NORTH ATLANTIC TREATY ORGANIZATION

Financing the Development of SMEs (the Use of Risk Capital)

Final Report

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FINANCING THE DEVELOPMENT OF SMES
(THE USE OF RISK CAPITAL)

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Abstract

The below-presented abstract of the final report is in compliance with the **NORTH ATLANTIC TREATY ORGANISATION** Research Fellowship **Financing the Development of SMEs (the Use of Risk Capital)**.

The present report has been prepared according to the following structure: the role of small and medium-size enterprises in Europe and Lithuania (SMEs in the European Union, SMEs in Lithuanian economy); small and medium-size enterprises in Europe (definition of SMEs in EU and in Lithuania, EU policy for SMEs support, Lithuanian policy for SMEs support); financing sources of SMEs (financing and support for SMEs in EU, enterprise funding sources in Lithuania); venture capital in Europe (European experience, experience of Denmark, Great Britain, Germany, Hungary, and Lithuania).
The conclusions and suggestions, as well as references are also provided.

The actual material of the work is based on the importance of SMEs both in the European Union countries and Lithuania, revealing the role of SMEs in economy and economic policy of the states in supporting and financing SMEs.

Special focus is given to the SMEs financing aspects. Detailed information is furnished on the financing opportunities of SMEs in Lithuania, conditions and legal environment, as well as institutional structure.

The project indicates the financial sources used in Lithuania: preferential credits granted through commercial banks, bank credits, funds, risk capital funds, Credit Unions, Labour Exchange, and Governmental Programmes.

Of financial sources, risk capital funds are distinguished. The report shows the experience of the European Private Equity and Venture Association, Danish Venture Finance, British Venture Capital, Germany Venture Capital Association, Hungarian Venture Capital Association in this sphere. Analysis is made of the use of venture capital in Lithuania.

Risk capital funds operating in Lithuania, their investment criteria and experience have been elucidated. Material is provided about the projected Small and Medium-size Business Risk Fund in Lithuania, the regulations of its activities.

Key words: SMEs, Financing of SMEs, Venture (risk) capital, Venture capital funds, seed, start-up, expansion, MBO, MBI.

CONTENT

INTRODUCTION

Presented below is the final report in compliance with the **NORTH ATLANTIC TREATY ORGANISATION** Research fellowship **Financing the Development of SMEs (the Use of Risk Capital)**.

Final report in accordance with NATO research fellowship requirements is concise and provides final results of the project: data on small and medium enterprises (SMEs) in Europe and Lithuania; definition of SMEs in EU and Lithuania, foundation of such companies in Lithuania and their financing sources (preferential credits, programmes of the Labour Exchange and the Government and risk capital structures).

The report devotes special attention on SMEs financing – sources and institutions, effecting financing, specially focusing on the use of risk capital.

Experience and results of the use of venture capital in financing SMEs achieved in Western Europe are impressive, indeed. For Lithuania as one of the transitional countries seeking EU membership the use of risk capital would strengthen SMEs and simultaneously the entire economy, giving the possibility to cope with competitive pressure of market economy.

In preparing a project, analysis was made of the best experience of EU countries – Great Britain, Denmark, Germany and others, achieved in the sphere of supporting and financing of SMEs.

Within the period of developing the project “Financing the Development of SMEs” (1998-1999) the first risk capital fund was established in Lithuania, namely, Baltic Small Equity Fund, which is the only one that is active in investing in SMEs at the expansion stage.

As compared to EU and Central European states, Lithuania has been lagging considerably in the use of risk capital. The establishment of the Risk Capital Fund for Small and Medium Business has been still in its preparation stage.

With the project progressing, insufficient informativeness of market players about the possibilities of using risk capital came out on the one hand and lack of activity of risk capitalists on the other hand.

However, despite of insufficient activity, the results of the activities of risk capital are important not only for the implementation of the project, but may also have an impact on the export of risk capital to Lithuania and its establishment in Lithuania.

