will not play) a substantial role in the regional economies in Slovakia, mainly due to the nature of previous industrialization and the remaining "fetishization" of large-size companies in the Slovak economy.

⁵ The Governmental Programs of all the post-communist governments emphasized the importance of SME in the national economy.

In Western Europe, the change in the way the production had been organized from that based on mass production to one based on flexibility of production (e.g. Tödtling 1994) was accompanied with the re-evaluation of the role of large firms in local development. The reason was the association of a large firm with rationalization and employment reduction (Wynarczyk et al. 1997). A shift was expected from a standardized production in large volumes towards [more] customized production in smaller amounts and from large firms with a hierarchical structure towards firms that are more decentralized (Tödtling 1994). Given these facts and given the forced reduction in regional development financed by state governments, the role of endogenous factors in regional economic development was explored (Morgan 1998). New strategies of regional economic development were sought. Small and medium size enterprises came to be seen as a potentially major generator of new jobs and employment (Birch 1979, Marcus 1991, Hull 1999). They were also supposed to address a new demand for more flexible production more efficiently than large firms.

A number of programs of SME' promotion and support have been developed within the European Union (EU). SME were expected to help overcome economic problems of traditional industrial regions most affected by structural changes. However, some authors, such as Pavlínek 1993, Cook and Morgan 1994, Hudson 1994, Bellini and Pasquini 1998, Finnegan 1998, Balchin and Sýkora 1999, argued that SME' potential in regional development should not be over estimated at all despite some 'success-story' regions, such as Emilia-Romagna (Italy), Baden Wurtemberg (Germany), regions in Wales, Northern Ireland, and Spain, where SME have supposedly played a crucial role in the renewal of regional economy. Mostly, they argued that SME were not a long-term solution to either national or regional economic problems or they pointed out a spatial dimension of the birth, death, expansion and contraction of SME (Wynarczyk et al.1997). Dicken (1998) expressed reservations about job-creating significance of

small firms. He noticed that, “it would take many thousands of small firms to replace the jobs lost through the rationalization processes of even a few large firms, let alone to create additional jobs” (p. 442). When looking for answers on whether markets favor large companies, Reynolds (1999) found out that they do. Hence, despite doubtless importance of small and medium enterprises in economies of developed countries, they are still in the shadow of large firms that are more powerful, have easier access to sources, and enjoy higher state support (direct or indirect).

1.2 Objectives

This study has two main objectives. First, to determine *conditions* for the SME development and the overall enterprise environment in the Slovak republic. I will analyze basic laws on small enterprises and the related laws with respect to regional development. The study of the support programs for start-up and existence of SME will be included as well. This study will examine the Slovak governmental programs as well as the support programs provided by the European Union for its membership applicants from CEE. Factors that influenced the entrepreneurial environment, such as popular attitudes towards private businesses and the issues of personal safety and business environment will be included.

Second, the study aims to examine the *impact* of SME on regional economies and overall economic development in Slovakia. The impact will be measured through the share of SME in the key economic variables such as overall employment, employment growth, value-added, gross production, exports and profit before taxation. Identification of the spatial differentiation within Slovakia regarding SME will be included as well. Due to unavailability of sound data on lower spatial administrative units in Slovakia (districts) the differentiation will be based upon the spatial distribution of SME. Additionally I will investigate attitudes of Slovak entrepreneurs towards the SME impact on regional development through the interviews of key informants.

1.3 Hypotheses / rationale

Despite the critical opinions referring to the overvaluing the role of SME in regional development, I argue that SME play and will play important roles in the regional development of Slovakia. Although SME is not a long-term solution of regional economic problems (Wynarczyk et al. 1997), it can contribute to economic renewal of the regions strongly affected by industrial restructuring. In Slovakia, it is the small and medium enterprises that are creating new jobs, not the large firms (Interviews 2000). SME can react to the changes in market demand much faster than large enterprises due to their smaller size and consequently higher flexibility. Even in the case of Slovakia with its industrial economy based upon large industrial plants, a high number of smaller companies have been flourishing at the same time these large industrial factories have been closing down (e.g. Kling 1998).

I also hypothesize that the regional pattern of the SME' performance follows the pattern of the level of regional economic development in Slovakia. Since the western part of Slovakia is economically most developed (Smith 1998) (considering the levels of GDP, foreign direct investment, income, unemployment and other indicators of regional performance), I assume that the impact of SME in this part of the country will be the largest as well. I expect a decrease in the economic impact of SME with the increasing distance from western Slovakia, as regions become increasingly peripheral. These peripheral regions have the highest unemployment rates due to the closure or severe crisis of large industrial plants built during the socialist industrialization. Such enterprises collapsed because of their rigidity and inability to address the rapidly changing economic and political conditions during the post-communist transformation of the 1990s.

1.4 Significance of research

The recent state of small and medium enterprises reveals the contradictions between state officials' proclamations to support SME development⁶ by all means and the real conditions for their development. Identification of the SME role in the regional economies of Slovakia can provide a good base for improving the conditions for their development. Examination of spatial differences of SME' performance can help agencies that provide various forms of SME support (state agencies, private agencies as well as European Union) to improve spatial targeting and effectiveness of their programs.

In this thesis, I hope to contribute to the ongoing discussion dealing with the role of SME in regional development. Experts in regional economic development have begun to turn away from the traditional approaches to regional development (such as growth-pole theory and trickle-down theory) recognizing that "regional economic development is as much about non-economic phenomena as it is concerned with precise economic variables" (Aydalot 1986). Despite the apparent 'success-story' regions, the success of which was built on the use of new, unorthodox techniques of regional development (support of SME, industrial districts, networking of SME and creation of local productive system) (Cook and Morgan 1994), these new approaches in regional development are still neglected by scientists as well as by the policy makers in Slovakia.

⁶ "Small and medium enterprise development along with restructuring of Slovak economy continue to belong to the basic priorities of Slovak economic policy... Although the impact of SME on the most important economic indicators is still lower than in the countries of EU, we have to pay attention to this sector of economy if we want to gain the same situation as EU countries". (Preface to "State of SME 1998" by Ľudovít Černák, Minister of Economy of Slovak republic, NARMSP 1999)

1.5 Definition of terms

- *Small and medium enterprises.* According to the European Union's classification, small enterprises are those with 0-49 employees, medium enterprises those with 50-249 employees and large enterprises have more than 250 employees (NARMSP 1999). Slovak statistics, however, includes all businesses with less than 500 employees in this category (until 1997)
- According to The Dictionary of Human Geography (1994), *regional policy* is "policy directed explicitly at the problems of uneven development between different regions". Through regional policy national government provides the distribution of mainly economic resources over part or all of the national space (Goodal 1987).

1.6 Study area background

Slovak Republic

Established: January 1st, 1993

Population: 5,402,547 (2000)

Area: 49,035 sq. km (18,932 sq. mi)

Density of Population: 110 inhabitants per sq. km (285 inhabitants per sq. mi)

Rate of Urbanization: 56.7% (1999)

Monetary Unit: Slovak Koruna – Sk⁷

Figure 1 Slovak Republic, a general map



Source: www.mapquest.com; Adjustments: Jaroslav Kling

The Slovak Republic is a mountainous country. Southern parts are filled by fertile lowlands, while the north hosts the highest mountains, High Tatra (8,710 ft.). This type of relief

⁷ US\$ 1 = Sk 33.20 (1993); US\$ 1 = Sk 31.43 (1994); US\$ 1 = Sk 29.57 (1995); US\$ 1 = 31.90 (1996); US\$ 1 = 34.78 (1997); US\$ 1 = 36.91 (1998); US\$ 1 = 42.27 (1999); US\$ 1 = 47.39 (2000); US\$ 1 = 49.27 (2001) (www.nbs.sk)

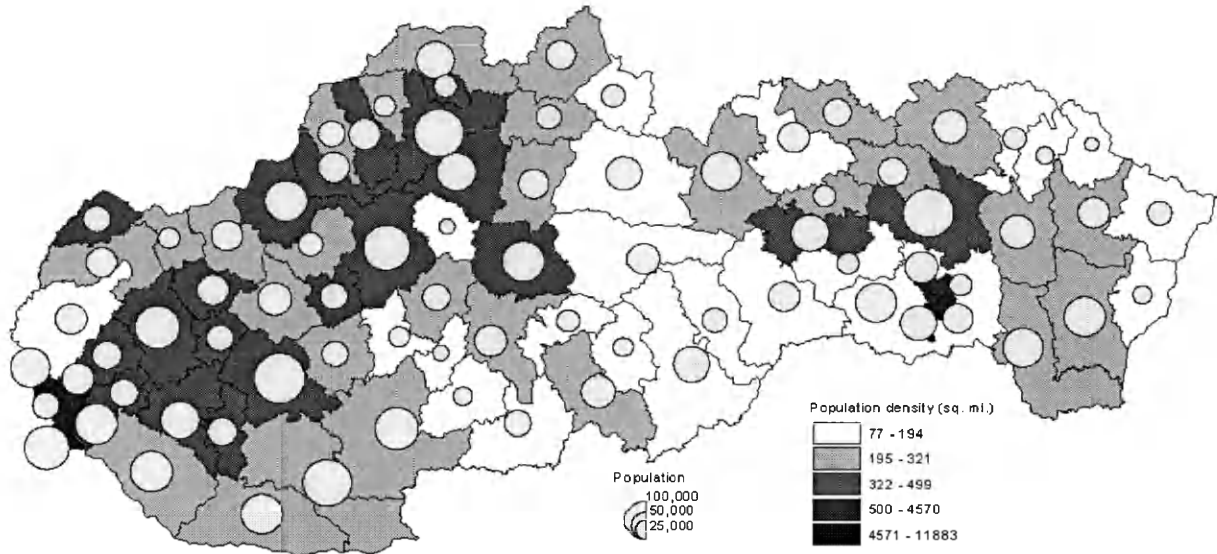
influences the social and economic features of the country. The east-west direction of the Carpathian Mountains resulted in the main transportation routes (road and railway) being located in the river valleys connecting the two largest cities in Slovakia, Bratislava and Košice (see Figure 1). International transportation axis crosses the country in the southern boundary with Austria and Hungary (road, railway and river) with the Bratislava port being one of the main cargo river ports on the Danube River. Industry is located in the river valleys as well, often in the closed river valleys what causes serious ecological problems (e.g. Horná Nitra Valley). The industrial base in Slovakia was primarily built in the period of Czechoslovakia, mainly after the World War II. The main industrial areas are the River Váh Valley, the Hron River Valley, the Hornád River Valley and the Nitra River Valley. State socialist industrialization situated industrial plants also in the peripheral areas of eastern and northern Slovakia. Agriculture developed in the southern lowlands, with Podunajská Nížina (area south of Nitra) being the most productive. Slovakia is poor on natural resources. It imports majority of minerals used in the industrial production. There are meaningful supplies of gravel, sand and quality limestone in Slovakia.

The spatial distribution of population in Slovakia reflects the relief settings. In 2000, the country had 5,402,547 inhabitants (Statistical Office of the SR, 2001) (Figure 2). In 1999, life expectancy was 68.95/77.03 (males/females). In 1991, Slovaks accounted for 85.6% of population followed by Magyars (10.5%), Romanies (1.7%) and Czechs (1.1%), when the largest concentrations of Magyars are in the boundary region with Hungary. Percentage of the Roma population probably does not reflect reality since in the Census 1991⁸ the Roma population registered being either Slovaks or Magyars. Current estimates of the Roma population vary from

⁸ Last census, of which results were published. In 2001, there was a Census as well, but the results were not published as of the date of elaboration of this thesis.

420,000 – 500,000 (Vašečka 2001). The largest concentrations of the Roma population are in eastern Slovakia (Gelnica, Rimavská Sobota, Spišská Nová Ves, Kežmarok and Prešov Districts) with the largest urban concentration of the Roma population in Europe in Košice.

Figure 2 Population in Slovakia as of June 30, 2000



Source: Statistical Office of the SR, Map: Jaroslav Kling

2 LITERATURE REVIEW

2.1 Approaches to transformation in CEE

Before 1989, Western economic geographical research on Central and Eastern Europe was limited by the restricted possibilities for the Western scientists to do research in this region (Stenning and Bradshaw 1999). After 1989, the situation dramatically changed as this previously relatively neglected area has attracted substantial research interest. The literature on the transformation of the post-communist countries and the related issues has increased dramatically (e.g. Sachs 1990, Pavlínek 1992, Grabher and Stark eds. 1997, Pavlínek 1997, Smith 1997, Smith 1998, Pickles and Smith eds. 1998, Hampl et al. 1999, etc.). The reason for this growing research interest in CEE has been the uniqueness of transition from state socialism to capitalism, from centrally planned economy to market economy. The neo-liberal strategies of the economic transformation presented by western agencies and advisers to CEE governments viewed the transition as a simple and unproblematic implementation of a set of policies to create a market economy. They approached CEE as an undifferentiated region. These notions of the transition, however, underestimated, or did not consider at all, the legacies of institutional frameworks and existing social relations derived from previous regime (Smith and Pickles 1998, Smith 1998, Grabher and Stark 1997, Pavlínek 1997). Transition constitutes a very complex process - the overall rebuilding of social relations from the state socialist period (Stark 1996, Grabher and Stark eds. 1997, Pavlínek 1997, Smith 1997). Treating post-communist CEE as one undifferentiated region has been a mistake, too. The region consists of some 20 states with their own specificity. Different historical development of the individual countries, different cultural and social habits, and different level of economic development under the state socialism have been neglected by the “liberals”. Vachudová and Snyder (1997) argue that the nature of regime change (how elites were able to forge capitalist and market-oriented agendas) also determined the

different pathways that individual countries have taken away from state socialism. These critical approaches towards the transformation stress its path dependent nature (Stark 1992, Pavlínek 1997, Smith and Pickles 1998, Smith 1998).

2.2 Transformation and uneven regional development in Slovakia

“The experience of transition has been, partially, one of economic collapse, an onslaught on labor, and social and political disorientation, while at the same time enabling some to prosper while others suffer” (Smith and Pickles 1998:7). Transition and the attempts to introduce the market economy also resulted in the dramatic increase in uneven development and regional inequality (Smith and Pickles 1998, Smith 1998). At least in theory and in governmental proclamations, state socialist governments sought to eradicate regional inequality. The former Czechoslovakia is perhaps the most successful example of real effort by the state socialist regime to alleviate the differences between the Czech lands and Slovakia. By the end of the 1980s, economic equalization between both parts of Czechoslovakia was almost achieved in terms of aggregate indicators of production and output per capita (Pavlínek 1995). With the beginning of transformation, however, Slovakia experienced significantly deeper economic decline than the Czech Republic. For instance, gross domestic product (GDP) dropped by 16.4 % (comparing to 14.4 % in the Czech Republic) in 1991, and the unemployment rate in Slovakia reached 10.4 % by December 1991 (4.1 % in the Czech Republic) and its increase continued (Pavlínek 1995). Today, the Slovak Republic has the largest regional economic differences in Central Europe (Czech Republic, Hungary, Poland and Slovakia) with the Bratislava region at 281% of the national GDP average and the Prešov region of Eastern Slovakia at only 53.5% in 1997 (Tomeš and Hampl 1999:139). The reasons for these profound regional differences in Slovakia are, at least in part, related to the history of economic development in the country. In 1918, when

Slovakia joined the newly created Czechoslovakia, it already recorded substantial regional differences with its western regions being more developed than the eastern ones (Pavlínek 1995).

Slovakia entered Czechoslovakia as a largely agrarian country lagging behind the industrialized areas of the Czech lands in terms of economic development by up to one hundred years (Pavlínek 1995). In the pre-World War II period, the Czechoslovak governments (1918-1939) did not launch any programs in order to decrease the inequalities between the Czech lands and Slovakia (Pavlínek 1995:353). Contrary to the pre-World War II governments, the post-war communist governments set balancing differences between Czech lands and Slovakia to be a long-term political and economic goal (Pavlínek 1992). Unfortunately, Czechoslovakia was forced to follow a Soviet model of economic development, which stressed the development of heavy industry, especially metallurgy, mining, machinery and the chemical industry (Pavlínek 1992, Pavlínek 1995, Smith 1998). A rapid industrialization of Slovakia was completed by the 1970s. State socialist industrialization in Slovakia relied on the construction of large industrial plants localized in peripheral regions motivated by political rather than economic reasons. Although the aim to achieve regional equality was a positive feature of state socialist development, the industrial structure it created contributed to severe regional problems after the collapse of state socialism. These rapidly growing inequalities between the Czech Republic and Slovakia then contributed to the break up of Czechoslovakia in 1992 (Pavlínek 1995). At the same time, Pavlínek (1995) argues that the equalization of the Czech lands and Slovakia at the macro regional level was achieved at the expense of the effectiveness of the allocation of resources. Although Slovakia as a whole has almost achieved the level of economic development in the Czech republic, the state socialist regional policy failed to address successfully growing regional problems within the Czech Republic and Slovakia (at the meso-regional level). These problems included “environmental degradation, underdevelopment and deteriorating

infrastructure; problems associated with urban-industrial over concentration in particular regions, housing shortages, long-distance commuting, and the underdevelopment of the western border zone” (Pavlínek 1995:361).

2.3 Small and medium enterprises and regional development: A Western experience

Small and medium enterprises were recognized as a possible source of regional economic development in Western Europe in the 1980s. Their potentially positive role during the restructuring of traditional Western European economies was emphasized (Pavlínek 1993). As a result, governments supported the start up of small firms through various regional programs and financial assistance. It was hoped that SME could create an alternative to large enterprises that typified the post-World War II period of economic development (known as Fordism in the literature). As opposed to the rigidity of large enterprises, the small firms were perceived to be very flexible and able to respond rapidly to changing client requirements (Bryson et al. 1993). There were doubts whether, in addition to manufacturing and retail, relatively financially weak small and medium-size companies could also engage in more capital intensive and innovative activities, such as research and development (R&D). However, Florida’s (1996) research on the economic transformation of the U.S. Midwest suggested that SME could successfully develop R&D. In this particular case, small and medium-size manufacturers have played the role of the innovators as well. According to Acs et al. (1999), small firms are the carriers of radical innovations. However, not all of them are. These authors argue that despite sufficient capital sources in the large companies, the motivation of the innovators is lower. Lower motivation in these enterprises is due to the affiliation of innovators to innovation teams as well as the impossibility of their larger participation (or direct participation) in revenues of the practical use

of the innovation. In small enterprises, on the other hand, due to smaller numbers of employees, the direct participation on the effects of the innovation (profits) is more likely for the innovator.

Support for the development of small and medium enterprises has become part of governmental policies in developed countries. Basically, there are two approaches of the state to support the development of SME (Bhalla ed. 1991):

- a) Policy that is at least neutral in respect to the size of firm
- b) Preferential treatment for SME under certain circumstances (since even under 'neutral' policy, large firms still have much better access to institutions, infrastructure, and services)

However, the most preferred support for SME is probably an appropriate overall environment for SME as for political, legal, and financial conditions (Marcus 1991).

Probably the most widely cited and celebrated example of the successful role of SME in a regional economy is the Emilia-Romagna region in central Italy. Emilia-Romagna is considered the best example of a dynamic and flexible SME-based regional economy (Cook and Morgan 1994). The success of the region is supported by its high per capita GDP ranking among European regions (it ranks eighth). The region itself is “based on the so-called ‘mature’ industries, such as textiles, mechanical engineering, food, and furniture” (Cook and Morgan 1994:103), and not on high-tech industries that are increasingly perceived to be the ‘engines’ of economic development. The other distinctive feature of the region is its bias towards small firms (in 1988 75 % of all employment was in firms with less than 3 employees and together with the firms with less than 10 employees it was almost 95 %).

