# SMALL AND MEDIUM-SIZED ENTERPRISE DEVELOPMENT: THE EUROPE'S CONTEXT

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Small and medium-sized enterprise (SMEs) development is a critical factor in ensuring economic development and generation of the national wealth through innovation and new knowledge formation, job creation and employment, value added creation and opening new markets, resilience provision in crisis conditions and rapid adaptation to new economic realities. SMEs strategic development demands the formation of a balanced integrated multi-structural mechanism of initiatives at different levels of governance - local, regional, national and supranational to create the supportive business environment and stimulate business activity, which determines the efficiency of the multi-level SME development policy.

SMEs play a leading role in the European economy as a factor of economic growth, employment and innovation. According to the Annual Report on European SMEs, 22 mln SMEs operate in the EU accounting for almost 99% of all EU enterprises, 58% of gross value added and providing two thirds of employment in the private sector.

Once the British economist Ernst Schumacher popularized the phrase “small is beautiful” in opposition to the expression "the more the better" to emphasize the advantages of small-scale enterprises in the context of the optimal size of an organization, however, SMEs efficiency can be limited by a number of barriers. According to the Annual Report on European SME's 2015-2016, European entrepreneurs identify such barriers to SME development as the search for clients (25%), lack of qualified experienced staff and managers (18%), competition (14%), regulatory pressure (13%), production or labor costs (13%), access to finance (10%).

SME support is one of the priority areas of the EU policy. Adopted in 2008, the Small Business Act for Europe is the key document defining the overall EU strategy and national SME development policies for EU member states.

In terms of financial support, SMEs in the EU have access to direct and indirect funding. Direct funding is realized through grants and contracts. Grants are provided to businesses or business related organizations (business associations, business support providers, consultants, etc.) for specific projects related to the EU policies. Indirect funding is provided by the European Structural and Investment funds to national and regional authorities and it constitutes almost 80% of the EU budget.

The EU cohesion policy is one of the main sources of investment and financial assistance to SMEs. Information on financing from the European Structural and Investment funds in the framework of co-financing policy is published by the national and regional authorities that manage financial resources. Various financial instruments of the European Investment Bank and the European Investment Fund (loans and microcredits) are provided through local financial intermediaries that offer SMEs loans on preferential terms.

The European Structural and Investment Funds give preference to SMEs in a variety of thematic programs implemented in the regions, including the SMEs competitiveness - one of the 11 thematic areas of the Regional Policy Priorities for 2014-2020. SMEs can also receive funding from other thematic areas that include an entrepreneurial component. Investment in thematic areas, such as research and innovation, information and communication technologies, SMEs competitiveness, low carbon economy, are mainly funded by the European Regional Development Fund, which provides around 20% of the funds for SMEs. The European Social Fund finances education and training for entrepreneurs. The Cohesion Fund, the third in the framework of cohesion policy, is less relevant for SMEs, as the finance is mainly directed towards public projects on ecology and transport infrastructure. In addition to the three above mentioned funds, SMEs in rural and maritime regions can also benefit from the Rural Development Fund and the European Marine and Fisheries Fund.

The EU funding is available to all types of companies of all sizes and sectors (entrepreneurs, start-ups, micro-companies, small, medium and large enterprises) through a wide range of financing: business loans, microfinance, guarantees and venture capital. The financing decision is made by the local financial institutions or investors, such as banks, venture capital funds and business angels.

The EU supports the development of entrepreneurship also within a wide range of the European Commission programs, whereby SMEs can apply for direct funding (COSME, InnovFin, SME Instrument, Creative Europe, Program for Employment and Social Innovation (EaSI)).

Besides the support on the behalf of various EU institutions, a fairly new alternative SMEs finance-generating mechanism is gaining its pace in the European community, which is crowdfunding defined as attraction of funds to finance projects and businesses through voluntary collection of financial or other resources, usually based on Internet platforms. Currently, there are 510 Internet crowdfunding platforms operating in the EU, of which 193 have sufficient, consistent data on project activities that meet the requirements for crowdfunding performance. According to the European Commission survey, the UK has the largest number of Internet crowdfunding platforms, which constitute more than a quarter of all crowdfunding platforms and over 90% of the total capital raised through crowdfunding in Europe. Other crowdfunding leaders are France, Germany, the Netherlands and Italy.

As a progressive SMEs financing tool, crowdfunding has a number of non-financial benefits, such as validation of a business concept or project; receiving a meaningful feedback to the initiated business concept or project on the behalf of experts' environment without additional costs; a significant marketing tool to promote a new product, service or company; acquiring a better business reputation for other forms of financing (bank credit, venture capital, private investment), since a successful crowdfunding project provides the image of a lower risk business entity.