The State Support for small and Medium Sized Companies: General and Practical Aspects of Lithuania

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The purpose of this paper is to identify development possibilities of small and medium sized business in Lithuania.

The analysis includes the discussion of the peculiarities of state financial support in Lithuania. The major forms of state support, such as tax exemptions; financial support: credits on easy terms, total or partial covering of interest rate, guarantee reassurance and sponsorship, credit insurance, risk venture capital investments in SME, compensation of some expenditures (such as firm establishment, researches, guarantee taxes, credit insurance fees, quality certification and etc.), subsidies for the creation of workplaces; easy term consultations, trainings, qualification improvement and re-skilling for firms owners and employees and employers; business incubators, business centers, technological parks and their offered services; INVEGA (SCS Investment and business Guarantees), SME Development Funds are presented. Some other national, county and municipal support forms are defined.

As the opportunities of this paper are rather limited and don’t allow to evaluate SMEs position on Lithuanian level, Kaunas county was selected with the hope that through the survey results it could be possible to understand the common tendencies for SMEs in Lithuania. The next section presents the research of Kaunas district SME, which helped to identify the main problems of this sector and allow foreseeing some possible methods for the current situation improvement.

The last part is devoted to the project of intensification of SME development possibilities. The major attention was devoted to SME development promoting measures that does not require large financial investments and satisfy SME need presented in the survey.

Keywords: SME, financial support, business incubator, business center, SME development.

Introduction

Small and medium sized business in Lithuania is considered as one of the most promising sectors of the country’s economy. That is why it is important to stimulate the establishment of new enterprises of this sector and intensity of their activities. From the very beginning of Lithuanian independence redressing business people complain that the conditions for business development are not favorable. This topic is always analyzed in scientific literature with the purpose to understand the reasons which trouble the development of SME in Lithuania and to find out possible ways to eliminate the SME growth barriers.

The increasing importance of SME sector and its impact on world economic development conditioned the enlarged scientists and state management institutions attention, analyzing SME development processes, tendencies and perspectives and looking for the effective techniques to increase the benefits to national economical and social development from SME.

In Lithuania SME development problems elimination is very important: Lithuanian SME development agency is founded, national and regional business development projects are framed, institutions for technical and financial support to SME are and being established, SME development and encouragement programs of international institutions are implementing. The major purpose of all these measures is to create a favorable business environment for SME development.

Lithuanian integration into European Union raised new requirements to all economy sectors and SME. That is way an actual problem is to evaluate the current SME situation in Lithuania, identify problems SME faces mostly and to suggest methods how to intensify SME development possibilities.

The purpose of the paper – to identify the major forms of state support to SME sector and to evaluate the current situation of SME sector. To achieve this goal, some tasks are formulated:

- to view the most popular and common state support forms for SME in Lithuania;
- to evaluate the SME development possibilities in Lithuania;
- to suggest possible solutions for SME development limiting problems.

Research object – state support for SME in Lithuania.

Research methods: statistical data analyses, questionnaire, telephone inquiry and interview.

Possibilities to get state support for SME representatives in Lithuania

Nowadays in Lithuania in Eastern states (Germany, Great Britain and other EU countries) long ago settled small and medium sized business supporting models are
being designed.

In Lithuania from the beginning of the independence the major attention of National economy development policy is devoted to SME. Small and medium sized business growth in the state strategy up to the 2015 SME development is a compound Lithuanian activity.

Lithuanian small and medium sized business law sets the criteria for SME and available forms of support. As one of the support areas on the national level the tax exemptions are used. These financial exemptions are connected with the areas which the State could directly influence: tax decrease, expenditures compensation. One more very popular state support possibility – financial support from SME development Funds.

State support for SME is given according to the national, county and municipal SME development programs. The preparation and implementation of these programs are financed from national or municipal budgets and Funds sources. Preparing and implementing SME development programs the priority is devoted to small enterprises (and micro firms among them).

For the SME representative these state support forms could be acceptable:

1) tax exemptions and charge exemptions;
2) financial support: credits on easy terms, total or partial covering of interest rate, guarantee reassurance and sponsorship, credit insurance, risk venture capital investments in SME, compensation of some expenditures (such as firm establishment, researches, guarantee taxes, credit insurance fees, quality certification and etc.), subsidies for the creation of workplaces;
3) easy term consultations, trainings, qualification improvement and re-skilling for firms owners and employees;
4) establishment of business incubators, business centers, technological parks and their offered services;
5) all other national, county and municipal defined support forms.