Cook and Morgan (1994) present the basic features of ‘Emilian model’. First, it is a dense network of SME in subcontracting relationships. This system was governed by a special social regime of rules and regulations where the emphasis was put on trust. The second feature is specialization within local industrial districts, and the third feature is a robust system of

institutional support. The authors, however, also argue that the region did not avoid the effects of globalization because local firms must compete with the low cost production in other regions and countries. According to them, “small firms in all sectors in the region will have to pay far more attention to research and development and product innovation neglected in the 1980s” (p.106) and not focus on cost cutting and searching for new markets as they did in the past. Although SME play an essential role in regional economy in the case of Emilia-Romagna we cannot expect the same results in other regions. The settings of this region are specific and cannot be repeated elsewhere.

2.4 Small and medium enterprises and the legacies of states socialism

There were several factors that shaped the character of regional economies under state socialism in Slovakia. First factor was the size of industrial plants. The average size of industrial enterprise in the period of socialism varied between 2000 and 2500 workers (Smith 1998). The bulk of all industrial enterprises represented those with more than 1000 employees. Enterprises tried to achieve economies of scale, although that was considered to be a characteristic only of capitalist accumulation. Smith (1998) goes even further (and we can find a similar conclusion also in Pavlínek 1997), when he argues that the state socialist production processes worked on the same principles as the capitalist one. Smith (1998) considers the fact that Slovakia was industrialized through the establishment of large factories, and its regional economies were actually dependent on the economic performance of these factories. These factors are critical to consider when assessing the importance and viability of small and medium enterprises in Slovakia today. Smith argues that the Slovak regional economies are still closely connected with the notion of the large-size companies playing substantial role within the regions and that this situation hampers the stronger introduction and performance of SME in regional development in Slovakia. Hudson

(1994:199) feels that regional dependence upon large industrial enterprises functions as “a significant cultural barrier to the economic transformation of the old industrial areas via the fostering of an enterprise culture, centered around new small firms and self-employment”.

The second factor shaping the regional economies in Slovakia included the connection of individual enterprises into larger associations of plants. The state attempted to decentralize the decision-making from far away ministries to associations of factories in the same industry. Smith (1998) provides an example of such association - VHJ ZŤS (*výrobná hospodárska jednotka závodov ťažkého strojárstva*) comprised of 48 heavy engineering plants scattered across the former Czechoslovakia. In 1982, VHJ ZŤS produced 34 percent of gross engineering output and employed 27 percent of all labor in the Czechoslovak engineering sector (Smith 1998). Although in 1988 a law broke the VHJ into smaller organizational units, very tight relations among the managers of the individual factories still exist even today and influence the behavior of heavy engineering plants and other large enterprises in Slovakia. Partisanship of managers of these companies during state socialism also affected the behavior of heavy engineering plants and, by extension, regional economic performance. By necessity, plant managers (and managers in general) were Communist Party members and as such were politically subordinated to various party committees. The decisions of the managers therefore were more made upon political rather than economic considerations. It affected the real economic results of such companies and their situation after the fall of state socialism. Benáček (1997) analyzed the legacies of such organizational structure for the economic environment in the Czech republic. He concluded that the members of “nomenklatura”⁹ together with “operators”¹⁰ from the state socialist period

⁹ Directors of companies and their deputies; heads of divisions or financially independent units; paid party apparatchiks; high-ranking bureaucrats in ministries and district and municipal councils (Benáček 1997:221); Lavigne (1999:5) defines nomenklatura as “all the [Communist] party cadres entitled with political power and economic responsibility, and benefiting from various privileges.”

account for the majority of the all newly created businesses in the Czech republic after 1989. He argues, “the origins of the new private entrepreneurs can often be traced to communist times” (p.209). It is impossible to assume that these people have changed their way of thinking overnight. This situation also exists in Slovakia.

2.5 Small and medium enterprises in Slovakia: Engines of economic growth?

“Slovakia, like other CEE countries, has taken the experience of the small enterprise sector in Western Europe (Italy, Germany, and others) as an indicator of the importance of SME” (Smith 1998:216). Brhel (1994) promotes the creation of a small-scale entrepreneurial economy as a balance to the dominance of large enterprises and as a way of diversifying local economies through providing alternative employment. Merlinová-Šmalová (1994) argues that in comparison to large enterprises, SME in the Slovak economy can perform flexibility and innovations (in Smith 1998:217). She also emphasizes the need to develop national institutional structures integrating and coordinating local development strategies, which also provide resources and financing to SME and develop technology parks and innovation centers to enhance and innovate industrial structures. According to NADSME (1994), SME are “able to solve technical problems in a cost advantageous way. They can enable large enterprises to complete and supply a broad range of products without huge expenditures...” (in Smith 1998:217). NADSME claims that SME are an important factor in regional economic development, because of their positive role in the maintenance of existing jobs and the creation of new ones.

¹⁰ Restaurant and hotel staff; cab-drivers; foreign-exchange touts; greengrocers; used-car dealers; repair workers; shop managers; shop assistants for personal sales; gas station operators; stock-keepers; popular entertainers; organizers and administrators of queues; bureaucrats issuing licenses, certificates and permits; artisans; tradesmen; and ringleaders and the members of groups of organized crime (Benáček 1997:221)

Smith (1998), however, considers claims that argue that SME are providing a new model for regional growth in Slovakia to be overly optimistic despite the fact that all post-independence governments emphasized the support of SME development. Although Smith (1998) is rather skeptical about the importance of SME in the regional economies in Slovakia, statistical data indicate that the role of SME in Slovak economy has increased. The average enterprise size has decreased and the number of very large enterprises has also declined as the result of two processes: the disintegration and fragmentation of large enterprises and the development of new SME (Smith 1998).

Furthermore, Smith suggests several issues to be of central importance regarding SME in Slovakia. First, he stresses the branch nature of SME development. Non-industrial activities dominate the SME sector, reflecting the ability of the so-called small privatization¹¹ “to create a small-scale entrepreneurial class engaged in trade, service provisions and speculative activities” (Smith 1998:224). Second, he considers the employment effects of SME. He argues “while employment levels in the SME sector increased while those in the large firms sector declined between 1991 and 1993, the employment impacts of registered SME are limited at the national level” (p.226). However, he only refers to employment impacts of SME in the industrial sector. Third, Smith (1998) evaluates the degree to which local supplier and market integration is occurring. He argues, “Slovak SME are becoming low labor cost, subcontracting production sites, suggesting a globalization of production and market linkages, rather than localized and integrated production” (p.227). Fourth, in terms of the structure of wage relations SME sector has been able to secure a competitive position by low wages. Finally, Smith (1998) discusses the centrality of SME in the emerging development model in Slovakia. He argues that the SME sector has so far

¹¹ Small privatization – process governed by the Act on Small Privatization No. 427/1990 (in Czechoslovakia). It is a change of the ownership of the service and retail organizations, and organizations of other than agricultural production. Basically, it was a fast way of retail, tourism facilities and service businesses to privatize through the public auctions. (Nižňanský and Reptová 1999)

had “a limited impact on the national industrial output and employment partly because of its concentration in tertiary and speculative activities and partly because of its limited involvement in the industrial activity” (p.230). As a result, SME are not replacing large enterprises as the backbone of the Slovak development model (Smith 1998). Smith’s conclusion is thus in direct opposition to the above-discussed optimistic claims and to the Slovak government’s proclamations regarding SME. He questions the appropriateness of the emphasis on SME development in an economy with a tradition of large firms embedded in inter-firm network relations as the way for economic restructuring (p.232). This is particularly the case, as the small-firm industrial sector seems unable to provide a dynamic alternative when looking for a new development model in Slovakia (Smith 1998).

3 METHODOLOGY

In order to address the research question: "What is the role of small and medium-sized enterprise in the economic development in Slovakia", this thesis deals with the following issues:

- determination of overall conditions for the development and operation of small and medium-sized enterprises;
- examination of the SME' impact on economic development in Slovakia; and
- identification of the regional differences in the SME' influence on the Slovak economy

3.1 Data compilation

This research employs both quantitative and qualitative data. The combination of these sets of data was selected because quantitative data alone are unable to capture the complexity of processes taking place in the Slovak SME sector. Some significant components of the overall picture of SME such as popular attitudes, the state of informal business environment, special relations within the business family, or constraints of the enterprises' operation are hard to gather by simple numbers. Although the decision-making is mostly based upon quantitative analyses, numbers cannot express a human element incorporated in the process as well. The use of qualitative data will also address the problem of the lack of some statistical measures as well as incompatibility of old data sets with the post-1989 data. The accessibility of the appropriate statistical data is even more complicated in the case of the Slovak Republic, given the changes in territorial units of state administration (new territorial units were established in 1996 and the economic data provided for former regions are not yet available for the new ones).

Quantitative data

The basic economic indicators are used to investigate the impact of SME on economic development and the spatial differences of this impact. Due to the unavailability of data on the

regional (district) level that would separate out SME, spatial distribution of SME is used to assess the regional differentiation of the SME impact. The category of physical entities is used to represent SME, although there are also legal units that are forming SME¹². This distribution superposed over the spatial differentiation of economic development in Slovakia serves as the only sound way of the determination of regional dimension of SME in the Slovak economy. The level of economic development is measured using the combination of basic available indices representing economic performance: employment, unemployment rate, long-term unemployment, average monthly wage, procured investments, industrial receipts and number of foreign and international organizations located in individual districts. On the national level the impact of SME will be investigated based upon following indicators:

- Overall employment¹³
- Employment growth¹⁴
- Value-added¹⁵
- Gross production¹³
- Export¹³
- Profit before taxation¹³

The number of jobs provided by SME is used to evaluate the importance of the SME in the labor markets, since labor is a basic activity producing the means of economic development as well as a main source of income for the majority of people. The number of new jobs created by SME can indicate whether SME have been the principal creators of new jobs (Birch 1979). Slovakia undergoes the process of transformation and restructuring of large state enterprises

¹² Physical persons are a legal form of enterprise operating in accordance with the Small Trade License Act No 455/1991. Legal entities are the enterprises eligible to register with the Commercial Registrar.

¹³ The number of jobs provided by SME

¹⁴ The number of new jobs created by SME

¹⁵ Measured in SKK (Slovak currency units)

resulting in downsizing or even closures of several former large plants and creating a room for SME to flourish. For example, in the Partizánske region, ZDA Partizánske (a shoe maker) that used to employ over 10,000 people under state socialism was privatized and then divided into three smaller companies totaling some 3,000 employees. At the same time, however, about 100 small shoe producers (employing mostly less than 50 people) have been established in the region. These small companies were unable to absorb all of the former ZDA workers that were laid off. As a result, the Partizánske region is now struggling with a high registered unemployment rate of 19.4 % (as of August 2000; the National Labor Office 2000), and related social problems. The figures on SME' contribution to the overall employment should therefore outline the importance of SME.

SME' contribution to such economic indices as value-added, gross production, exports, and profitability should describe the performance of SME. The parameters were selected due mainly to their public accessibility as well as they value in assessing the economic development. Unfortunately, this data are unavailable on the regional (district) level making it impossible to identify the importance of SME in the regional economies. The export capacity of SME in particular is a main indicator of enterprises' strength being a relevant player not only in national markets, but on international stages as well.

The National Agency for Development of Small and Medium Enterprises is the principal source of statistical data. This agency prepares the Annual Report on the State of Small and Medium Enterprise in Slovakia, which contains a lot of aggregate data related to SME development in Slovakia. The thesis also uses data acquired from the reports published by the Slovak Statistical Office (SSO) or directly from the SSO. Additional sources of statistics include: the Ministry of the Construction and Regional Development of the Slovak Republic, agencies and associations representing SME, regional development agencies and other published papers.

Qualitative data

Along with statistical data, the thesis also uses qualitative data consisting of the key informants' interviews, newspaper articles and other written documents. Interviews of key informants are a principal source of information about SME on issues for which statistical data were not available. The face-to-face interviews were undertaken in the summer of 2000. Identification of key informants was the first step in pursuing the intended goal. There are several institutions, which play a relevant role in the field of small and medium enterprise and are a part of decision-making and law-creating processes regarding SME in Slovakia. The visited institutions can be divided into three basic groups:

1. Professional organizations representing SME - the Slovak Chamber for the Self-employed; the Union of Slovak Self-employed; the Association of the Entrepreneurs of Slovakia; and the Union of Entrepreneurs, Self-employed and Peasants of Slovakia;
2. The state body responsible for SME – the Ministry of Economy, Department of Small and Medium Enterprise;
3. The National Agency for Development of Small and Medium Enterprise, the institution representing the connection between the state and SME and the executive body of the state SME policy

Table 1 The list of interviewed persons

Organization	Name	Position	Date
Slovak Chamber for the Self-employed	Ing. Vladimír Sirotko	Chairperson	07/14/2000
Union of the Slovak Self-employed	Ing. Anton Buben	President	07/06/2000
Association of the Entrepreneurs of Slovakia	Ing. Karol Pavlů	President	08/08/2000
Union of Entrepreneurs, Self-employed and Peasants of Slovakia	Ing. Pavol Prokopovič	Chairperson	08/09/2000
Department of SME, Ministry of Economy Of the SR	Ing. Vladimír Mračna	Chairperson	07/25/2000
National Agency for Development of SME	Ing. Marián Jasič	Dept. of Coordination	07/11/2000

Contacting the interviewees and setting up the appointments was the second step. The format of semi-structured interviews was followed. The set of questions was prepared (Appendix 1). The interviews were taped. During interviewing, prepared questions were asked, and, when appropriate, follow-up questions were asked regarding new issues, which emerged during the discussion. Questions were asked in random order, although in related groupings. Similarly, the interviewees were allowed to expand freely their answers as well as to come up with any relevant issues related to the topic. Therefore, the interviews differed in length. Interviews were undertaken in the time of preparation of the lump-tax law amendment (see Chapter 4) and all the interviewees were (are) involved in the law-creation processes.

Review of newspaper articles since 1994 provided a deep insight into the history of SME in the post-1993 Slovak Republic. The reviewed newspapers were as follows: daily - SME, Pravda, Nový Čas, Hospodárske Noviny, Slovenská Republika, Hospodársky Denník, and weekly – Ekonóm, Trend, and Slovenský Profit. I have also used the transcript of the discussion on development of SME in Slovakia that took place within the cycle of the Slovak Economic Forum in Spring 2000¹⁶. Written materials obtained in the visit to the aforementioned institutions were another important source of qualitative data.

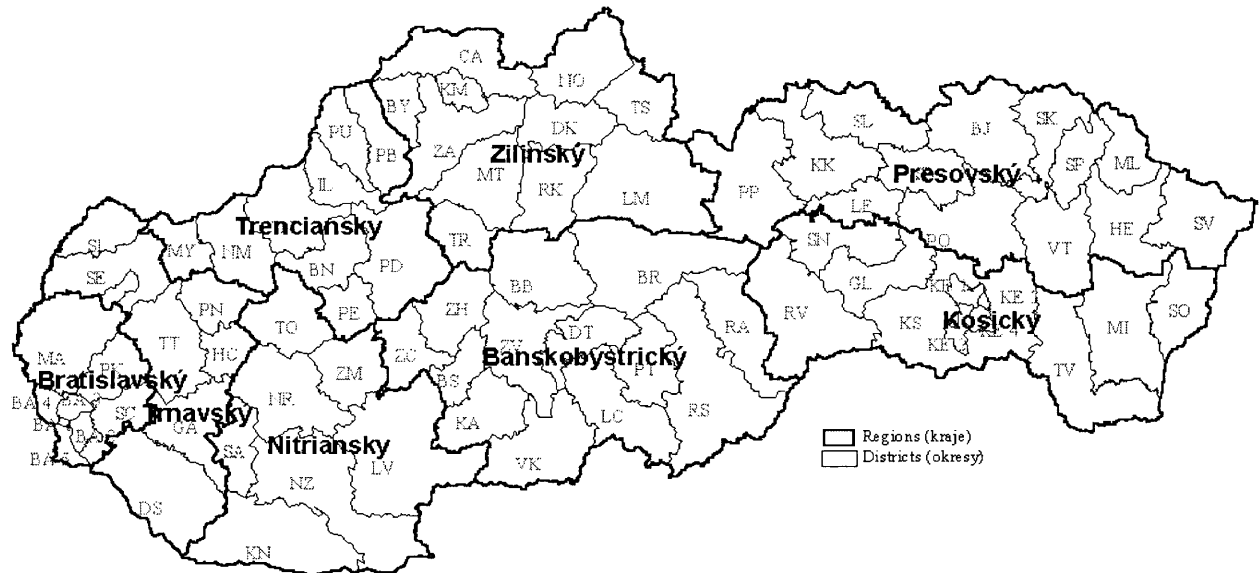
3.2 Data analysis

The economic indicators were mapped using ArcView software according to the territorial division of Slovakia (Figure 3). Rate values were used for map visualization (real values were used for additional map interpretation). The maps of partial factors describing the economic development in Slovakia are included. Districts were ranked according to each indicator. Each district was attributed the value 1 – 79 according to its order in the ranking. Final value for each district was calculated as the sum of the partial rankings. The districts that ranked in the top

¹⁶ Credit to M.E.S.A.10, Center for Economic and Social Analyses – the organizing institution

position for each indicator ended up having the lowest final sum. Conversely, the districts, in which the partial economic indicators were bad, ended up having the largest final sum. The standard deviation was used for the final separation of districts in terms of their economic development. Given the previous operations, the final map of economic development differentiation in Slovakia was constructed. The map of spatial distribution of SME was then superposed over the map of economic development. Final map presents the visualization of spatial differences of SME in connection to regional distribution of economic development in Slovakia

Figure 3 Territorial division of the Slovak Republic (for legend see Appendix 2)



4 CURRENT FRAMEWORK OF SME' DEVELOPMENT IN SLOVAKIA

This chapter examines the current framework of SME development in Slovakia. It deals with legal and institutional aspects of small and medium enterprises. It also presents the supports and constraints of their development, and an assessment of the overall conditions for SME' development and operation by representatives of small and medium enterprises.

4.1 Legal environment

Several laws define small and medium enterprises. However, only the **State Aid Act No. 231/1999** specifies which businesses are included in the category of small and medium enterprises. Although this act sets up the conditions of eligibility for state support, it is the only law with the exact specification of small and medium enterprises. The categorization provided by the Act is identical with that used in the European Union¹⁷. The main goal of the Act is a concrete specification of the forms and types of state aid for businesses, the categorization being only a by-product of the Act. This Act has been strongly criticized mainly by the representatives of the business sphere who argue that it constrains rather than supports the development and operation of SME¹⁸. The State Aid Office - an institution established by the Act - is perceived as just another bureaucratic tier, which unnecessarily extends the process of providing the state support (the flow of state aid is blurred even more). Actually, it does not provide any financial support for SME by itself (NADSME 2000). On the contrary, the European Union appreciates this act being a further step in the Slovak approximation of the EU legislation (EU, 2000).

