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"FINANCIAL GAP" IN SMALL AND MEDIUM-SIZED ENTERPRISE FINANCE

Abstract: *Small and medium-sized enterprises (SMEs) are the backbone of all economies, as well as a key source of economic growth, dynamism and flexibility in advanced industrialised countries, emerging and developing economies. SMEs constitute the dominant form of business organisation, accounting for over 95% and up to 99% of enterprises depending on the country. They are responsible for between 60 – 70 % net job creation in OECD countries. Small businesses are particularly important for bringing innovative products or techniques to the market. Financing is necessary to help them set up and expand their operations, develop new products, and invest in new staff or production facilities. Due to the fact that a substantial portion of the SME sector neither has sufficient collateral required for collateral based lending, nor high enough returns to justify the risks taken by venture capitalists, these enterprises cannot obtain finance from the formal financial system, which leads to the SME financial gap. The paper deals with the reasons of the SME financial gap, its differences among the countries, discusses if it is possible to measure them and provides the proposals how to overcome it.*

Keywords: *financial gap, SME, collateral based lending, venture capital*

JEL : G 32

Introduction

SMEs[1] are vital for economic growth and development in both industrialised and developing countries, by playing a key role in creating new jobs.

[1] On 6 May 2003 the Commission adopted Recommendation 2003/361/EC regarding the SME definition which replaced Recommendation 96/280/EC as of 1 January 2005. The revision takes account of the economic developments since 1996 and the lessons drawn from the application of the definition. In particular, it raises the financial ceilings to take into account price and productivity increases since 1996 and introduces a typology of enterprises (difference between the three categories: autonomous, partner and linked) and a calculation method for the thresholds, which gives a realistic picture of their economic strength. It ensures that enterprises which are part of a larger grouping and could therefore benefit from a stronger economic backing than genuine SMEs, do not benefit from SME support schemes.

Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfil the criteria laid down in the Recommendation. In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both.