Businessmen willing to start their own business or to expand their already operating business often face the business financing problem. Having the aim to improve the business financing possibilities the Government of the Republic of Lithuania established a guarantee institution – UAB "Investicijų ir verslo garantijos" (CSC Investment and Business Guarantees, INVEGA). The Ministry of the Economy is the founder and supervisor of INVEGA. INVEGA provides guarantees for bank loans for SMEs and administers loan interest subsidies for SMEs. Apart INVEGA, the Ministry of the Economy has established business information centers and business incubators, which provide a wide range of services: information, consultations, trainings, advertising; organize exhibitions, assist in foreign partner search.

The Law on Small and Medium-Sized Business established small and medium-sized business (hereinafter SMB) entities and forms of assistance applied to them. One of the forms of assistance is financial support using small and medium-sized business promotion fund resources.

Municipal institutions (local governments) may grant such financial support to small and medium sized business development using SMB promotion funds. The municipalities started to provide financial support to SMB in 1998. Initially, 26 municipalities out of total 56 provided funds to SMB promotion, in 2000 the number of municipalities supporting SMB grew up to 41 out of total 60, and in 2004 this number grew up to 56. Other municipalities provide support to SMB by allocating a share of funds received from privatization of municipal assets or other sources.

Within 1998-2004 the number of municipalities owning SMB funds, as well as the total amount of funds for SMB promotion increased. All these institutions (as well as SME development funds) are municipal institutions.

Since 1998 not only the number of municipalities, which have SME development fund had grown but also the devoted sums, which SME sector gets (from 1.5 mln. Lt in 1998 up to 6.5 mln. Lt in 2005).

In year 2005 municipalities planned to allocate about 7.8 mln Lt to SMB development funds. The main tendencies of the use of these funds continue to remain unchanged. As in preceding years, the municipalities will use these resources for privileged loans, subsidies of interest, promotion of the establishment of new workplaces, support of business development measures, i.e. organization of conferences, fairs, business missions, promotion of dissemination of business information and other objectives.

It is important to mention that financial support provided by the municipal SMB promotion funds may be used by small and medium-sized entities registered on the territory of the respective municipality.

SMB promotion funds prepare different programs, which could help to implement small and medium sized business support and development measures. Different training courses, consultations for SME representatives are organized, partly paying for this trainings, seminars and consultations.

From the statistics data it is easily seen, that not only the number of SME support institutions is constantly growing, but also the range of services is getting wider, because business information is not less important than lack of capital. But SME representatives feel that they need more support, especially for the business beginners, because business information is quit expensive and not easy to get. So the prime necessity is to raise the qualification of business incubators’ and business information centers’ employees that they could provide information on business planning, business psychology, business financial opportunities, partners, programs. Basic training programs on business start, management, planning, financial analyses, quality management, search for financial sources and business law could be useful.

In order to improve business incubators’ and business information centers’ employees’ qualification and service quality the financing of these institutions should be raised. Additional financing for incubators and business information centers should provide the Ministry of the Economy and institutions themselves have to prepare different project to secure the quality of the services. Business environment has to be improved through the
solutions of business regulation problems and strengthen business institutional infrastructure.

The survey on SMEs support and business promotion resources demand in Kaunas County

With an eye to find out the major state support forms for SMEs and the level of implementation of EU Structural funds sources, in March, 2006 the authors of this article prepared and performed Kaunas county small and medium sized business survey (100 enterprises were interviewed). As far as the opportunities of this article are rather limited and don’t allow to evaluate SMEs position on Lithuanian level Kaunas county was selected with the hope that through the achieved results it could be possible to understand general tendencies for SMEs in Lithuania. For the data processing, results evaluation and presentation the Excel program was used. Below the major results of the survey are provided:

- the first figure represents the level of usage of state support among SMEs.

![Figure 1. SMEs usage of state support Kaunas County, March 2006.](image)

SMEs mostly use tax exemptions (25 per cent of respondents), all the other state support forms uses 5-10 per cent of SMEs. 20 per cent of the respondents don’t answer to this question and even 15 per cent of SMEs never uses state support at all. During the telephone inquiry the common reasons for that were founded out (see figure 2):

![Figure 2. Common reasons why SMEs don’t use state financial support Kaunas County, March 2006.](image)

The majority of respondents mentioned the difficult and long procedures of getting state support (37 per cent) and complained about the lack of information about different state support forms. Only 8 per cent of all SMEs stated that they don’t feel any need of state support for their business. But almost all respondent wished to get state support and mentioned the following state support directions (see figure 3).