¹⁷Small businesses - 0-50 employees, medium enterprises - 51-250 employees and large enterprises - over 251 employees

¹⁸Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

Commercial Code No. 513/1991 is an act that deals directly with SME and with medium sized enterprises in particular. Since it sets up the environment for legal entities, large enterprises are handled by this act as well. However, a size factor is not a crucial one for including businesses under this act's jurisdiction. A legal entity might be a company consisting of only one person (an owner) - a limited liability company, or it might be a company employing over 1,000 employees. On the contrary, the **Small Trade License Act No. 455/1991** is an act solely dedicated to small and medium enterprises. It determines the conditions for small businesses and medium sized firms that are not eligible to file with the commercial registry. In terms of the legal form of these firms, they are physical entities. The Small Trade License Act deals with licensing necessary to carry out a business activity. It sets up the conditions for the self-employed under which they can legally operate, and regulates the most numerous group of enterprises consisting of about 300,000 sole proprietors (as of 1999).

Along with these three basic laws regulating small and medium enterprises, there are more laws related to their operation. Perhaps the most controversial one is the **Income Tax Act No. 286/1992** that has undergone several amendments since its initial approval. Its 1999 amendment lowered the rate of corporate income tax from the original 40% to the current 29%. Approval of the amendment stemmed from strong corporate pressure on the Finance Ministry to increase attractiveness of Slovakia for foreign investors. However, it only further confirmed a preoccupation of state administration with large enterprises, because it affected primarily large firms. Another amendment in the same year elaborated by the Ministry of Finance introduced a lump tax that affected the self-employed. Despite the preliminary promises to include suggestions of the representatives of sole proprietors, the final version of the amendment did not include them (Pravda, 1999). Hence, although the main goal of the lump tax was to simplify the operation of small businesses, only 0.75% of the self-employed registered in 2000 (Národná Obroda 2000).

The unwillingness to register was due to a narrow range of businesses eligible for the lump tax license as well as the overall disincentives provided by the license. The failure of the initial amendment led to another amendment to the same act in fall of 2000 correcting the lump tax. It widened a list of businesses eligible for lump tax by specifying businesses that are not eligible for lump tax. All other businesses can register for lump tax if their annual turnover does not exceed SKK 1.5 million. Although the rate of lump tax ranges from 2.00% to 2.50% (according to annual turnover), businesses are free of bookkeeping, they just register annual turnover. This act should be applicable for about 100,000 sole proprietors. Pavol Prokopovič¹⁹ - an MP who led a group elaborating the amendment - expects the majority of those who are eligible to register for lump tax to use this option (SME, 2000). Up until now, this has been the first true structural support for SME' development, which should make entrepreneurial activities more attractive for those complaining about administrative obstacles for development of enterprise and preventing entrepreneurs from starting new businesses.

The following is a list of other laws related to small and medium enterprises:

- Value Added Tax Act No. 289/1995
- Acts on Excise Taxes
- Health Insurance Act No. 273/1994
- Social Insurance Act No. 274/1994
- Labor Code
- Bankruptcy and Settlement Act No. 328/1991

¹⁹ Pavol Prokopovič represents the Slovak Democratic and Christian Union, political party of current Prime Minister Mikuláš Dzurinda.

4.2 Institutional framework

The **Ministry of Economy of the SR** (www.economy.gov.sk) is an umbrella body of the state policy for the small and medium enterprise sector. The Department of Small and Medium Enterprises operates within the organizational structure of this ministry. It carries out activities of state support of SME mainly through the National Agency for Development of Small and Medium Enterprises. The ministry itself administers the support in the areas of cooperation with international institutions, creation of institutional conditions for SME, legislation, securing financial resources for SME, and support and development of SME on the regional level (NADSME 2000). The ministry, however, is not an "executive body" of the support.

This task is carried out by the **National Agency for Development of Small and Medium Enterprises** (www.nadsme.sk), a principal institution dealing with SME in Slovakia. Together with the network of **Regional Advisory and Information Centers** (RAIC) and **Business and Innovation Centers** (BIC), it creates the basic institutional framework for the promotion and support of SME. The NADSME was established in 1993 in order to coordinate all activities aimed at SME at the international, national, and regional levels. It is a comprehensive information source for entrepreneurs, provider of education, advisory programs, and different financial support programs for SME. Based upon the Government Resolution No. 740/1994, the NADSME prepares an annual Report on the State of Small and Medium Enterprises submitted to the Government and the Parliament for approval (NADSME 2000). The Report summarizes the legal and institutional developments in the respective year, statistical data on SME, and recommendations for further state policies regarding small and medium enterprises. The Report serves as a basis for foreign institutions seeking information on SME in Slovakia. However, it does not provide really thorough information on SME with regard to the spatial dimension of this phenomenon. It barely provides a look at the distribution of SME on the level of regions (kraj – a middle tier of state administration) and does not provide any further distribution at the district

level. The interview with Marián Jasič, a NADSME official, confirmed that NADSME is not interested in regional aspect of the SME development but rather in providing equal support for all SME regardless their geographical location and the economic situation of their specific region (district).

In 1999, the **Council of the Government for Small and Medium Enterprises** was established as an advisory body to the Government. It was created after years of requests by the entrepreneurial community, which saw a necessity of such a council in order to secure the appropriateness and simplification of respective laws and administrative framework concerning small and medium enterprises (Monitoring of media 1994-2000). The Council groups the representatives of economic ministries, the Parliament, entrepreneurial associations and institutions engaged in the promotion of SME.

Despite the fact that it was set up as a non-state special purpose fund, the **Foreign Trade Support Fund** (www.fpzo.sk) established in 1996 is another component of the state institutional framework for SME. Its main objective is to help develop foreign trade relations, mainly export relations, for the Slovak enterprises and particularly for SME. The Fund administers the Web Information Center (WIC) database, a communication tool for the matching of potential export markets and Slovak exporters. The Fund collects contributions from businesses as well as from the state budget and uses them to provide support services for exporters. The **Slovak Investment and Trade Development Agency** (www.sario.sk), a subsidiary of the National Property Fund of the Slovak Republic, is an organization with a similar mission. The Agency was established to serve as a mediator of foreign direct investment inflow and export activities of Slovak companies.

Two financial institutions complement the institutional framework of the state policy regarding SME. The Slovak Guarantee and Development Bank (*Slovenská záručná a rozvojová banka, š. p. ú.* - www.szrb.sk) carries out the implementation of assistance and guarantee

programs for the promotion of SME. It provides guarantees for up to 85% of a loan's principal. The other institution is *EXIMBANKA*, an export-import bank (www.eximbanka.sk) that supports export and import activities through export credits in order to increase the competitiveness of domestic production and the economic exchange between Slovakia and foreign countries. Although it supports businesses in general, it has a special program for SME since January 1, 2000.

4.3 Supports for small and medium enterprises

Addressing a long-run critique on the difficulty of setting up business in Slovakia contained in many reports prepared by foreign institutions (PHARE Unit 1998; OECD 1999; OECD 2000; World Bank 2000), the Slovak Government approved an SME policy document, "Improvement of the Legal and Regulatory Framework for Business and Investment". This document focuses on simplification of administrative procedures when starting and carrying out business and improves conditions for foreign companies engaged in business in Slovakia (EU 2000). If broadly implemented, it should become a long-sought structural measure with regard to improvement of the business environment and support of SME in Slovakia.

The NADSME prepares a guide to the supports for SME in Slovakia, "Support of Small and Medium Enterprise in Slovakia 2000. Guide through initiatives", which provides detailed information on the set of support programs not only by state agencies and bodies but by private and foreign sources as well. The following section is largely based on the aforementioned document. It also employs the information on supports collected through media and evaluation of the supports by entrepreneurs.

The NADSME provides three basic areas of supports for SME:

- a) advisory and training support

- b) legislation and coordination support
- c) financial support

4.3.1 Advisory and training support

Advisory support is carried out through a network of 12 RAICs (Regional Advisory and Information Centers) and 4 BICs (Business Information Centers). The counseling service is provided for start-ups as well as existing businesses to help them deal with the problems related to employment as well as acquiring the loans. They also help in preparation or improvement of business plans. These organizations provided over 6,600 professional consultations, assisted in establishing 313 businesses and helped to create/sustain 7,473 jobs in 1999 (NADSME 2000a). They also provide educational services for entrepreneurs by organizing training and seminars focused on regional development, cross-border cooperation, preparation of different social groups for enterprise, and activities connected to enterprise (accountancy, taxes, financial management, etc.). Another education facility - CEPAC Slovakia - was established to carry out education and consulting for start-ups. During 1992-1999, the program provided by CEPAC employed 2,154 unemployed and helped to establish 943 new businesses, which created 347 additional jobs (NADSME, 2000a).

4.3.2 Legislation and coordination support

A unit of Euro Info Center (EIC) network that includes almost 300 locations throughout the European Union operates within the NADSME structure to help the Slovak businesses penetrate foreign markets and find their counterparts in those markets. It serves also as a mediator for the presence of the Slovak companies at specialized seminars and conferences. The NADSME also administers the Subcontracting Exchange of Slovakia with a similar goal as the EIC to promote

the Slovak enterprises. The Internet Information Center is another program of the NADSME focusing on employment of new information technologies to the operation of SME. Since 1995, the NADSME has also run a program of restructuring industrial enterprises through spin-offs, truly accelerating in 1998. In 1998-1999, 45 projects were prepared and 33 viable production units were separated from their mother companies sustaining 1,828 jobs (NADSME 2000a). In 1999, the Foreign Trade Support Fund launched a database WIC (Web Information Center) that enables communication between the foreign territories (delegations of the Slovak Republic to those countries) and domestic producers.

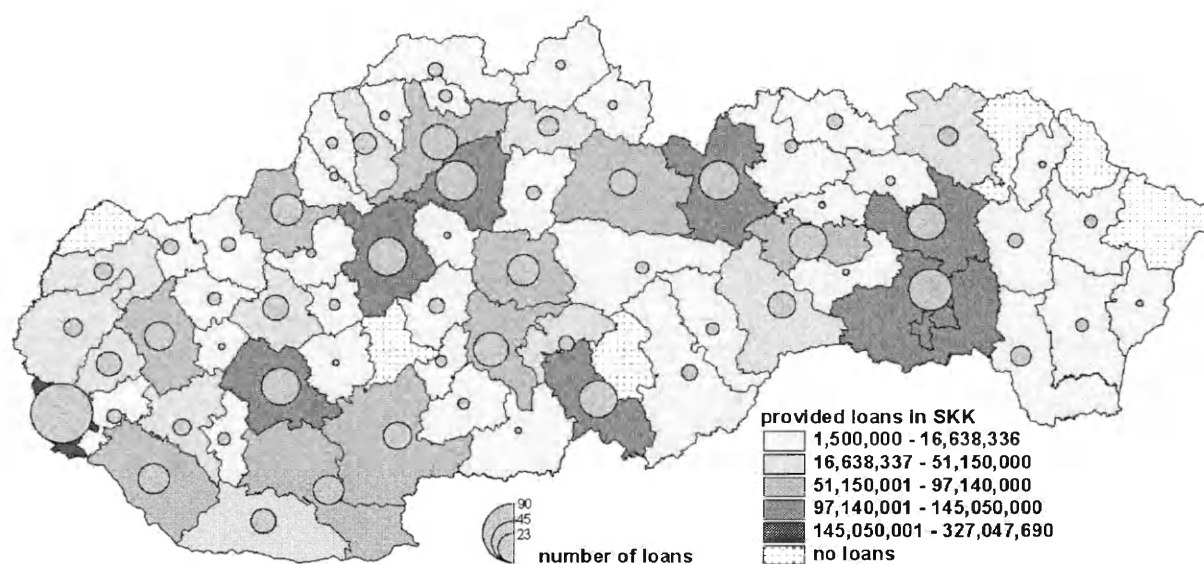
4.3.3 Financial support

Financial support is provided primarily through several NADSME programs. The Support Loan Program (SLP) launched in 1994 is probably the most popular and most often used support program. It is co-financed by the Commission of the European Union, the state budget and selected banks in Slovakia. The SLP targets SME in the areas of production, crafts, services and active tourism by providing loans up to Sk 5 million. In 1994-1999, the provided loans totaled Sk 2.715 billion in 847 projects resulting in 25,203 created or sustained jobs (NADSME 2000a). Regionally, the program tries to allocate loans to the less developed regions, although the Bratislava region and other traditionally more developed regions, such as the regions along the transportation axis Bratislava – Košice, still attract more loans than the peripheral regions (Figure 4).

Exclusion of the peripheral regions of Eastern and Northern Slovakia from the provision of loans for small and medium enterprises may even enlarge the existing economic disparities in Slovakia. However, it is unclear whether the lower number of loans in these regions reflects the unattractiveness of these regions or the low quality of submitted projects for funding. The

interviewees attributed lower presence of loans to the overall social situation in these regions that stemmed from destruction of their economies due to closing of industrial firms localized here during the period of state socialist Czechoslovakia.

Figure 4 Regional review of loans provided by Support Loan Program as of December 31, 1999



Data: NADSME 2000; map: Jaroslav Kling

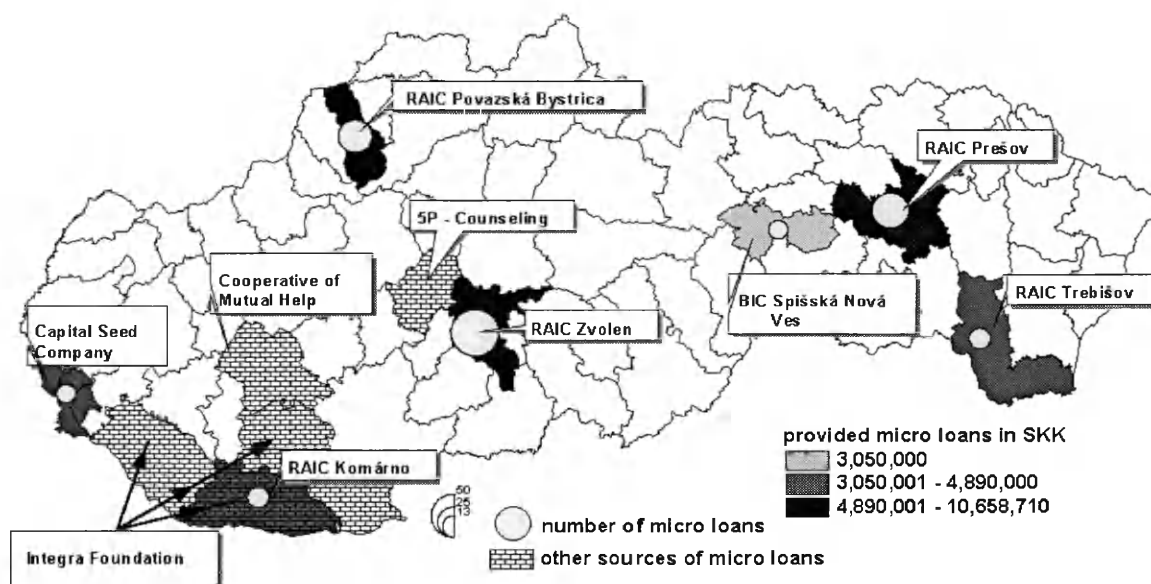
The Micro-loan Program, launched in 1997, addresses the problem of inaccessibility of small loans for SME in the regions by targeting enterprises employing up to 10 people and providing loans up to Sk 500,000 (minimum loan is Sk 50,000 and the interest rate is a key rate of the National Bank of Slovakia plus 2.5%). The program is administered by seven RAICs/BICs²⁰ (originally three – Považská Bystrica, Zvolen, Prešov) (Figure 5). Since the beginning of its operation, the program has provided 156 loans totaling Sk 43,711,990. In 1999, as many as 170 enterprises applied for loans but only 84 loans were granted, totaling Sk 29,259,710 (NADSME 2000a). Although the Annual Report of the NADSME 1999 (NADSME 2000a) presents this

²⁰ RAIC – Regional Advisory and Innovation Center; BIC – Business Innovation Center

program as the sole opportunity for SME to get micro loans in 1999, further providers of micro loans emerged in 2000: the Cooperative of Mutual Help Nitra, the Integra Foundation, operating in the Dunajská Streda, Komárno and Nové Zámky regions, and the 5P - Counseling Žiar nad Hronom (Figure 5).

The Seed Capital Company Ltd. is another project of the NADSME dedicated to financial support for SME. Established in 1994, the company provides investment into equity capital up to Sk 5 million, oriented mainly towards projects of manufacturing, production services and active tourism. As of December 31, 1999, the Company was involved in 30 projects. The projects in progress include 23 investments in 15 companies totaling Sk 60.24 million (NADSME 2000a). However, a demand for such an investment highly exceeds the resources of the Company. Since 1994, 303 proposals have been submitted to the Company in the amount of about Sk 2.36 billion (NADSME 2000).

Figure 5 Provision of small loans in the regions



Data: NADSME 2000, monitoring of media; map: Jaroslav Kling

Slovenská záručná a rozvojová banka š. p. ú. (SZRB – Slovak Guarantee and Development Bank) is another institution providing financial support for SME. It operates special programs oriented mainly towards SME. Since 1991, the bank has provided financial guarantees in the volume of Sk 6.71 billion to 2,205 projects. The guarantees program allows guaranteeing up to 85% of the principal of the loan no higher than Sk 100 million (NADSME 2000). Another support activity of the bank is a provision of loans through three programs - *Podpora*, *Rozvoj*, and *Región* ("Support", "Development" and "Region", respectively). The Support and Development Programs are aimed at SME in general. The main differences between these two programs are the following: the maturity of the loan (7 years for the Support program and 10 years for the Development program); the maximum amount of loan (Sk 7 million, Sk 58 million, respectively); the interest rate of the loan (10.5%, 13.5%, respectively) and the financial institutions involved in the transactions (domestic banks, foreign banks, respectively). The Region program focuses on the lagging regions of Prešov, Košice and Banská Bystrica. It provides the 7-year loans up to EUR 100,000 at interest rates on the level of discount rate of the National Bank of Slovakia (8.8%) plus 1.5% (www.szrb.sk). Overall, the loans to enterprises have totaled Sk 1.43 billion (217 loans). The demand exceeded this amount almost twofold - Sk 2.4 billion in 320 applications (NADSME 2000). However, the interviewees heavily criticized the operation of this bank. They pointed out high operation costs of the bank and the fact that it was only the mediator of the financial flows between entrepreneurs and commercial banks with a minimum provision of its own financial funds. Although the bank reports the loans as provided from its own funds they are actually loans from other financial institutions. They also criticized the fact that the bank did not operate under special conditions respecting its specific objective.

Financial support of the SME is provided also by the Slovak American Enterprise Fund (www.saef.sk) through direct investment into perspective businesses and a Small Loan Program.

The Fund can provide capital from \$50,000 up to \$2.5 million targeting enterprises from specific industries. The small loans are provided up to Sk 15 million with an up to 5-year maturity. As of September 30, 2000, the Fund invested a total of \$7.9 million out of which \$3.7 million of equity investments (SAEF, 2000).

4.3.4 Conclusion

The direct financial support to SME in 1999 totaled over Sk 3.016 billion (Table 2). When considering the volume of gross domestic product in the same year, Sk 815.3 billion in current prices (www.nbs.sk), these supports accounted for only 0.37% of GDP. The amount of identified financial flows to SME represents about 30.5% of all the loans provided by the Slovak banking sector in 1999 (Sk 9,895.4 billion (www.nbs.sk)). We have to understand, however, that the financial flows to SME were not exclusively loans because, for example the contribution of the Foreign Trade Support Fund was not specified whether it was solely the loans or not and SZRB provided loans as well as guarantees.

Table 2 Identified direct financial flows into SME in Slovakia in 1999

Loan program	Projects/loans	Sk thousand
Contribution programs (SZRB)	45	64,970
Loan programs (SZRB)	62	538,342
Guarantees programs (SZRB)	53	92,743
Support Loan Program (NADSME)	192	693,471
Micro-Loans Program (NADSME)	84	29,260
Seed Capital Company (NADSME)	6	19,500
Loan link Apex Global Loan by the European Investment Bank (distributed by the NBS)	11	688,077
Loan link Two Step Loan by the Export-Import Bank of Japan*	48	490,000
Foreign Trade Support Fund**		400,000
Total		3,016,362
SAEF*** (US \$)		5,407,276

Source: NADSME 2000, SAEF 2000

Notes: * for enterprises up to 600 enterprises

** total financial support to SME

***total investment (loans and direct investments) according to Annual Report of the SAEF 2000

The monitoring of newspapers in 1994-2000 revealed ongoing complaints about the shortage of available financial means, mainly for start-ups. At the same time, the voices doubting the appropriateness of the available funds use have appeared. Ľudovít Harvánek, the manager of Raven a. s. of Považská Bystrica, doubts whether "we can appropriately utilize available money" (Hospodársky Denník 2000), because the money is often invested ineffectively into the enterprise that did not undergo necessary restructuring.

In summer of 2000, the interviewees interviewed on the SME issue in Slovakia were not very satisfied with the state support for SME. They criticized the insufficient publicity of the state support programs leading to shrinking of the group of potential recipients of support²¹. General unavailability of reasonable loans was another concern. The appreciation of the development achieved in the last years in terms of better conditions of small loans as compared to the beginning of the 1990s was stated as well. Despite a general shortage of loans, the hope was expressed that as soon as the banking system in Slovakia is restructured the interest rates of loans and the overall conditions of loans would further improve²².

The representatives of the agencies, which carry out the state policy on SME, pointed out that the quality of the submitted projects to be supported was an important factor regarding the allocation of available sources for SME. According to Mr. Mračna, Slovakia was unable to draw entire financial sources available for Slovakia in the Support Funds of the European Union due to the low quality of proposals²³. The interviewed representatives of entrepreneurs' associations were skeptical about the overall effectiveness of support programs. They also criticized the limited involvement of professional associations in the processes of legislation creation. On the other hand, they praised the current government as being most supportive to needs of SME since

²¹ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

²² Interview with Mr. Pavlů, the president of the Association of the Entrepreneurs of Slovakia, August 8, 2000

²³ Interview with Mr. Mračna, the chairman of the Department of SME, Ministry of Economy of the SR, July 25, 2000

1990. They appreciated activities in the area of education and counseling. Currently, the entrepreneurs have a wide spectrum of opportunities to be trained and advised regarding their business compared to the situation in the early 1990s²⁴. The following section elaborates the obstacles of SME in more details.

4.4 Major constraints of small and medium enterprises in Slovakia

A 1995 survey by the National Agency for the Development of Small and Medium Enterprise identified several major constraints of enterprises in Slovakia (PRÁCA 1995):

- high taxes and fees
- insufficient state support, lack of loans and insolvency of inhabitants
- social security burden.

Along with these constraints, the entrepreneurs also specified overwhelming administrative bureaucracy and the pressure of state institutions on entrepreneurs, and unhealthy attitudes of employees toward their duties (to work at all).

A 1998 study by PHARE Unit on the state policy for SME (PHARE 1998) presents three main sources of weakness and vulnerability of SME in Slovakia:

1. The complex legal, fiscal and administrative environment. The study pointed out that the existing social security system burdens employers as well as employees and creates substantial bureaucracy. The fact that several central bodies are included in the SME policy and support leads to ineffective internal government coordination of SME regulation and support.

2. Difficulties in obtaining financial funds at reasonable cost. In Slovakia, according to this study, banks consider the credit risks of SME to be higher than in the category of large enterprises. The study argued there was "crowding out" of SME by lending to the government.

²⁴ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

Due to their relatively high interest, treasury bonds have become a more attractive financial market product than the loans to SME. The study also indicated that the Slovak Guarantee and Development Bank operation should have been regulated separately from the legal regulation of other banking institutions due to its special purpose and focus on the SME loans.

3. Structural weaknesses in the management capacity of enterprises and training programs not well adapted to the needs of entrepreneurs. The study emphasized that the Slovak educational system did not support the development of enterprise skills among the students and failed to challenge the overall lack of respect for entrepreneurs in the society. Small involvement of learning enterprise skills in education was, according to the study, the result of the insufficient governmental recognition of SME' economic significance. One of the reasons for this underestimation of economic significance of SME is the lack of data on SME as a whole and on their governmental financing in particular. The study argued that only educated entrepreneurs could successfully face increased competition once Slovakia joins the EU. PHARE also pointed out the need for Slovak SME to internationalize.

4.4.1 Administrative and legislative obstacles to SME

General complaints of entrepreneurs regarding obstacles of SME development and everyday operation in Slovakia accord with the outputs of the aforementioned studies. They can be divided into two main groups. The first group includes complaints about the overall legislative conditions for SME start-ups, extensive state bureaucracy, and the negative popular attitudes toward entrepreneurship. The ongoing instability of the legislative framework for enterprises does not allow the entrepreneurs to predict their future development. Today's Slovak law is often obsolete and does not reflect the recent developments in SME legislation in the advanced economies²⁵. As

²⁵ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

many as 123 legal norms were passed in 1999 related to the SME and 160 in 1998 (NADSME, 2000). This, of course, makes it almost impossible for small entrepreneurs to follow all the changes in the SME legislation. Consequently, many SME do not properly know legislative norms under which they are supposed to operate. These norms, often passed in a hurry to satisfy the EU's requirements for the approximation process, then remain on paper. Their real impact on SME development and operation, however, is minimal or non-existent.

The administrative processes, related to the establishing and operation of SME are long-lasting and difficult for individuals who want to have an enterprise²⁶. An entrepreneur employing other people has to deal with the number of different mandatory payments for his/her employees. There are six different institutions an employer has to include in his/her payroll for each employee. This extensive administration increases the costs per employee. Seeing these obstacles, the individual hesitates establishing the business. The administrative difficulty and financial expenses of it cause the cancellation of businesses. Dealing with all the institutions involved in the operation of even a small business (different permits, licensing, insurance companies, etc.) requires entrepreneurs to engage in time-intensive and expensive processes. The entrepreneurs are prevented from using their resources to seek new contracts or fulfilling the existing contracts. Consequently, the entrepreneur seeks ways to cut time and get all the administrative work finished quickly. Corruption of officials is such a way. Due to this burden of administration and bureaucracy, corruption in Slovakia flourishes and threatens the economic environment in Slovakia²⁷. Along with the administrative difficulty of enterprises and the wide spread corruption,

²⁶ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

²⁷ In 1998, Slovakia ranked the 47th on the list of countries according to the Corruption Perception Index (CPI). Slovakia was given 3.9 points in the scale from '0' to '10', with 10 representing a country with no corruption. The CPI for Hungary was 5.0, the Czech Republic - 4.8, and Poland 4.6 points. Among the transforming countries of Central and Eastern Europe, Estonia was the country with the lowest corruption (CPI=5.7 points) (Transparency International Slovakia 1998 in Invantyšin and Sičáková 1999). In 2000, Slovakia ranked 52nd with CPI 3.5. As for other transforming economies of the Central and Eastern Europe, Estonia remained its leading position with CPI 5.7. The CPI for Hungary was 5.2, the Czech Republic 4.3, and Poland 4.1 points (www.transparency.sk).

law enforcement is another serious obstacle of SME²⁸. Trials in business matters last for years. As such, they become ineffective. The cases lose the actuality at the time of the trial's end anymore. The slowness of the courts leads entrepreneurs to the corrupting of judges in favor of early trials as well as a positive result in that particular entrepreneur's favor. Small entrepreneurs with few financial resources are often skeptical about a positive outcome of their cases.

Ongoing dominance of large enterprises is perceived as a heavy constraint on SME (Interviews 2000). This uneven position of the large enterprises and SME is defined even in the basic legislation determining conditions for the existence of businesses. While physical entities (the group representing mostly SME) have to put at risk their own property, corporations (legal entities) guarantee only up to the equity capital of the company²⁹. The uneven taxation of large enterprises and small enterprises is another example of the special position of large enterprises in Slovakia. While the corporate tax was decreased from 40% to a flat rate of 29% in 2000, the income tax for small entrepreneurs remained unchanged (up to 42%). However, the uneven taxation is not the largest concern of entrepreneurs. They point out the unevenness regarding the deductible items and write-off policy (Interviews 2000). Improvements in these areas would equalize the conditions for small investors and large investors. Currently, large foreign investors have special incentives for investment in Slovakia, while domestic investors are basically discouraged to invest³⁰. Although foreign investment is of critical importance for restructuring the Slovak economy, it should not be done at the expense of unequal conditions for all investors (foreign and domestic, large and small). The preferential position of large enterprises in the Slovak economy can be confirmed by the fact all the ministers of economy of the post-1990 period in Slovakia came from the corporate environment except for the current minister.

²⁸ Interview with Mr. Pavlů, the president of the Association of the Entrepreneurs of Slovakia, August 8, 2000.

²⁹ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

³⁰ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000 and Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

Unlike small enterprises, the large enterprises often experience stripping down of their assets by the owner without any substantial fear of being punished for it in a court. This is mostly the case of former state companies privatized after 1990 by the supporters of leading political representation (see Kopanič 1999, for a case of VSŽ Košice, a leading steel mill company in Central and Eastern Europe). In this regard, Mr. Pavlů provided an example of the thinking of some managers in Slovakia. This example illustrates the common scenario of managing the “politically” privatized companies after 1990:

“The company was privatized by its former management that managed the company under state socialism. Although the company is in their ownership, they seek the ways to make some extra cash. When such an opportunity comes, they do not hesitate to carry out the operation that hurts their company, but brings them the sought extra cash in the form of a bribe. Literally, they allow the operation that hurts the company by Sk 3 million as an exchange for Sk 300,000 cash for each of the managers. They do not think they did something wrong, since they used to do such operations during the previous regime. However at that time, the company was in the state ownership.”

Such a behavior of the managers of large enterprises causes economic problems for SME, since the state administration pays substantial attention to addressing the issues of large bankrupted enterprises and neglects the SME³¹. The preferential treatment of large enterprises continues from the state socialist period in informal relations too (Interviews 2000). The influence of the large companies almost has not changed after 1990. Because of their larger size and consequently greater power potential, the influence of large enterprises on the development and preparation of new legislation is much larger than in the case of SME³². The approach of the government in 1994-1998 toward the economic restructuring of large enterprises led to the current severe economic situation in many large companies. The government chose to support financially often collapsing large enterprises for the sake of sustaining a relatively low

³¹ Despite the programs and policies organized by the state or on behalf of the state through other institutions and their positive effects on the development and support of SME emphasized in the interviews with Mr. Mračna and Mr. Jasič (for more details on the supports see previous sections of this chapter).

³² Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

unemployment rate (via revitalization program) instead of pushing for their radical restructuring³³. This governmental approach only deepened economic problems of SME because when the large enterprises were not doing well small enterprises were not doing well either³⁴. The decision-making at the top level of government in Slovakia upon economic criteria yielded the one motivated by partisanship in that period. The influence of partisanship has remained in the economy of Slovakia. Since the public votes for political parties in the general elections instead of voting for particular persons, the overall operation of government at all levels is subordinated to political decisions of the governmental political parties.

The state administration contributes even more to increasing the gap in the treatment of large enterprises and SME. Since the state is still the owner of large enterprises, and it treats such companies preferentially, it indirectly establishes the unevenness. For example, state companies do not pay the mandatory payments for their employees with a quite support of the state control. This creates the financial problems of the institutions carrying out the social security. State pays the social security payments for the specific groups of people (senior citizens, young people, schooling people, etc.) much lower than stated by the law and required from private companies³⁵. Similarly, the state companies are preferred when settling the debt of the state. This preferential treatment means that funds available on the Slovak financial market are used for addressing the problems of large companies. Consequently, small businesses are not able to acquire the loans for technological innovation.

Despite all these uneven treatments of different-sized enterprises, mutual cooperation between large enterprises and SME is inevitable. SME can substantially contribute to economic restructuring and they have potential to grow (Interviews 2000).

³³ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

³⁴ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

³⁵ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

Slovak legislation discriminates against small entrepreneurs (sole proprietors). Such discrimination can be witnessed in this basic example:

“The firm of the sole proprietor consists not only of himself, but also of a few other employees. According to Slovak law, the employer has to provide employees with a paid lunch break, contribute to the costs of lunch, and provide work clothes at the expense of the firm. However, other law (regulating the sole proprietors operation) does not allow the same for the sole proprietor. It means that his expenses cannot be deducted from the tax base of the firm. Although these people are carrying out the same work, the proprietor has not the same conditions as the employees. Moreover, his obligations to the firm do not end with the end of the shift. He/she must seek new markets, secure the sources for operation and all the activities inevitable for operation of the firm.”³⁶

Therefore, the position of the self-employed should be specified in the Slovak law and separated from the regulations regarding small and medium enterprises (Interviews 2000).

At this point, the problem of assigning the ministry appears. It is not clear which law should include the provisions regarding the self-employed. Some suggest that they should be included in the Small Trade License Act. There are also opinions to include it in the tax laws. The existing tax legislation recognizes only physical entities and legal entities regarding to the legal status of enterprises despite the fact that the category of physical entities includes such different groups as the self-employed and employees. On the opposite, other legal norms distinguish the self-employed and the employees as being two separate groups regulated differently (see the example above). The issues of the position of the self-employed concern mostly the representatives of their associations, not entire community of SME.

4.4.2 Popular attitudes toward entrepreneurship

Negative popular attitudes towards entrepreneurship as a whole are another obstacle the SME have to face in Slovakia. Ordinary people do not perceive entrepreneurs positively. People often

³⁶ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

perceive an entrepreneur as being a fraud mainly because of the huge asset stripping in large enterprises during 1994-1998³⁷. The popular perceptions are created mainly through the immediate day-to-day contact of the people with small entrepreneurs. The entrepreneur is viewed as somebody who wants to take advantage of the customer in all circumstances³⁸. These negative perceptions can be attributed to the state socialist period when fraud was widespread and the saying “who does not steal, hurts his/her family” was generally accepted (Lavigne 1999, Kopanič 1999, Siegel 1999). This kind of perception is widespread mainly among the elderly who were exposed to state socialism through most of their lifetime and therefore were brainwashed in terms of their attitudes toward entrepreneurship³⁹. State socialism promoted the idea of general equality in the society and today, many people are still stuck with this unrealistic idea.

The behavior of the upstarts in the early years of economic transformation contributed to the development of negative perceptions of entrepreneurs by the public. These upstarts commonly liked to show off their relatively easily gained fortune by buying new luxury cars and expensive houses. At the same time, these ‘new capitalists’ often did not pay taxes and other mandatory payments, such as social security contributions, on time. So far these deceptions generally have not been investigated and the people responsible for them have not been charged for them.⁴⁰ Mr. Sirotko (2000) attributed the deceptions at the micro scale to the “mismanagement at the scale of macro-economy”. The behavior of the entrepreneurs often has not changed through the years. Some entrepreneurs are still behaving the same as they did in the early years of economic transformation, further perpetuating their negative perceptions by the public (Interviews 2000).

³⁷ Interview with Mr. Prokopovič, the chairman of the Union of Entrepreneurs, Self-employed and Peasants of Slovakia and the member of the Slovak Parliament, August 9, 2000

³⁸ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

³⁹ Interview with Mr. Prokopovič, the chairman of the Union of Entrepreneurs, Self-employed and Peasants of Slovakia and the member of the Slovak Parliament, August 9, 2000

⁴⁰ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

Another source of negative popular attitudes toward entrepreneurs is a low entrepreneurial awareness of the public. Often, many people do not know what it is like to be an entrepreneur. They see only the benefits in the form of financial well-being. The public cannot see the time spent negotiating the contracts and all other activities related to business. People see only somebody in a luxury vehicle without the knowledge that, in many cases, it is not a matter of showing off wealth but a matter of standard in that kind of business or a matter of necessity (to move fast and safely).⁴¹ The public does not discern the origin of the entrepreneurs' wealth either. Nobody recognizes the difference between an upstart who gained all the fortune due to a corrupt privatization and an entrepreneur who has worked hard for several years and raised the start-up to a successful company. The public fails to recognize that being an entrepreneur is a way of living in constant uncertainty, the opposite to an employee whose worries are incomparably smaller.⁴²

The public demand for services/goods provided by small entrepreneurs is an important factor in popular attitudes toward small entrepreneurs. There is not a tradition to hire somebody else do some minor repairs in the household or even to contract with a company to build a house as seen in the USA. Provision of such paid services for the households diminished during the period of state socialism as "barter favors" spread⁴³. People, primarily village residents, are used to a mutual help in the provision of some services. For example, it is common to help each other in building a house, and it is expected the favor will be returned. The people in villages have always known somebody who provides some repairs to individuals in addition to his/her regular job, often using the tools provided by his/her employer and even during work hours. Individuals would rather pay money to such a person and therefore support informal activity than contracting a certified provider of that service because it is more expensive (due to the financial and

⁴¹ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

⁴² Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

⁴³ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

administrative burdens of the enterprise).⁴⁴ People are getting suspicious and have negative attitudes when a skilled individual who used to do such “favors” in the past illegally, decides to start a business and does not provide the services as cheaply as before⁴⁵.

4.4.3 The obstacles of financial character

The second set of constraints includes problems regarding financial sources. There is an insufficient amount of available financial resources and financial overburdening of SME in terms of taxation and mandatory social security payments. The market does not provide sufficient loans for SME (and especially small loans for the self-employed). This shortage of funds, along with tough criteria to obtain loans, length of processing the application and high interest rates account for the inability of SME to operate successfully. Although in recent years the situation has improved in terms of loans and operational capital for SME, the financial support programs of the NADSME are still a principal way of getting affordable loans (Interviews 2000). In Slovakia, the state policy regarding small businesses probably does not realize that even only two out of ten start-ups surviving the initial years of existence is a successful. Otherwise, the interest rate on the commercial loans would be significantly lower than the current 13% and more.⁴⁶ According to Mr. Sirotko, it should be the state that secures the accessibility of attractive loans for SME. However, in Slovakia, the government chose the easier, though non-structural solution. Despite the arguments that the best support for SME can be appropriate economic environment and suitable conditions of their operation, the financial institution (Slovak Guarantee and Development Bank) was established to secure funds for SME.

⁴⁴ Interview with Mr. Mračna, the chairman of the Department of SME, Ministry of Economy of the SR, July 25, 2000

⁴⁵ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

⁴⁶ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

The Slovak Guarantee and Development Bank (SZRB) was established in order to provide financial funds for enterprises. However, this institution has no real impact on the improvement of loan availability, since it mainly facilitates the loans provided by other commercial banks and provides guarantees for those loans. The bank only evaluates a project and then the respective commercial bank evaluates the project again. It means the SZRB does not guarantee the loan will be provided.⁴⁷ This institution puts primary emphasis on the “guarantee” part of the name and neglects the “development” part⁴⁸. Perhaps the most severe criticism of the SZRB was expressed by Mr. Pavlů. He called the officials of the bank “rogues” since they used the funds for capital expenditures instead of projects for SME. He pointed out that the bank had large operational costs that decrease the funds for potential loans to SME. He also criticized the composition of the Supervision Board of the bank. As opposed to the NADSME where the Supervision Board also includes the representatives of entrepreneurs, the Supervision Board of the Slovak Guarantee and Development Bank consists only of state officials.