**SME promotion opportunities in Lithuania (Kaunas case)**

Small and medium size business (SMB) in Lithuania, as in other developed countries, is accepted as one of the main economic developments and national competitive ability growth factor. SME development directly influence the state opportunities to take part in world economical processes, which are influenced by globalization, integration and hyper competition forces, and general welfare of the citizens (Acs, Morck, Yeung, 1997).

![Figure 3. State support directions wanted by SMEs Kaunas County, March 2006.](image)

**SME development aims**

<table>
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<tr>
<th>Aims:</th>
<th>Aims implementing means:</th>
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<tr>
<td>Formation of favourable environment for establishment of the new SME and development of the existing.</td>
<td>• to low down the profit tax for newcomer businessmen from 15 to 10 per cent for the first 3 years.</td>
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<tr>
<td>Creation of the system which could provide business information, consultation, training services to SME representatives</td>
<td>• for innovative and investment project implementing companies low down the profit tax from 15 to 0 per cent.</td>
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<tr>
<td>• to train the municipality personnel, who could consult SMEs in different business development and attraction of financial courses, by the request from SMEs organize meetings with business consultants of particular areas.</td>
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<td>• implement a flexible discount system for the SMEs representatives taking part in different municipality’s organized seminars and trainings, compensate a part of expenses, taking part in training programs arranged by other institutions.</td>
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<td>• to develop a single information distribution network for Kaunas county SME’s through Kaunas county administration and municipalities.</td>
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The main SME development purpose – to expand
small and medium business, strengthen national competitive capacity and insure the economy growth and welfare creation.

To reach this purpose it is necessary to take into consideration consistent and intensive SME development in Lithuania and not only motivate enterprise and the establishment of new companies, but also make favorable conditions for already existing companies for development and spread. Table shows the main aims of SME development.

To implement these aims in series and effectively it is purposeful to separate them into tasks and short terms aims (Aleknevičienė, 2004).

For the formulation of other aims it is worth to use this aim-formation (Pačesa N., 2002):

- Activate enterprise action, stimulate advantages of SME sector and make favorable assumptions in business environment to establish new companies and encourage them to develop;
- Decrease the negative impact of business environment factors and help to solve and eliminate the disadvantages of SME, which limit business function and development.

Detailed tasks are the background for the SME development program to accept. Systematically and purposefully implementing these tasks, it is possible to achieve fast and good results giving development of economics.

Effective SME development and its successful implementation may insure further increase in Lithuanian economics and better integration into EU.

Before the formulation of Lithuanian SME development strategy, it is necessary to consider these 2 SME stimulation directions:

- formation of SME environment;
- sponsorship of SME representatives.

Formation of the business environment, which could positively influence the establishment of new companies, investment and development, is a very important task (Acs, Audretsch, 1993). The implementation of this task could insure the business development and economy growth. This is a state future investment in general welfare.

In time and purposefully made tax reduction or exemption later will dividend as a successful investment with the results – effectively functioning and growing companies, increase in new workplaces, the increase income of state budget.

Business information distribution by Internet, regularly updated program with legal and economical information, the preparation of a database for SME could save information search time and expenditures for small and medium size business representatives.

It is supposed, that in Kaunas county administration and in all municipalities is purposeful to organize SME subdivision, which could take care of SMEs and their problems. The employees of this subdivision could provide information about business registration, reorganization, liquidation, and all other important questions. By this, the model of “single window” could be implemented. The main aim of this model – to provide single and understandable action chain, which could effectively and quickly solve problems of visitors. The implementation of this model in Lithuanian municipalities could provide visitors with opportunity to order necessary services not only be telephone, but also by Internet and e-mail.

In Vilnius municipality the principle of “single window” is already being implemented (“Single window” means, that you get all necessary information at one place, and from one person, who is responsible for getting information from others and provides it to that person, who needs it). For the SME representatives of Kaunas county administration and municipalities application of this model could help to get quickly the necessary information and solve problems. To implement “single window” in Kaunas it is suggested to use below described model.

In Kaunas county administration it is worth to select a phone line with a short number. It is important, that all call should be assessable by the regular tariffs according to the phone plan of the caller with the purpose not to increase the communication expenditures of the small and medium companies.