Paradoxically, the state administration was identified as being primarily responsible for the shortage of money for SME in the capital market (Interviews 2000). The state administration annually increases its expenditures increasing the state budget deficit. The state therefore issues securities in order to cover this deficit. The state bonds are an attractive financial product for commercial banks since they are considered to be a safe investment with appealing interest rates. Commercial banks spend available funds on lending to the state. Therefore, loans to SME are not attractive for them anymore. The situation in the loan market in Slovakia will not change as long as the state administration does not carry out a budgetary policy oriented towards the reduction of expenditures. Today the administration orients solely toward increasing of

⁴⁷ Interview with Mr. Buben, the president of the Slovak Self-employed Union, July 6, 2000

⁴⁸ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

revenues of the state budget⁴⁹. The budget policy of the current government is strongly affected by the wide political range of the member parties (the leftists support more social policies, while the rightists more restrictive policies). Successful restructuring of the Slovak banking sector can bring about its possible change of attitude toward financing of SME' projects. Once the banking sector operates the same way it does in developed countries, the SME' activities can be funded from domestic resources and the foreign contributions will not be of such an importance as they are today.

The financial burden of entrepreneurs is another large issue. Its level can be illustrated on a simple example. The average rate of profit of a small entrepreneur in Slovakia is only 12.5% after all the mandatory social security and health insurance payments, taxation, and expenses connected with operation are calculated⁵⁰. Such a low rate of profit is not enough even for a simple maintenance of an enterprise and it discourages firms to innovate and invest in new technologies. It consequently causes a decrease in the international competitiveness of Slovak companies.

The taxation on small enterprises is tremendous. The rate of income tax differs for the self-employed (physical entities) and legal entities. Currently entrepreneurs pay high income taxes (in case of self-employed up to 42%) but also property tax, tax on the use of motor vehicle, excise tax, value added tax, and many other taxes. However, a sole decrease in rates is not the preferred solution of the taxation issue. A sound handling of deductible items for enterprises is more effective. Such items as training, food provision, advertising, and representation expenses should be regulated more favorably for enterprises so that they become attractive to establish and maintain.⁵¹ Today, the financial burden on entrepreneurs leads to the spread of the informal labor

⁴⁹ Interview with Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

⁵⁰ Calculations by Mr. Sirotko, the chairman of the Slovak Chamber for the Self-employed, July 14, 2000

⁵¹ Interview with Mr. Prokopovič, the chairman of the Union of Entrepreneurs, Self-employed and Peasants of Slovakia and the member of the Slovak Parliament, August 9, 2000

market, when unreported employment⁵² becomes attractive for both an employer and a potential employee. The entrepreneurs capitalizing on such employment can produce cheaper goods and services than their competition⁵³. Therefore, coping with the unreported employment should be of critical importance for the state administration.

4.4.4 Conclusion

The studies on the constraints of SME in Slovakia (NADSME 1995, PHARE 1998), interviews with the representatives of the associations and organizations dealing with SME, as well as the monitoring of the press in Slovakia in the period 1994-2000 reveal two basic sets of obstacles to SME. The first set consists of administrative difficulties of establishment and operation of SME and the legislative constraints on SME. The main problems the entrepreneurs have to deal with are: state bureaucracy, difficulty of all administrative processes related to the existence of SME and the length of their processing, inappropriateness of the legislation and its frequent changes and outdated, uneven treatment of enterprises, the tardiness of the state officials and the courts, and insufficient law enforcement. The entrepreneurs are trying to avoid these difficulties through using bribery in the pursuit of their interests. The entrepreneurs have to deal also with the legacies of state socialism in the form of the inappropriate behavior of entrepreneurs and in the form of popular attitudes towards entrepreneurship.

The second set of constraints is the financial problems of SME. The SME struggle with the shortage of accessible loans, the tax burden, and the burden of other mandatory financial

⁵² Unreported employment – the entrepreneurs employ people who are registered with the Labor Office as unemployed. Since they are officially unemployed, the state pays the social security payments in their behalf. The entrepreneurs who contract them do not pay social security payments for them what significantly lowers his/her expenses. The unemployed do have only simple contract what means the employer pays only 10-15% income tax (the wage cannot exceed Sk 4,000). In majority of cases, however, there is no contract at all and the entrepreneurs pay such employees in cash contributing to expanding gray economy.

⁵³ Interview with Mr. Pavlů, the president of the Association of the Entrepreneurs of Slovakia, August 8, 2000

obligations. The financial overburdening of SME does not allow them to compete with the increasing international competition, since the companies lack the funds for innovations and investments into new technologies. The financial difficulty of enterprises discourages people to engage in carrying out their own business. At the same time, the existing entrepreneurs are seeking ways to decrease the financial costs of their businesses and often engage in illegal activities, such as tax deceits, mandatory payments' avoidance and unreported employment.

5 THE ROLE OF SME IN THE ECONOMY OF SLOVAKIA

Interviews conducted in the summer of 2000 revealed that neither the state agencies dealing with SME nor the associations representing the SME take the spatial dimension of small and medium enterprising into consideration. The only exception is the regional differentiation of unemployment. Although uneven economic development in Slovakia is generally recognized, the respective policy regarding SME, which would reflect this unevenness does not exist and neither does reliable data presenting the SME' differentiation according to regional units.

The following section evaluates the economic impact of SME at the national level by presenting the share of SME in selected economic indicators. The second part of this section examines the regional differentiation of Slovakia in terms of economic development and its possible effects on the SME development in each of the 79 districts. Partial economic indicators are used to evaluate the overall level of economic development at the district level, which is then superposed by the regional distribution of SME.

5.1 Position of SME in the economy of Slovakia

In 1999, 350,455 economic entities were included into the category of small and medium enterprises in Slovakia. Out of this number, 295,750 were physical entities and 54,705 legal entities (NADSME 2000) (see Table 3).

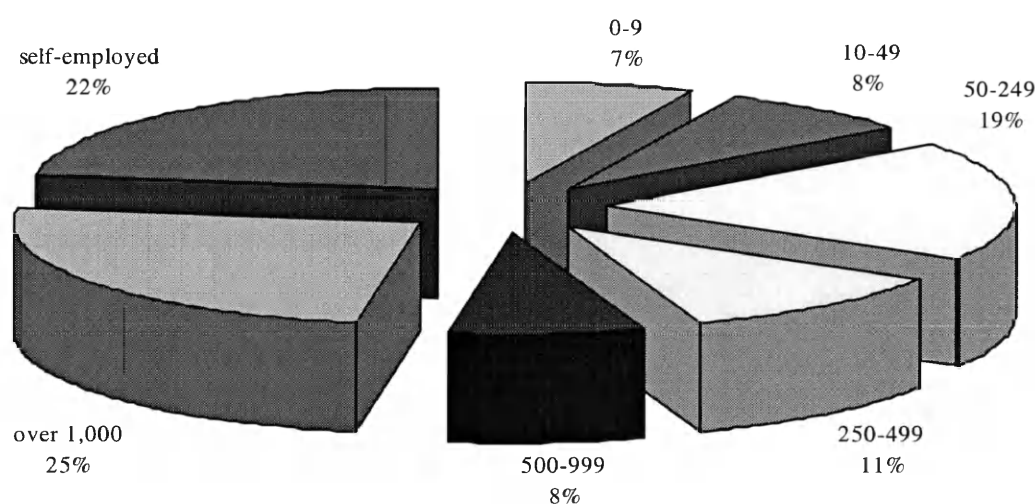
The number of economic units categorized as SME is not a good indicator of SME' importance for the Slovak economy. The proportion of the employees in SME is a much better indicator. In 1999, SME employed 56% of all employees in Slovakia. Out of these, the largest number of people were the self-employed (445,000) (Figure 6). Almost each self-employed created an extra job for one more person (1.7 positions per one self-employed). The medium-sized enterprises employed 382,852 workers.

Table 3 Structure of enterprises in Slovakia in 1999

Legal form	Category	Size (Employees)	Number (Entities)
Physical entity	Self-employed		266,903
	Freelancers		11,231
	Self-earning farmers		17,615
Legal entity	Small enterprises	0-9	45,021
		10-49	9,328
	Medium enterprises	50-249	3,294
	Large enterprises	250-999	573
		Over 1,000	117

Note: Discrepancies in the number of small enterprises are due to the inconsistency of data provided by the NADSME

Source: NADSME 2000

Figure 6 Employment according to the size of enterprise in 1999

Source: NADSME 2000; **figure:** Jaroslav Kling

The inconsistency of statistical data does not allow the examination of the temporal influence of SME on employment. Therefore, I could only investigate the development since 1997. Since then, only two categories of SME increased employment: the self-employed (from 437,500 in 1997 to 445,000 in 1999) and the enterprises with more than 20 and less than 49 employees (from

112,764 in 1997 to 118,898 in 1999). Large enterprises reported the largest growth of employment (from 823,657 in 1997 to 875,536 in 1999). This information undermines the SME representatives' arguments that SME are the principal creator of new jobs. However, the dominant employment role of enterprises with more than 1,000 employees (accounted for more than 25% of total employment in 1999) is likely to decrease in the future because of ongoing industrial restructuring.

In 1999, SME accounted for 47.4% of value added as reported for legal entities (Sk 404,317 million = US\$ 9,565 million) (Statistical Office of the SR 2000)⁵⁴. This figure does not include the value added for all SME since the physical entities were not counted. Enterprises over 1,000 employees created the largest value added (35% of total). Medium-sized enterprises accounted for 18.2% (Sk 73,726 million = US\$ 1,744 million) of the total value added and the enterprises with less than 10 employees for 17.2% (Sk 69,740 million = US\$ 1,650 million). The latter category reported the second largest annual increase of value added (index 1999/1998 = 122.3). The large enterprises reported only a moderate increase (index = 106.6) except for the units of 500-999 employees where the index achieved 129.8.

As for gross production in 1999, SME accounted for 42.8% of total gross production of all legal entities in Slovakia. Again, this figure does not include the gross production of physical entities. Enterprises over 1,000 employees reported the highest volume of gross production with Sk 508,971 million (US\$ 12,041 million) out of a total of Sk 1,265 billion (US\$ 29,927 million). However, the enterprises with less than 10 employees achieved the highest increase of gross production as compared to the previous year (index = 126.9) followed by the enterprises with 500-999 employees (index = 125.9).

⁵⁴ Sk = Slovak crown; US \$1 = Sk 42.27 (December 1999)

Large enterprises also accounted for higher percentage of exports than SME, which accounted for only 30.5% of total enterprise exports (of Sk 404.6 billion = US\$ 9,572 million) in 1999 (NADSME 2000). The exports of the self-employed were only 0.2% of the total suggesting their orientation primarily toward domestic market and local production. The exports of small enterprises decreased from Sk 84.9 billion (US\$ 2,300 million) in 1998 to Sk 55.4 billion (US\$ 1,311 million) in 1999. While in 1998, the enterprises with less than 50 employees accounted for 30% of the total exports, it was only 13.7% in 1999. The exports of the self-employed increased by 29% and the exports of medium-sized enterprises by 57% as compared to 1998. Unfortunately the longer time-line data were not available.

Profit before taxation is the last economic indicator used to evaluate the position of SME in the economy of Slovakia. The data for physical entities are not included, only for legal entities (Table 4). The list provides only data for non-financial organizations⁵⁵.

Table 4 Profit before taxation (Sk million)

	1996	1997	1998	1999
0-49	24,504	25,863	19,767	26,705
50-249	7,695	8,841	3,500	7,162
Over 250	21,084	17,479	-511	13,262

Note: US \$1 = Sk 42.27 (Dec. 1999); US \$1 = Sk 36.91 (Dec. 1998);

US \$1= Sk 34.78 (Dec. 1997); US \$1 = Sk 31.90 (Dec. 1996)

Source: NADSME 2000

All the categories of enterprises reported an increase in profits before taxation in 1999 as compared to 1998. However, when including the inflation effect the overall profits before taxation in 1999 are lower than the ones in 1997 and 1996. The important fact of Table 4 is the fact that the largest profit before taxation was reported by the category of small enterprises in all provided years. This suggests that small enterprises are the most successful element of the all

⁵⁵ Enterprises other than banks, insurance companies, investment funds and other businesses dealing with the financial operations as a major area of business

enterprises. Other possible explanation is that larger enterprises (mostly legal entities) intentionally performed the way their profit was as low as possible.

5.1.1 Conclusion

The statistical evaluation of the position of SME in the economy of Slovakia based upon several economic indicators somewhat undermines the claims of SME' representatives expressed during the interviews.⁵⁶ However, it is necessary to realize that the category of physical entities was not included in the figures and it would certainly increase the share of SME in the analyzed economic indices. While evaluating the overall position of SME in the economy of Slovakia it is necessary also to consider other economic indices⁵⁷. The analysis revealed that from amongst the SME, the economic units of less than 50 employees and especially those with less than 10 employees produced the most favorable economic results. These units, although they do not employ a large proportion of workers, report a relevant increase in value added as well as gross production and these units are the most profitable enterprises. Even though the claimed importance of SME was not confirmed, the economic indicators suggest the potential of SME and especially of small enterprises. Reliability of statistical data, however, is disputable. The enterprises intentionally adjust their economic results in order to avoid high financial burden. These activities are present in small, medium as well as in large enterprises. Therefore, the proclamations of the SME representatives can be true.

⁵⁶ Interviews conducted in summer of 2000

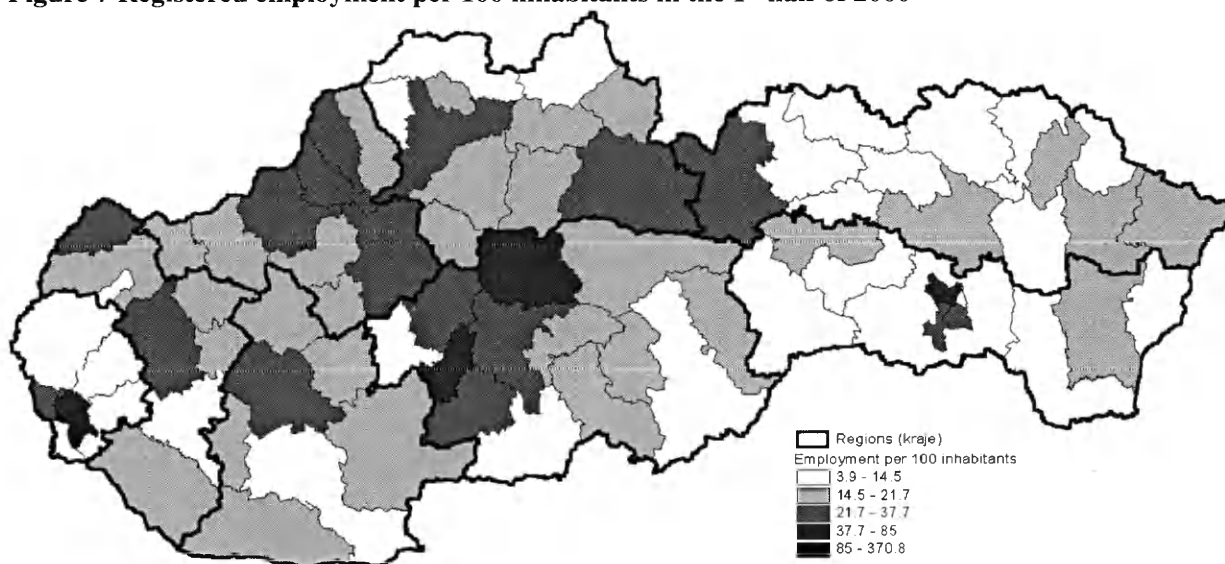
⁵⁷ In 1999, large enterprises accounted for 67.5% of industrial receipts and 57.3% of employment in industry. At the same time, SME accounted for 77.9% of construction output and 80.2% of employment in construction, 96.4% of wholesales and 96.2% of employment in the wholesale, and 86.4% of receipts in the retail trade and services of hotels and restaurants and 90% of employment in this sector of economy (Statistical Office of the SR 2000).

5.2 SME and uneven development in Slovakia

Uneven development in Slovakia can be assessed based upon seven basic indices – employment, unemployment rate, long-term unemployment, average monthly wage, procured investment, industrial receipts, and organizations with the presence of foreign investor. These indices were selected due to their availability as well as to their information value.

As of June 30, 2000, Slovakia had 1,330,076 registered employees in enterprises with 20 and more employees. The largest number of employees was registered in the Bratislava 1 District (170,122). On the contrary, the Košice 3 District registered only 1,243 employees. Both extreme values are for the districts within the two largest Slovak cities. The minimum employment in the Košice 3 District is due to its primarily residential character. Excluding the districts within the two cities, the highest employment occurred in the Žilina District (44,481) as opposed to the lowest employment of the Medzilaborce District (1,732). The employment rate measured as the registered employment per 100 inhabitants of the particular district provides more valuable data in terms of compatibility of individual districts (Figure 7).

Figure 7 Registered employment per 100 inhabitants in the 1st half of 2000



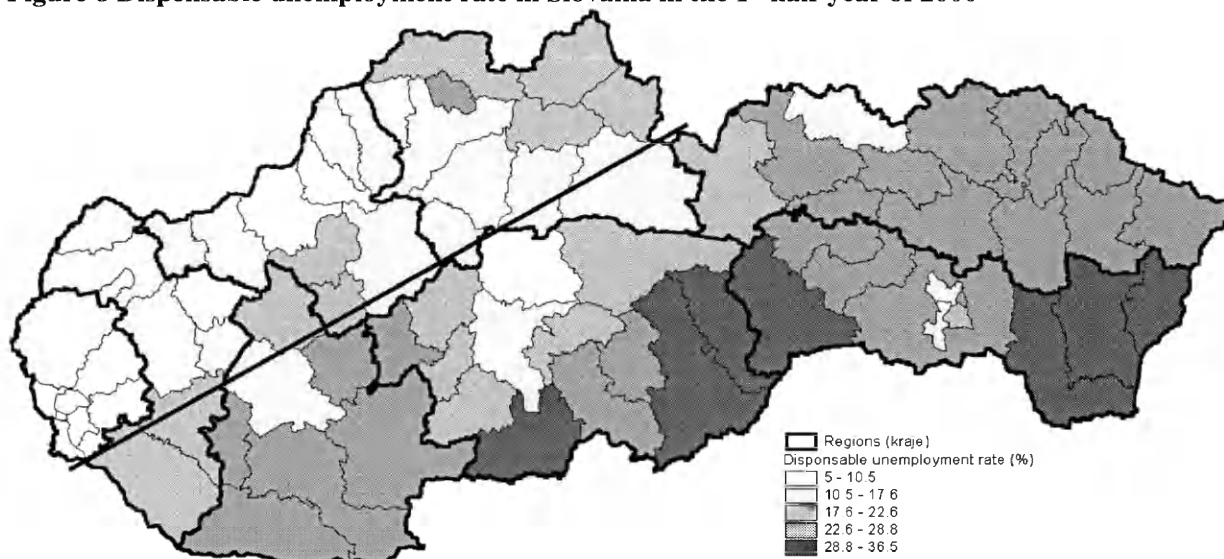
Source: Statistical Office of the SR 2000; map: Jaroslav Kling

The average rate for Slovakia as a whole was 24.6 employees per 100 persons. The Bratislava 1 District registered the highest rate (370.8 employees per 100 persons). Unusually high figure is due to the fact that the District is the place where a lot of enterprises are registered. Another explanation is that significantly higher number of people commutes to the District than lives there. The lowest rate was achieved in the case of the Košice 3 District (3.9). Excluding these “city districts” only seven districts exceeded the Slovak average. Out of these districts the Banská Bystrica District employed the most employees per 100 residents (66.8). Figure 7 shows that the highest rates are located in the districts of the central part of Slovakia, while the lowest ones can be found in the peripheral districts. The low rates that surround Bratislava are due to Bratislava’s concentration effect on the surrounding areas. Districts south of Bratislava are primarily agricultural areas with high unemployment rates negatively affected by economic transformation (Figure 8). The low rates in northwestern Slovakia can be explained by the historical labor migration to the neighboring region of northeastern Moravia in the Czech Republic. The districts with the highest rates are the areas forming the economic core of Slovakia.

Dispensable unemployment, which shows a potential labor force available in the individual districts rate, is the next index to evaluate uneven economic development. The dispensable unemployment rate in Slovakia was 19.1% in the 1st half of 2000. Only 37 out of 79 districts achieved the unemployment rate lower than the average for the entire Slovakia (Figure 8). The Bratislava districts registered the lowest rates (Bratislava 4 District – 5.0%). Out of the rural districts the Senec District reported the unemployment rate of only 7.3%. The highest unemployment rate was achieved in the Rimavská Sobota District 36.5%. The regional pattern of unemployment splits Slovakia along the southwest-northeast direction. The districts above this virtual axis located in the western part of the country along the transportation axis of Slovakia, Bratislava – Žilina - Košice report below average unemployment rates. Another concentration of

districts with the below average unemployment rate is situated along the transportation axis of Bratislava – Banská Bystrica. Peripheral districts have the highest unemployment rate.

Figure 8 Disposable unemployment rate in Slovakia in the 1st half-year of 2000

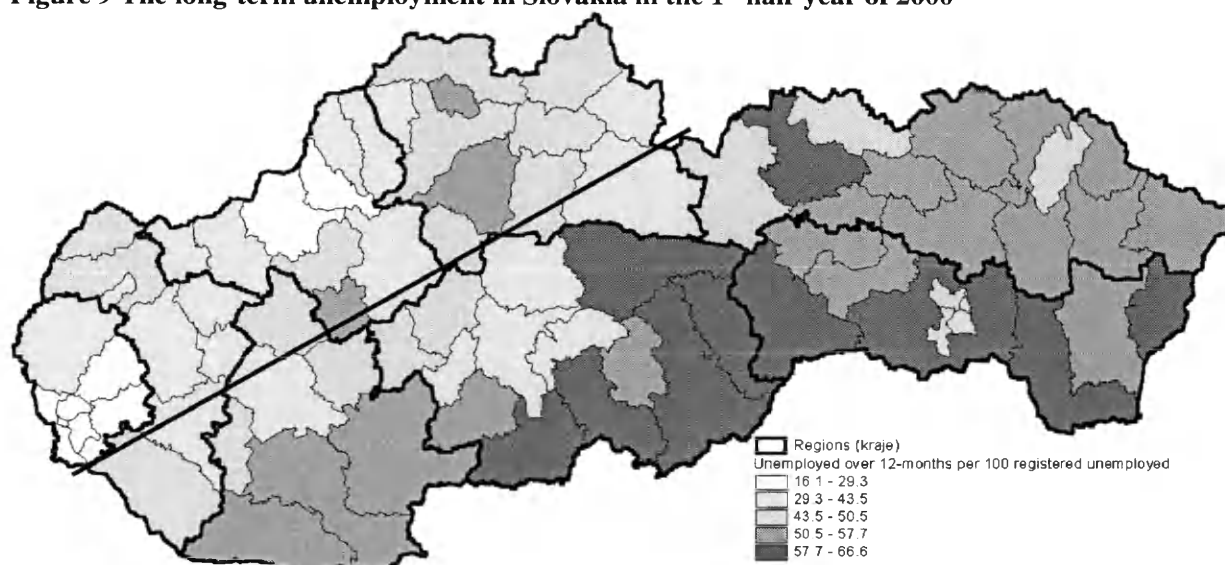


Source: Statistical Office of the SR 2000; **map:** Jaroslav Kling

Almost all of Eastern Slovakia (the Prešov and Košice Regions) features an unemployment rate of over 23%. The southeast corner of this part of the country reports unemployment above 30%, which is even higher in the case of Rimavská Sobota (36.5%), Revúca (35.0%), and Rožňava (31.9%) Districts.

The severity of the unemployment problem in the districts located under the imaginary axis is even more obvious, when considering the length of unemployment. Unemployment over 12 months is considered a long-term unemployment (International Labor Organization in Rievajová 1996). Long-term unemployment is dangerous because of the loss of work habits and professional skills by the unemployed (Mihálik et al 1994). In Slovakia around 50% of all the registered unemployed people were those over 12 months. The spatial pattern more or less corresponds with the disposable unemployment rate (compare Figure 8 and 9).

Figure 9 The long-term unemployment in Slovakia in the 1st half-year of 2000



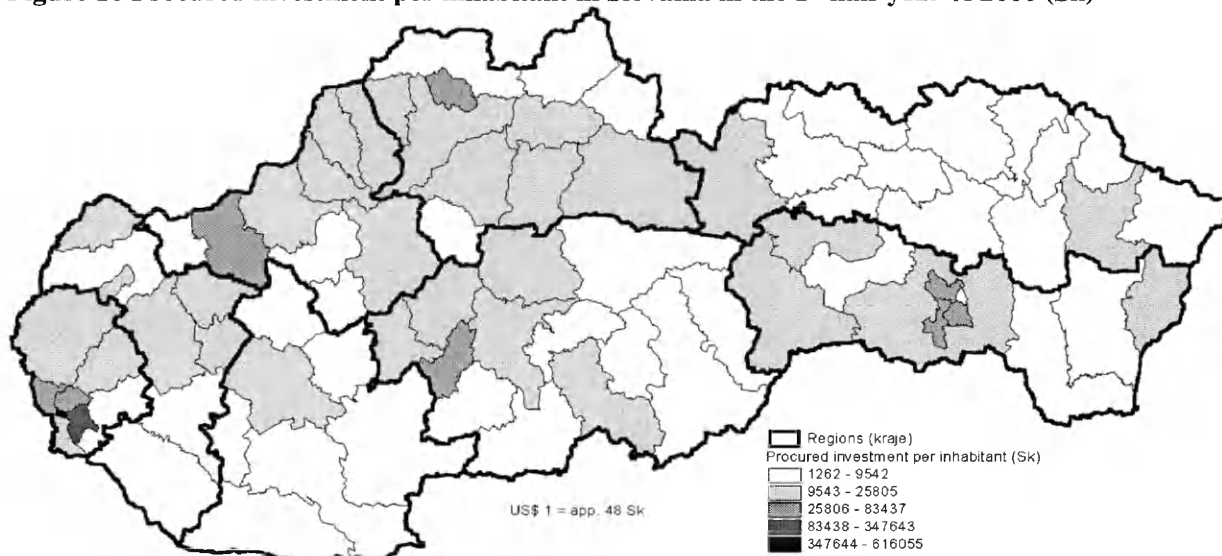
Source: Statistical Office of the SR 2000; map: Jaroslav Kling

In the case of long-term unemployment the axis shifts more south and east. All southern districts with the exclusion of the Dunajská Streda District (47.3%) reported the rates exceeding 50%. Almost the entire Eastern Slovakia has high rates of long-term unemployment and the concentrations of the highest values correspond with the areas of the highest overall unemployment rate. This situation suggests that these particular districts have profound economic problems and their economic revival can be much more difficult than in those districts, where less than 50% of the unemployed experience long-term unemployment.

The procured investment volume indicates economic activity in the particular district. In the first half of 2000, the procured investment in Slovakia totaled Sk 136,840 million (US\$ 2.85 billion). The largest volume of investments was located in the five Bratislava districts accounting for 57% of total Slovak investments (US\$ 1.6 billion). Aside from these five capital city districts only the Košice 2 District reached a comparable level of procured investments (US\$0.5 billion), because of the location of the East Slovakia Steel Mill Company (currently also U.S. Steel

s.r.o.)⁵⁸. Out of the rural based districts, the Michalovce District reported US\$ 142.4 million of procured investments due to the FDI in the chemical industry.

Figure 10 Procured investment per inhabitant in Slovakia in the 1st half-year of 2000 (Sk)



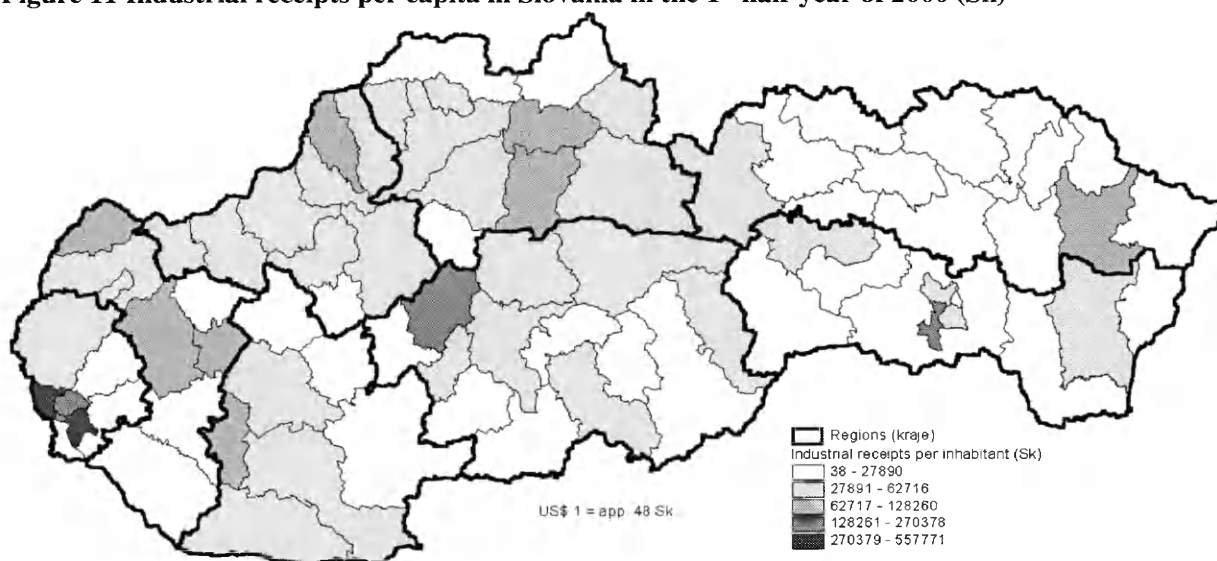
Source: Statistical Office of the SR 2000; map: Jaroslav Kling

Per capita procured investment to a large extent follows the spatial distribution of economic development in Slovakia and suggests excessive unevenness of economic activities within the country (Figure 10). The investment is concentrated along the main transportation axes Bratislava – Žilina – Košice and Bratislava – Nitra – Banská Bystrica. The difference between the highest investment per capita (US\$ 12,834 – the Bratislava 1 District) and the lowest one (US\$ 26 – the Medzilaborce District) was as much as US\$ 12,808. The average procured investment reached Sk 25,337 per person (US\$ 528) but only 10 out of 79 districts exceeded this level. As much as 39 districts reported the procured investment less than US\$ 200 per capita and the majority of such districts were located in the northern half of Eastern Slovakia (the Prešov region).

⁵⁸ After the 1998 parliamentary elections the joint efforts of the state and the creditors of VSŽ saved the cross-defaulted company. In the fall 2000, U.S. Steel took over stabilized VSŽ.

Due to the importance of industry in the Slovak economy (it employs 30% of people and creates about a third of Slovak GDP (Statistical Office of the SR 2000)), industrial receipts are a useful indicator of the economic situation in the districts. Industrial receipts totaled Sk 327,512 million (US\$ 6.8 billion) in the 1st half of 2000 and their spatial distribution followed a similar pattern to that of the procured investment (Figure 11). The average industrial receipts per capita for all of Slovakia reached US\$ 1,263. Only 14 districts exceeded this level. The highest industrial receipts per capita were found in the districts with major industrial enterprises: Bratislava 4 – Volkswagen Bratislava a. s. (the car producer), Bratislava 2 – MOL Slovnaft a. s. (the refinery), Košice 2 – US Steel s.r.o. (the steel mill), and Žiar nad Hronom – Slovalco a. s. (the aluminum smelter).

Figure 11 Industrial receipts per capita in Slovakia in the 1st half-year of 2000 (Sk)

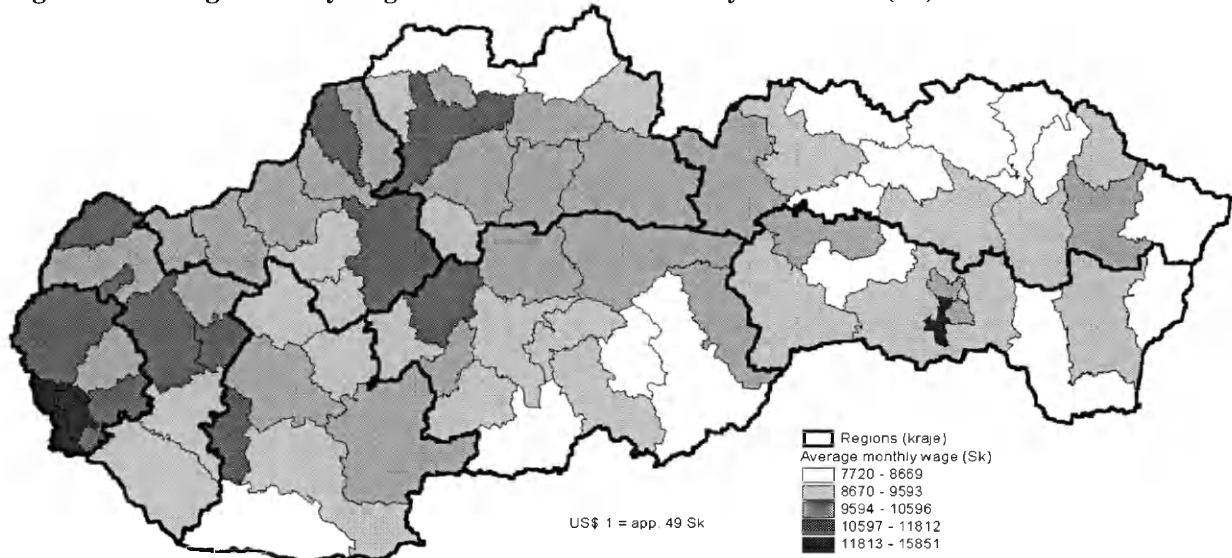


Source: Statistical Office of the SR 2000; map: Jaroslav Kling

The average monthly wage also reflects the level of economic development in the given area. The data show that it follows the similar spatial distribution as the previously discussed indicators (Figure 12). In the 1st half of 2000, the average monthly wage for Slovakia as a whole was Sk 11,310 (US\$ 236). Eleven districts recorded above average monthly wages with the

highest wages in the Bratislava 4 District (US\$ 330), Košice 2 (US\$ 328) and Bratislava 2 (US\$ 316). Only five of the districts with the above average wage were not the “city districts”. The Sobrance District reported the lowest average monthly wage of US\$ 161.

Figure 12 Average monthly wage in Slovakia in the 1st half-year of 2000 (Sk)

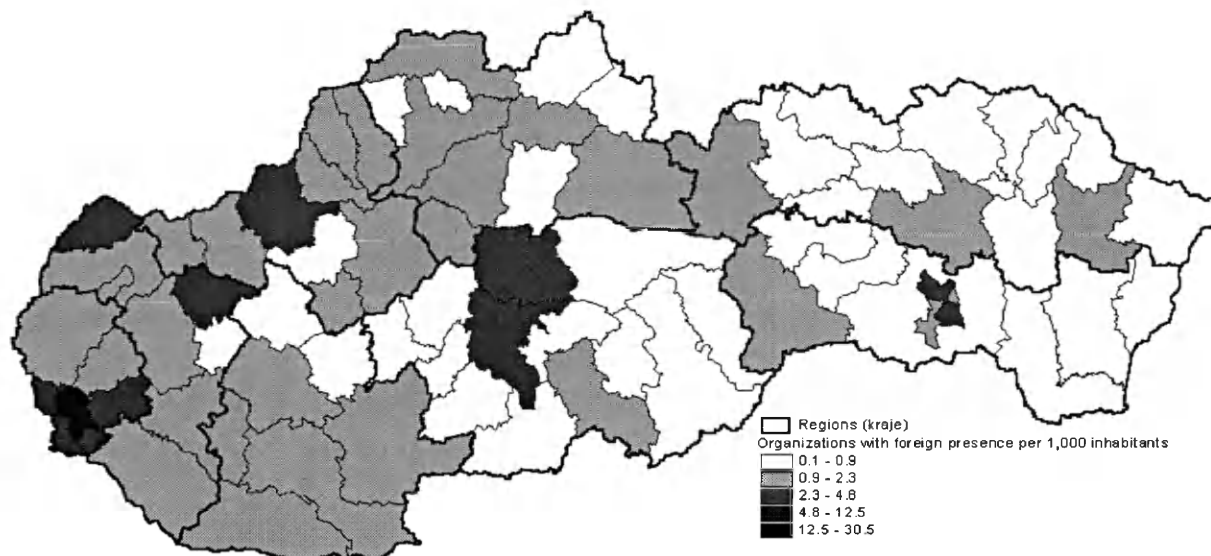


Source: Statistical Office of the SR; map: Jaroslav Kling

The presence or non-presence of companies with foreign capital in a district can also suggest its level of economic development and its economic attractiveness. Not surprisingly, its spatial distribution is also extremely uneven and complements the pattern identified in the case of all the previously analyzed indicators (Figure 13). In the 1st half-year of 2000, 5,484 foreign and 5,602 international organizations operated in Slovakia. Forty percent of all foreign-owned businesses and joint ventures were registered in the capital of Bratislava. The Bratislava and Trnava Regions located in the most western part of Slovakia accounted for the majority of foreign-owned businesses (51%). On the contrary, the eastern part of Slovakia (the Prešov and Košice Regions) accounted only for 15%. Of course, FDI was unevenly distributed within these regions as well. For example, in the case of Eastern Slovakia 52% of the 1,693 organizations were registered in its two largest cities of Košice and Prešov. The downtown of Bratislava

(Bratislava 1 District) recorded the highest number of organizations with foreign presence (1,400 = 12.6% of all companies with foreign presence) in Slovakia as a whole, while the Poltár District located in the southeast part of central Slovakia had only two.