According to the “single window” implementation in Vilnius, it is suggested to provide business consultations by:

- phone (as the information serves 118, with the exception, that information would be provided only to SMEs);
- internet (opportunity to ask questions and get replies by e-mail, forum or FAQ (frequently asked questions);
- directly in the municipality with the help of the SME subdivision employee.

Information provision by all these means would require the cooperation and collaboration of different institutions, but it allows to save time for businessmen and to “survive in the information flows”.

One more reason of the implementation of “single window” principle in Vilnius is to decrease the level of corruption, because all documents are collected at one place and visitors don’t have any contacts with the decision making people. By decrease of corruption and bureaucracy the administrative procedures become less complicated as well.

With the purpose to incorporate the public into decision making, Vilnius municipality established Public interest representative committee, in which influential, in public life taking part citizens work (Perednienė, 2005). It is supposed, that Kaunas could also use this experience at town and county levels.

Science and innovation are two priorities. Their development could ensure the increase in national competition and growth of economy. People and ideas assume the major importance. Without enough attention to their development the competition level could decrease and visa verse, additional attention could help to bring up intellectual citizens with original ideas. This could help Lithuania to become an influential state among EU members.

As it was already mentioned, nowadays in Lithuania there are these SME support institutions: business incubators, business information centers, SME promotion funds. But at the county level there are no institutions, but with
their establishment, the SME supporting institutions could better coordinate their actions, take part in common projects, share experience and cooperate. The example of such cooperation — “Business plan competition”, which was initiated by Vilnius North town technology park and joined together Kaunas technological institution regional business incubator, Siauliai university science and technology park, Klaipėda science and technology park.

But the support system, with the background of SME support centers situated in different country regions has two major disadvantages:

- it is very expensive for the state;
- state institutions, as a rule, are not very effective.

That is why it is worth to establish a virtual business incubator with the purpose to supply SME businessmen with information, to organize seminars and trainings with the help of cheap and effective Internet support. Traditional incubators are expensive and some times not effective way to promote SME according to dynamic business environment conditions. The authors of the paper suggest to establish a virtual „Business club“, where SME representatives could together solve problems, with the help of businessmen unification organizations to initiate different corrections and riders in law acts, jointly implement projects. It is supposed, that this initiative could implement Small and medium size business promotion agency, with the help of which SME representatives could take part in the virtual discussions. If this “Business club” was established in Kaunas county, it would be only in this region registered SMEs could have access to it.

But all this business measures are not essential for success and competition. The major ones are knowledge and information, which should be effectively presented and updated. With the help of the Internet it is possible to update databases, training programs and virtual consultations, prepare and publish different development programs for export, innovation, tourism and so on.

This directive of SME promotion would be directed to particular sectors of economy and motivate SMEs to be more active. So, by this, SME promotion would be pointed to perspectives, important state and national areas. It is very important in the case of limited financial sources.

To achieve above stated aims, the complex of the presented measures does not require huge financial and intellectual sources. The lack of these sources even could block and disrupt SMEs and the development of this sector. That is why, promoting SMEs the question of sources gets high importance.

Aiming to approve the validity of the suggested measures in case of limited financial sources, it is worth to concentrate attention on those measures, which require less financing, but give better results and benefits for the formation of business environment.

Conclusions

As the experience of other developed countries shows, small and medium size business is the major force of state economy and the guarantee of social stability. SMEs abundance is the feature of growing and competitive economy and the state support for SMEs is a separate part of economical policy. The range of forms and methods of support for SMEs is really large and the state policy in this area is an important task of the state inside policy.

As the research showed, SMEs representatives of Kaunas county feel the lack of information about state support forms and are not active in applying both for state support and EU structural funds. As the main reason of being passive they mentioned the lack of internal sources. It is supposed that SMEs in other Lithuanian counties have the same or very similar problems.

The majority of SMEs even if they have enough information about state support and other services for SME sector, don’t use the opportunity to get them. Among the major problems the difficult procedures and the lack of qualified personnel, who could fill in the application form or frame the project, are mentioned. That is why it is really important, that state financial support for SMEs should be well organized and easily accessed.

In the paper presented SME development promoting measures do not require large financial investments, but the perspectives of SME development of Lithuania in some cases depends on the implementation of suggested measures.

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Valstybės parama smulkiųjų ir vidutinių verslų: bendras ir prakčinė aspektai

Santrauka

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