Figure 13 Organizations with foreign capital per 1,000 inhabitants



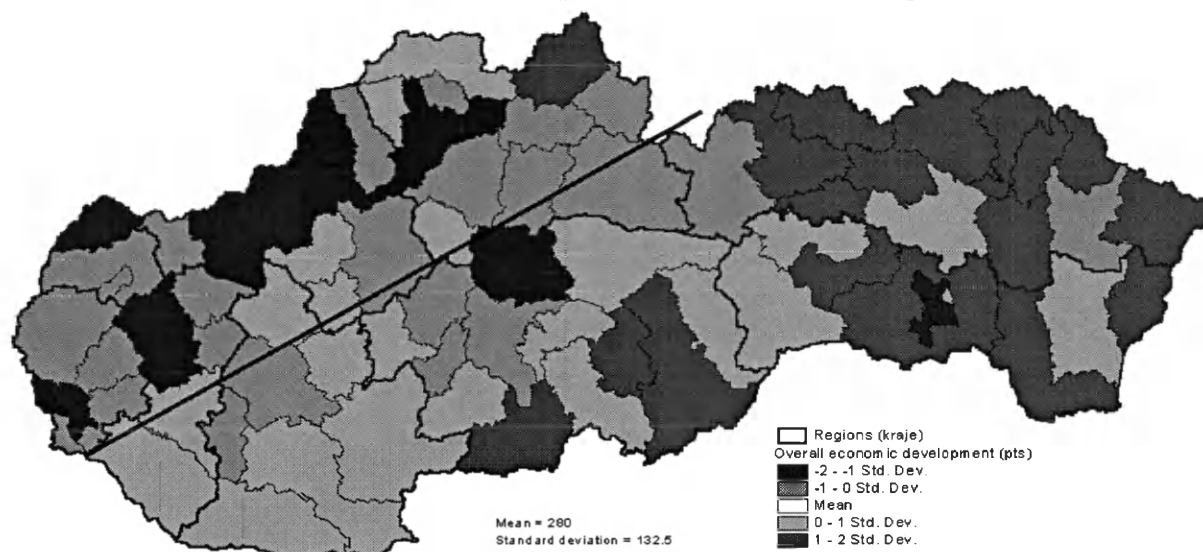
Source: Statistical Office of the SR; **map:** Jaroslav Kling

The overall level of economic development of a particular district was then determined according to the seven aforementioned indicators. The sum of the partial rankings of individual districts gives the overall position of a particular district in terms of its level of economic development (Appendix 3). The lower the sum the higher overall ranking the district obtains. The Bratislava 2 District (one of inner capital Bratislava districts) ranked as economically the most developed (it achieved a total of 16 points) while the Sabinov District of Eastern Slovakia ranked as economically the least developed (513 points). I have used the standard deviation (132.5) to determine the districts above and below the mean value (Figure 14).

This aggregate indicator underlines the pattern of uneven economic development in Slovakia indicated in the previous partial analyses. The economically most developed districts are concentrated in the northwestern part of the country along the main transportation axis Bratislava

– Žilina – Košice, with the branches reaching toward the Nitra area and the central areas of Slovakia around the Banská Bystrica District. All of Eastern Slovakia was economically underdeveloped as it scored below the average, with the exception of two isolated pockets of economic development of the three Košice Districts and the Humenné District.

Figure 14 The overall level of economic development in Slovakia (according to the districts)



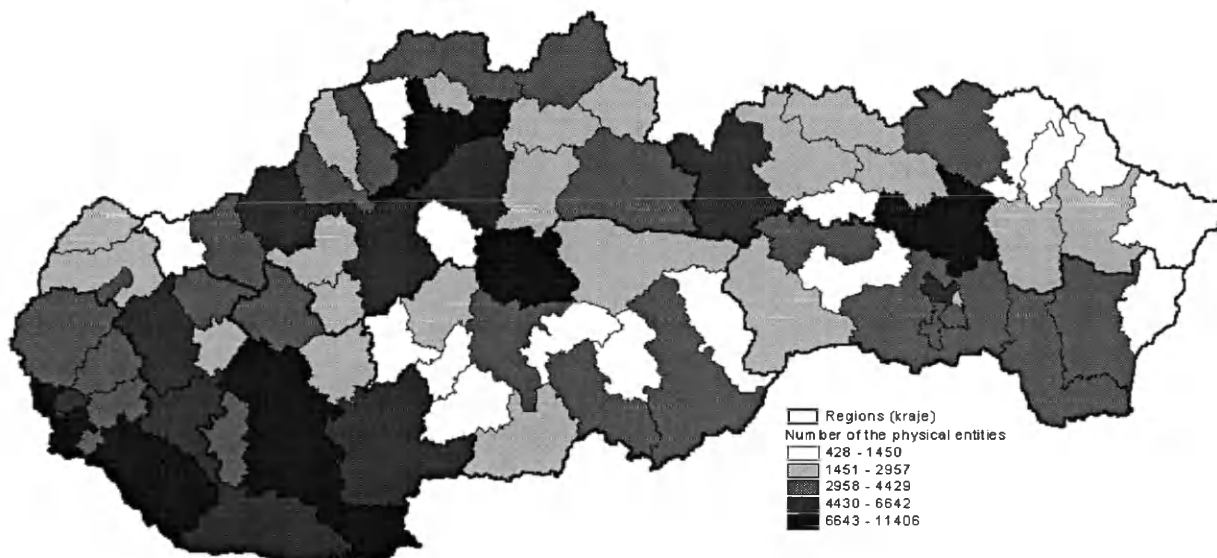
Source: calculations by the author

A further step in the pursuit of the relation between economic differentiation of Slovakia and development of SME is the superposition of the spatial distribution of SME over the level of economic development at the district level. I have used the regional distribution of physical entities as the indicator of the SME distribution because most of SME (84% of entities) are physical entities⁵⁹. Data that would show the spatial distribution of SME as a whole (all the units under 250 employees) at the district level are nonexistent. The capital of Bratislava hosted the largest absolute number of physical entities (37,463 entities – 12.8% of total) while there were only 428 physical entities registered in the Medzilaborce District of eastern Slovakia. Despite

⁵⁹ In 1999, the category of SME included 295,750 physical entities, and 54,705 legal entities (51,411 small businesses and 3,294 medium-sized businesses) (NADSME 2000)

substantial differences in the distribution of physical entities and economic development (compare figures 14 and 15), western Slovakia has higher number of physical entities

Figure 15 Number of the physical entities in the 1st half-year of 2000



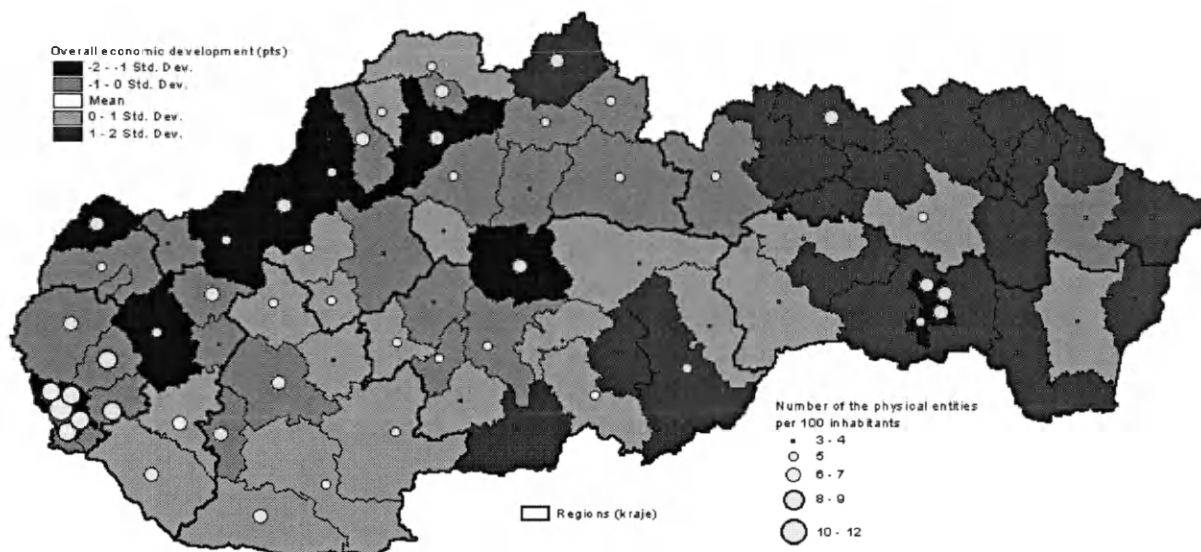
Source: Statistical Office of the SR; **map:** Jaroslav Kling

Not surprisingly, the highest number of physical entities is registered in the largest cities (Bratislava, Prešov, Žilina and Nitra). Additionally, the districts located in the fertile and agriculturally most productive area of southern part of western Slovakia also show the high number of physical entities reflecting the concentration of private farmers and the tradition of small vegetable growers.

The number of physical entities per 100 inhabitants superposed over the map of economic development shows the relationship between SME and economic development at the district level (Figure 16). The number of physical entities per 100 inhabitants decreases from the west to the east following a similar pattern as in the case of economic development. Two major differences include first, the agricultural districts of southwestern Slovakia discussed above and, second, the districts of northwestern Slovakia. The Stará Ľubovňa and Námestovo Districts recorded high number of physical entities per inhabitant. They belonged among the districts with

the highest index, which did not correspond with their previous presence among the districts with the least favorable values of economic indicators. This situation can be explained by the fact that private farming had persisted in the Námestovo District even during state socialism and persist also today. The presence of craftsmen in these districts contributes to the high index as well.

Figure 16 Number of the physical entities per 100 inhabitants



Source: Statistical Office of the SR; map: Jaroslav Kling

5.2.1 Conclusion

The above analysis of economic differentiation of Slovakia reveals substantial unevenness. The western part of the country is clearly more economically developed and in a more favorable economic situation than the eastern part. The dividing line can be drawn in the southwest – northeast direction originating in the Bratislava District and ending in the Poprad District. The most developed districts are concentrated along the main transportation route forming a banana shape area with the branches leading towards the Banská Bystrica and Nitra areas. The Košice area forms an isolated pocket of economic development in the least developed part of the country. The distribution of physical entities correlates with this distribution of economic development in Slovakia. This indicates that regional policy in Slovakia does not

address the problems of districts adequately. The severe economic situation of the peripheral districts of eastern Slovakia is even deepened by the low economic activity of small and medium entrepreneurs who do not start their businesses in such districts.

Such a situation has several causes. Geographic location is the principal cause of uneven economic development in Slovakia. The most developed districts in Slovakia are located in the immediate proximity of the major foreign trade partners, the Czech Republic and the European Union. This part of Slovakia features also the highest levels of infrastructure. The area is accessible via highway, railroad and several airports with parameters of international airports. This geographic location attracted attention of foreign investors, who invested into restructuring enterprises located here during the time of industrialization of Slovakia under state socialism. The industrialization of Slovakia during state socialism is another major reason for current regional unevenness (Pavlínek 1995, Smith 1998). The artificial location of industrial enterprises to the peripheral areas of Slovakia was to eliminate regional differences. However, it created areas strongly dependable on the existence of that particular company. These companies experienced severe problems due to the collapse of the East European market. The remoteness of these areas from the western boundaries then contributed to the lack of new investments. The severity of economic development in these areas is due also to the outflow of educated population. The educated people do not return to these districts after graduating from universities in the major cities of Slovakia due to unavailability of appropriate employment. The peripheral districts lack also a necessary infrastructure that would make them attractive for establishment of new companies.

6 CONCLUSIONS

Political changes in Central and Eastern Europe at the end of 1989 brought about change in the economic system as well. The transformation of formerly centrally planned economies into the market economy has been a unique process that has never been experienced before. More than a decade after this historical mark the countries of the region still struggle with the relics of the former regime. In Slovakia, it is not only the consequences of broken economic relations from state socialism and later on from the break up of Czechoslovakia, but also strong legacies of former ideology persisting in the minds of people and affecting their attitudes and behavior under current conditions.

This study attempted to analyze the development of small and medium enterprises (SME) and their place in the transforming economy of the Slovak Republic. The thesis had two main objectives: to determine the conditions for the SME' development in Slovakia, and to investigate SME position in the Slovak economy and their effects on the regional development in the country. Given the West European experience regarding SME' role in a successful restructuring of economically troubled regions (Chapter 1 and Chapter 2), I hypothesized that SME can become an important factor in the transforming economy of Slovakia too. I also hypothesized that the regional distribution of the SME' influence would be identical to the spatial pattern of economic development in Slovakia.

6.1 Major findings

6.1.1 Legal environment

In Slovakia, the legal settings for SME consist of several laws. Despite the fact the core laws that regulate business activities (Commercial Code and Small Trade License Act) originated yet at the beginning of the transformation period, the law that defines SME was approved in 1999 (State

Aid Act). This law undergoes constant attacks by the entrepreneurs who perceive it only as another bureaucratic obstacle on the way toward obtaining the state assistance. Due to the different legal status of economic entities constituting the group of SME there are also different legal norms regulating them directly. The legal system regarding entrepreneurship is frequently changing. These changes do not allow entrepreneurs to develop long-term trajectories for the future development of their companies. The provisions of laws are not clear and their ambiguity leaves room for different interpretations. The enforcement of laws in Slovakia is at a low level. The courts process cases very slowly supporting the spread of corruption). The different legal categories of enterprises have different treatment by the law and state administration as well. The larger the company, the better access to policy makers and the bigger its influence in the pursuit of its economic interests. When an individual wants to establish a business, he/she must deal with amount of state bureaucracy. The process of founding the company is not quick and simple. The operation of SME is not easy either. There are numbers of administrative regulations, which the entrepreneur must follow. All these factors contribute to the seeking of illegal ways of handling the problems with the state administration and the law courts. Such a system supports the spread of corruption and destroys the regular principles of market economy.

6.1.2 Institutional base

The institutional base of SME is fairly well developed in Slovakia. It comprises of institutions carrying out the state policy towards SME, as well as professional associations of entrepreneurs. The main carrier of the state policy is the National Agency for Development of Small and Medium Enterprise (NADSME) and the network of regional offices (RAICs and BICs). These bodies carry out the support programs in terms of providing funds for SME, organizing trainings and seminars and assistance and advisory services for SME. SME are represented also in the

advisory body to the government, which allows them to participate in the drafting processes. Opposite to these institutions, banking institutions, specialized primarily in the SME assistance, are not praised by entrepreneurs.

6.1.3 Support programs

The support programs focusing on the training and advisory services to SME have improved in the last several years. The trainings organized by the NADSME give potential entrepreneurs a good base for the future development of their companies. These services are developed mainly through the network of RAICs and BICs.

The NADSME administers the bulk of financial programs to assist SME. The main sources of funds for such a support are the European Union and the state budget of the Slovak Republic. The provision of loans from the NADSME is spatially highly uneven. It contributes to growing regional inequalities in Slovakia, since the loans only rarely go into the peripheral districts that are typically economically most disadvantaged. There are further providers of micro loans in Slovakia besides the NADSME. The major problem of micro loans from a regional development perspective is that their spatial impact is limited to particular districts and, more importantly, that they avoid the peripheral areas of northern and eastern Slovakia. The financial support for SME provided by special bank, Slovak Guarantee and Development Bank, does not satisfy the entrepreneurs. It is only a mediator of financial flows between entrepreneurs and commercial banks in Slovakia. It provides guarantees necessary for provision of commercial loans. The operation of this institution is costly and often does not fulfill the intent with which it was established (Interviews 2000). The financial supports provided by the state administration or on the behalf of the state via other institutions lack appropriate promotion among the

entrepreneurs. Therefore, only the entrepreneurs who have contacts with those providers know about the opportunities to get funded.

6.1.4 Financial constraints to SME

The support programs, however, should serve only as an additional source of funds, not the only source. The Slovak financial market does not provide adequate loans, if any at all, for SME resulting in very limited funds for initial investments and later innovations. State budget deficit contributes to this situation as banks rather invest into state securities than into the loans for SME. Additionally, the banks consider loans to SME to be very risky and rather provide loans to large enterprises thus further restricting access of SME to investment capital.

The excessive tax burden on SME represents another obstacle in their development. The taxation of small enterprises is higher than the taxation of large corporations. The state administration provides incentives for large and foreign investments, while small domestic investors do not get any of them. The deductible items and write-off policies for SME do not make private enterprise activities attractive. The large enterprises are more powerful and are therefore getting preferential treatment by the state administration. This situation often leads to tax evasion by SME, refusal to pay mandatory payments and consequent corruption of state administrators by entrepreneurs to prevent enterprises' persecution. The high financial costs of running an enterprise force entrepreneurs to engage in unreported employment. SME that do not engage in such illegal practices are unable to compete with those that do and often end up bankrupt. Unreported employment also burdens state finances, since people employed illegally often receive unemployment and other financial benefits from the state budget. Consequently, the amount of potential funds to support entrepreneurs in the state budget decreases. Widespread

illegal economic practices point to the overall weakness of the state to enforce its laws and they perpetuate economic problems of the country.

6.1.5 Popular attitudes

Popular attitudes towards SME and entrepreneurship represent the last aspect of analyzing conditions for the SME' development. Popular attitudes towards SME and entrepreneurship in general are influenced by several factors. First, 40 years of state socialism in Slovakia largely discredited entrepreneurship by the promotion of an equalitarian society. Negative attitudes towards entrepreneurship persist in the minds of mainly the elderly as they often perceive entrepreneurs as somebody who built their fortune at the expense of their employees. Second, the entrepreneurs are commonly perceived as criminals due to their often-illegal enrichment during the initial years of economic transformation in Slovakia. The politically driven privatization of state property led to the mismanagement of state-owned enterprises without persecution of the people responsible for their consecutive bankruptcies. The third factor influencing popular attitudes toward entrepreneurs is a low public awareness of what it means to run a private business. Ordinary people do not realize all the time and energy an entrepreneur has to put into securing work for his/her employees and all the constraints with which he/she has to deal. The unfavorable position of SME in Slovakia, and especially of small businesses, is also enhanced by the absence of a tradition to contract with companies for provision of small services for households. The public is used to a barter provision of assistance within the village or family. Therefore, small businesses lack demand for their services.

6.1.6 Overall conditions for SME development

The overall evaluation of the conditions for the development of SME is not very positive. State policy toward SME is not clear. There are the public proclamations about supporting SME. At the same time, however, there are administrative and legal constraints as well as constraints at the informal level of policy-making restraining SME from realizing their potential. State policy in Slovakia does not correspond with either of the two types of state policy toward SME identified in Chapter 2 (Bhalla ed. 1991). The state administration does not create either equal conditions for all economic entities or preferential conditions for SME. Instead, as I have shown, we witness a preferential treatment of large enterprises in Slovakia. The wide public support for development of SME is not yet developed and it will take time to change popular attitudes about entrepreneurship.

6.1.7 The role of SME in the economy of Slovakia

According to the statements of the representatives of entrepreneurs, SME play a substantial role in the Slovak economy. Their share in the employment highly exceeds 50%. SME also produce a large share of GDP (Interviews 2000, Monitoring of media 1994-2000). The analysis of statistical data confirmed these statements. However, it showed that the importance of SME is not as high as claimed. The figures used in the analysis under represent the economic role of SME because they include only legal entities and do not account for the economic performance of physical entities (84.4% in terms of number of entities). If the physical entities were included, the portion of SME in the aforementioned economic indicators would increase (but probably not over 75% except for profit before taxation). The data on economic performance of enterprises, however, do not necessarily reflect their true performance and capacity. Due to the financial burden of SME and mismanagement of some managers, the economic results are often manipulated for the sake

of paying smaller taxes and mandatory payments. The same applies to employment as the majority of unreported employees work in small enterprises where it is easier to manipulate books. The economic results of enterprises are also influenced by the obvious mismanagement of many formerly state companies privatized by the entrepreneurs who supported the governing political parties in 1994-1998.

Small and medium enterprises dominate the trade and service sectors. However, large enterprises remain the main carriers of industrial production. These results support the argument of Smith (1998) that SME cannot take over the leading position in Slovak industry occupied by large enterprises. In Slovakia, SME carry out a support role for large companies, which basically create the majority of Slovak exports.

6.1.8 SME and regional development in Slovakia

Conducted interviews and collected statistical data revealed that spatial aspects of the SME' development have largely been ignored. Unavailability of reliable data at the district level enabled me to perform the investigation of the SME impact on regional development only in terms of spatial distribution of physical entities. The district level analyses of economic performance revealed that Slovakia could be split along the axis Bratislava – Poprad. The districts north of this axis feature the most positive indicators of economic development (including the two large East Slovak city districts - Prešov and Košice). The Southern and Eastern Slovak districts south of the axis are economically underdeveloped. This situation can be attributed to two major factors: relative location and socialist industrialization.

The economic development is concentrated in the western part of Slovakia close to the markets of the Czech Republic and the European Union, the major foreign trade partners. These districts are located along the principal transportation axis – the highway and express train

railroad Bratislava – Žilina – Košice and benefit from the best-developed infrastructure. These heavy industrial districts mostly recovered from the economic crisis of early 1990s triggered by the downsizing of armaments industry. A different situation developed in Eastern Slovakia where the prevailingly mono-industrial districts did not succeed in replacing the inefficient industrial production developed during the period of state socialism.

The spatial distribution of SME (physical entities) basically reflects the aforementioned distribution of economic development. Based upon this distribution, I can assume that the influence of SME is the largest in the economically most developed areas of Slovakia. My assumption is based also on the fact that peripheral/economically least developed districts are not targeted for financial support by the state administration with the exception of districts with excessive unemployment rate. However, even this support is often late due to the state bureaucracy at the level of districts (SME 2001). The improvement of the economic situation of these districts is a very difficult task, because the potential for establishment of new small businesses there is small. There are neither resources for start-ups nor there is demand for services and products provided by small enterprises because of low purchasing power.

6.2 Suggestions

Based upon this thesis I suggest the following actions that possibly would help improve the situation of SME in Slovakia:

- To address the issue of popular perceptions of entrepreneurship – promote entrepreneurship and public awareness of the realities of running a business.
- To address legal environment issues – equalize conditions for all types of economic entities in terms of their access to policy-making, law enforcement, and equality in taxation and other financial obligations.
- To address the issue of bureaucratic severity of enterprise – ease up the administration processes, decentralize the administration and locate administration closer to citizens, and clarify the processes so that there is no room for corruption.
- To address uneven regional development in Slovakia – carry out a regional development policy that would make the lagging districts more attractive for business, and provide incentives for enterprises to operate in these districts

APPENDICES

Appendix 1. Interview sheet

- Is it necessary to separate a group of self-employed in the case of small and medium enterprises? Is it possible to combine the problems of self-employed, entrepreneurs and corporations, if we join these segments of SME only by the number of employees?
- Are there any differences between SME and self-employed as for their position within economy and their opportunities?
- How big is the influence of a strong industrialization under state socialism on the current profitability of small and medium-sized enterprises?
- Despite a proclaimed support of SME from officials, this sector meets more constraints than support. What are the reasons of this situation?
- What are the most relevant constraints of SME?
- What is the role of SME in the Slovak economy? Are there any spatial differences?
- What measures should be undertaken in order to change the current state of SME?
- Can you say if prior to 1989 the state policy had different approach towards large and small enterprises?
- What are the merits of SME as opposed to large firms?
- What are the main differences in the approach of individual governments after 1989 to SME?
- What are the popular opinions and attitudes towards entrepreneurs as a whole? Do these attitudes differ if the whole splits to self-employed, owners of small business and large-entrepreneurs?
- What are the positives, if any, of the state programs for SME?
- Can we rely only on the support and help from EU in the development of SME? Can this support be provided also on a self-sustainable basis from domestic sources?
- Can SME become a backbone of the Slovak economy? Can SME replace large firms?
- Can SME be a relevant player in all the branches of economy? Are there some branches more suitable for development of SME than others?
- How much is our current legal framework (or business environment as such) related to SME compatible with that of EU?

Appendix 2. Territorial and administrative division of Slovakia

Region	District	Code	Region	District	Code
Bratislavský	Bratislava I	BA 1	Banskobystrický	Banská Bystrica	BB
	Bratislava II	BA 2		Banská Štiavnica	BS
	Bratislava III	BA 3		Brezno	BR
	Bratislava IV	BA 4		Detva	DT
	Bratislava V	BA 5		Krupina	KA
	Malacky	MA		Lučenec	LC
	Pezinok	PK		Poltár	PT
	Senec	SC		Revúca	RA
Trnavský	Dunajská Streda	DS		Rimavská Sobota	RS
	Galanta	GA		Veľký Krtíš	VK
	Hlohovec	HC		Zvolen	ZV
	Piešťany	PN		Žarnovica	ZC
	Senica	SE		Žiar nad Hronom	ZH
	Skalica	SI	Prešovský	Bardejov	BJ
	Trnava	TT		Humenné	HE
Trenčiansky	Bánovce nad Bebravou	BN		Kežmarok	KK
	Ilava	IL		Levoča	LE
	Myjava	MY		Medzilaborce	ML
	Nové Mesto nad Váhom	NM		Poprad	PP
	Partizánske	PE		Prešov	PO
	Považská Bystrica	PB		Sabinov	SB
	Prievidza	PD		Snina	SV
	Púchov	PU		Stará Ľubovňa	SL
	Trenčín	TN		Stropkov	SP
Nitriansky	Komárno	KN		Svidník	SK
	Levice	LV		Vranov nad Topľou	VT
	Nitra	NR	Košický	Gelnica	GL
	Nové Zámky	NZ		Košice I	KE 1
	Šaľa	SA		Košice II	KE 2
	Topoľčany	TO		Košice III	KE 3
	Zlaté Moravce	ZM		Košice IV	KE 4
Žilinský	Bytča	BY		Košice-okolie	KS
	Čadca	CA		Michalovce	MI
	Dolný Kubín	DK		Rožňava	RV
	Kysucké Nové Mesto	KM		Sobrance	SO
	Liptovský Mikuláš	LM		Spišská Nová Ves	SN
	Martin	MT		Trebišov	TV
	Námestovo	NO			
	Ružomberok	RK			
	Turčianske Teplice	TR			
	Tvrdošín	TS			
	Žilina	ZA			

Appendix 3. Economic indicators – real values

District	Code	A	B	C	D	E	F	G
Bratislava I	BA 1	370.8	14,894	8.0	27.9	616,055	156,461	30.5
Bratislava II	BA 2	85.0	15,151	5.5	23.1	347,643	557,771	11.2
Bratislava III	BA 3	66.3	13,763	6.3	18.7	83,437	148,940	12.5
Bratislava IV	BA 4	23.5	15,851	5.0	16.1	43,091	436,833	4.8
Bratislava V	BA 5	12.4	13,286	5.5	23.5	11,360	7,268	3.8
Malacky	MA	11.9	11,384	14.4	43.2	13,102	43,824	2.1
Pezinok	PK	12.7	10,315	8.5	29.3	10,725	18,681	2.3
Senec	SC	12.6	11,036	7.3	23.9	9,542	15,373	2.7
Dunajská Streda	DS	16.1	8,951	18.8	47.3	8,551	22,488	1.6
Galanta	GA	11.1	9,113	19.4	42.1	6,536	12,753	1.0
Hlohovec	HC	17.7	11,136	14.2	40.1	17,485	75,565	0.7
Piešťany	PN	21.1	10,583	10.5	34.8	13,165	13,733	2.8
Senica	SE	17.9	9,773	16.7	44.1	5,593	42,734	1.3
Skalica	SI	22.4	11,260	15.9	45.9	20,164	128,260	2.5
Trnava	TT	24.1	11,400	13.6	36.3	20,403	72,585	1.5
Bánovce nad Bebravou	BN	21.1	8,851	20.3	45.7	7,899	38,922	0.8
Ilava	IL	23.7	10,336	8.1	25.7	19,743	56,852	1.3
Myjava	MY	20.0	10,074	16.5	40.8	5,651	34,765	1.3
Nové Mesto nad Váhom	NM	17.9	10,496	13.9	39.2	29,051	58,626	1.8
Partizánske	PE	19.1	9,193	19.0	53.0	8,240	21,881	1.3
Považská Bystrica	PB	17.7	9,770	15.5	40.2	13,116	31,876	1.7
Prievidza	PD	22.8	10,880	14.2	39.4	10,157	54,544	1.4
Púchov	PU	29.4	11,812	13.1	40.3	17,282	93,108	1.4
Trenčín	TN	29.4	9,921	8.0	25.1	19,151	50,551	3.3
Komárno	KN	17.0	8,510	24.1	52.2	7,979	38,728	1.6
Levice	LV	15.6	9,691	26.2	57.5	3,416	24,020	1.0
Nitra	NR	26.0	9,942	17.6	42.2	11,817	38,324	1.8
Nové Zámky	NZ	14.5	9,268	24.4	51.7	5,870	29,667	1.1
Šaľa	SA	15.9	11,491	23.3	50.5	5,620	76,184	1.0
Topoľčany	TO	14.8	9,145	18.6	48.9	6,469	25,748	0.8
Zlaté Moravce	ZM	15.9	9,420	23.6	47.3	4,582	23,535	0.5
Bytča	BY	12.5	9,218	15.5	43.0	10,997	29,730	0.7
Čadca	CA	13.0	8,193	20.7	45.9	7,484	13,554	1.1
Dolný Kubín	DK	20.2	10,164	22.6	47.0	10,349	83,996	1.1
Kysucké Nové Mesto	KM	16.1	10,201	23.1	55.0	37,925	32,748	0.9
Liptovský Mikuláš	LM	23.4	10,212	13.2	41.8	15,696	43,232	1.0
Martin	MT	19.5	10,490	16.7	54.3	12,737	39,908	1.4
Námestovo	NO	11.1	8,662	19.7	49.7	4,586	10,097	0.4
Ružomberok	RK	20.9	10,596	16.5	48.5	12,470	106,491	0.5
Turčianske Teplice	TR	18.4	8,935	15.9	47.2	8,169	19,292	1.1
Tvrdošín	TS	19.1	9,292	20.1	38.7	6,976	39,458	0.7
Žilina	ZA	28.3	10,801	16.2	44.9	14,817	46,542	2.0

Continued

District	Code	A	B	C	D	E	F	G
Banská Bystrica	BB	66.8	10,124	10.0	35.2	25,805	46,991	3.7
Banská Štiavnica	BS	46.7	10,166	20.0	43.5	32,502	59,534	0.9
Brezno	BR	16.1	10,316	21.1	59.4	4,989	50,438	0.8
Detva	DT	16.6	9,345	19.1	42.7	4,429	20,215	0.5
Krupina	KA	22.4	9,088	20.2	55.1	5,632	22,870	0.3
Lučenec	LC	18.8	9,040	26.9	60.0	13,105	32,969	1.1
Poltár	PT	17.6	8,669	25.2	56.9	3,685	19,469	0.1
Revúca	RA	16.9	10,179	35.0	66.2	6,152	47,861	0.4
Rimavská Sobota	RS	12.9	8,650	36.5	66.6	5,615	22,279	0.7
Veľký Krtíš	VK	14.5	8,057	32.1	59.4	7,261	13,452	0.9
Zvolen	ZV	24.3	9,495	14.1	36.7	14,395	29,565	2.4
Žarnovica	ZC	14.1	9,449	25.4	50.2	10,776	24,624	0.5
Žiar nad Hronom	ZH	25.6	11,447	20.4	45.2	16,651	189,974	0.9
Bardejov	BJ	14.1	7,841	25.6	55.2	3,696	7,395	0.4
Humenné	HE	17.0	10,387	25.2	54.8	21,057	69,266	1.1
Kežmarok	KK	10.2	8,829	27.2	62.0	5,464	10,462	0.3
Levoča	LE	14.2	8,111	25.5	56.0	4,488	3,015	0.4
Medzilaborce	ML	13.7	8,805	25.3	56.6	1,262	11,760	0.8
Poprad	PP	23.3	10,115	20.6	50.5	12,273	50,082	1.5
Prešov	PO	21.7	9,351	22.9	52.7	8,590	26,697	1.3
Sabinov	SB	8.8	8,084	27.9	57.6	1,926	8,589	0.2
Snina	SV	17.0	8,133	23.3	54.8	2,777	17,686	0.5
Stará Ľubovňa	SL	12.2	8,090	17.6	48.6	3,144	5,756	0.4
Stropkov	SP	16.1	8,188	28.1	48.9	5,752	10,288	0.6
Svidník	SK	12.7	8,216	26.1	55.4	1,972	5,891	0.7
Vranov nad Topľou	VT	13.8	8,863	27.1	52.9	5,211	23,391	0.5
Gelnica	GL	10.2	8,497	28.0	57.7	1,812	7,604	0.2
Košice I	KE 1	51.7	10,497	17.2	44.2	33,119	34,783	4.0
Košice II	KE 2	37.7	15,751	17.3	42.1	31,882	270,378	1.8
Košice III	KE 3	3.9	9,385	24.1	43.5	2,078	38	1.1
Košice IV	KE 4	28.1	10,096	18.7	41.0	52,305	35,196	3.8
Košice-okolie	KS	5.7	9,382	28.8	58.9	11,636	6,280	0.8
Michalovce	MI	17.5	9,593	31.0	57.3	9,150	62,716	0.8
Rožňava	RV	12.0	9,009	31.9	65.2	10,376	27,890	1.1
Sobrance	SO	9.3	7,720	31.5	61.1	15,799	1,601	0.3
Spišská Nová Ves	SN	15.2	9,962	27.6	57.5	10,592	30,031	0.7
Trebišov	TV	9.1	8,417	33.5	61.1	2,603	7,364	0.6

A – registered employment per 100 inhabitants

B – average monthly wage in Sk

C – dispensable unemployment rate

D – unemployed over 12 months per 100 unemployed

E – procured investment per inhabitant in Sk

F – industrial receipts per inhabitant in Sk

G – organizations with foreign presence per 1,000 inhabitants

Appendix 4. Economic indicators – ranking

District	Code	A	B	C	D	E	F	G	H
Bratislava II	BA 2	2	3	2	3	2	1	3	16
Bratislava III	BA 3	4	5	4	2	3	6	2	26
Bratislava I	BA 1	1	4	7	8	1	5	1	27
Bratislava IV	BA 4	17	1	1	1	5	2	4	31
Košice II	KE 2	7	2	30	24	9	3	19	94
Banská Bystrica	BB	3	31	10	11	11	24	8	98
Púchov	PU	8	7	12	19	18	9	26	99
Trnava	TT	15	10	14	12	13	13	23	100
Trenčín	TN	9	37	6	6	16	20	9	103
Ilava	IL	16	23	8	7	15	18	29	116
Skalica	SI	21	12	22	36	14	7	12	124
Nové Mesto nad Váhom	NM	35	20	15	15	10	17	17	129
Košice I	KE 1	5	19	29	32	7	35	5	132
Košice IV	KE 4	11	33	34	21	4	34	7	144
Žilina	ZA	10	16	24	33	22	25	16	146
Prievidza	PD	20	15	18	16	40	19	25	153
Piešťany	PN	24	18	11	10	24	61	10	158
Zvolen	ZV	14	42	16	13	23	43	13	164
Hlohovec	HC	36	13	17	17	17	12	55	167
Liptovský Mikuláš	LM	18	26	13	22	21	27	44	171
Žiar nad Hronom	ZH	13	9	44	34	19	4	48	171
Banská Štiavnica	BS	6	29	40	29	8	16	46	174
Nitra	NR	12	36	31	25	31	33	18	186
Bratislava V	BA 5	67	6	3	4	33	73	6	192
Malacky	MA	70	11	19	28	27	26	15	196
Považská Bystrica	PB	37	39	21	18	25	39	20	199
Senec	SC	65	14	5	5	41	60	11	201
Ružomberok	RK	26	17	26	42	29	8	64	212
Pezinok	PK	63	25	9	9	36	58	14	214
Martin	MT	29	21	27	55	28	29	27	216
Poprad	PP	19	32	45	49	30	22	24	221
Dolný Kubín	DK	27	30	48	38	39	10	35	227
Myjava	MY	28	34	25	20	57	36	30	230
Humenné	HE	41	22	57	56	12	14	38	240
Senica	SE	34	38	28	31	61	28	28	248
Šaľa	SA	49	8	51	48	59	11	43	269
Kysucké Nové Mesto	KM	46	27	50	58	6	38	45	270
Tvrdošín	TS	31	49	41	14	51	30	57	273
Prešov	PO	23	47	49	52	43	45	32	291
Bánovce nad Bebravou	BN	25	61	43	35	48	31	49	292
Turčianske Teplice	TR	33	59	23	39	46	57	36	293
Bytča	BY	66	51	20	27	34	41	56	295
Dunajská Streda	DS	45	58	35	40	44	52	21	295

Continued

District	Code	A	B	C	D	E	F	G	H
Partizánske	PE	30	52	36	54	45	54	31	302
Komárno	KN	40	67	55	51	47	32	22	314
Brezno	BR	47	24	47	71	64	21	51	325
Lučenec	LC	32	56	65	73	26	37	37	326
Michalovce	MI	39	41	73	65	42	15	54	329
Topoľčany	TO	53	53	33	44	53	46	50	332
Nové Zámky	NZ	54	50	56	50	55	42	33	340
Detva	DT	44	48	37	26	68	55	65	343
Galanta	GA	71	54	38	23	52	64	41	343
Žarnovica	ZC	57	43	60	47	35	47	66	355
Spišská Nová Ves	SN	52	35	68	67	37	40	60	359
Čadca	CA	61	71	46	37	49	62	34	360
Krupina	KA	22	55	42	59	58	51	74	361
Zlaté Moravce	ZM	50	44	53	41	66	49	63	366
Revúca	RA	43	28	78	78	54	23	70	374
Levice	LV	51	40	64	66	71	48	42	382
Rožňava	RV	69	57	75	77	38	44	40	400
Košice III	KE 3	79	45	54	30	75	79	39	401
Vranov nad Topľou	VT	59	60	66	53	63	50	68	419
Stropkov	SP	48	72	71	45	56	67	61	420
Snina	SV	42	73	52	57	73	59	67	423
Námestovo	NO	72	65	39	46	65	68	69	424
Košice-okolie	KS	78	46	72	70	32	74	53	425
Poltár	PT	38	64	58	64	70	56	79	429
Stará Ľubovňa	SL	68	75	32	43	72	76	73	439
Veľký Krtíš	VK	55	77	76	72	50	63	47	440
Medzilaborce	ML	60	63	59	63	79	65	52	441
Rimavská Sobota	RS	62	66	79	79	60	53	58	457
Svidník	SK	64	70	63	61	76	75	59	468
Bardejov	BJ	58	78	62	60	69	71	71	469
Levoča	LE	56	74	61	62	67	77	72	469
Sobrance	SO	75	79	74	74	20	78	76	476
Kežmarok	KK	73	62	67	76	62	66	75	481
Trebišov	TV	76	69	77	75	74	72	62	505
Gelnica	GL	74	68	70	69	78	70	78	507
Sabinov	SB	77	76	69	68	77	69	77	513

A – registered employment per 100 inhabitants

B – average monthly wage in Sk

C – dispensable unemployment rate

D – unemployed over 12 months per 100 unemployed

E – procured investment per inhabitant in Sk

F – industrial receipts per inhabitant in Sk

G – organizations with foreign presence per 1,000 inhabitants

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Pravda

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Nový Čas

Hospodársky Denník

Hospodárske Noviny

Slovenský Profit

Trend

Ekonom

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NADSME – www.nadsme.sk

The World Bank Group – www.worldbank.org

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Slovak Chamber for the Self-employed – www.zivnostenskakomora.sk

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Transparency International Slovakia – www.transparency.sk

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