The project results afford a good opportunity to further delve into the issues relevant to the possibilities of the use of risk capital in Lithuania and to suggest measures for speeding up this process.

I. THE ROLE OF SMALL AND MEDIUM-SIZE ENTERPRISES IN EUROPE AND LITHUANIA

I.1. SMEs in European Union

SMEs account for 99.8 percent of all companies, 66 percent of total employment and 65 percent of business turnover in the European Union.

Net job creation in SMEs has more than compensated for job losses in large enterprises during the period 1998 to 1995. Enterprises with fewer than 100 employees have been responsible for almost all the job creation at the rate of 259,000 net jobs per year (in EU and Norway). This trend is expected to continue. During periods of recession small enterprises shed jobs more slowly and absorb economic shocks better than large companies.

Despite some encouraging data concerning SMEs, European SMEs full potential for growth and employment creation in not being properly realised. On average 50 percent of SMEs in the EU fail within the first five years of start-up, a significant attrition rate with corresponding job losses.

There are considerable differences in net job creation between SMEs and large enterprises, as well as in survival rates of enterprises between Member States, which demonstrates the potential for additional job creation (the highest in The Netherlands and the lowest in Portugal).

Among the factors offering new opportunities for SMEs are the growing importance of the service sector (in particular business service), the increasing role of technologies favouring small scale production, easier access to global markets (including Information Society) and the move towards outsourcing, subcontracting and downsizing by large firms. SMEs development is also essential for maintaining social and economic cohesion and assisting rural development.

Thus, small and medium-sized enterprises:

- Play a key role in terms of growth and generate above average share of new jobs;
- Has potential for growth and employment creation.

The European Commission recommends to the Governments of the Member States to devote as much attention as possible to the problems of SMEs on account of the following reasons:

Macro reasons:
- Presence of SMEs is a sign of growing economy;
- Such enterprises attract more dynamic people – businessmen;

- SMEs are more flexible with respect to the market changes;
- This kind of business lays a much firmer foundation in the national economy;
- SMEs often grow into large companies;
- SMEs are one of the principal elements of sound economy.

Micro reasons:

- A short "life cycle" of SMEs;
- High production costs on account of small amount of production;
- SMEs businessmen have no means to conduct engineering investigations;
- SMEs lack means to update equipment and technologies;
- Such enterprises have no sufficient means to conduct the market research, to launch advertising campaigns;
- Credits are expensive to SMEs on account of an increasing risk.

Special attention in the given work is devoted to the financial aspects of SMEs development.

I.2. SMEs in Lithuanian economy

As of January 1, 1998 over 140 thousand enterprises have been registered. On January 1, 1999 over 153 thousand enterprises have been already registered, i.e. increased by about 10 thousand per year. During five months of 1999 the number of enterprises increased by 3 thousand more. About 70 percent of enterprises that have been registered on January 1, 1999, operated, and 30 percent have discontinued their activities. Enterprises that discontinued their activities is the potential reserve for SMEs growth.

The structure of industrial enterprises by number of employees is presented in Table1.

In mining, quarring and manufacturing 31 percent of enterprises had up to 0-9 employees, 10-19 employees – 20 percent of enterprises, 20-49 employees – 20 percent of enterprises, 50-99 employees – 10 percent of enterprises, 100-199 employees – 8 percent of enterprises, 200-499 employees – 7 percent of enterprises, over 500 employees – 4 percent of enterprises.

Table 1. Industrial enterprises by number of employees in 1996
(as of December 31, sole proprietorships excluded)

		Size							
		Total	0-9	10-19	20-49	50-99	100-199	200-499	500 & over
Mining, quarrying and manufacturing	**1** **2**	**2587** **239500**	**801** **3801**	**509** **7035**	**522** **16641**	**269** **18753**	**213** **29920**	**174** **54128**	**99** **109222**
Manufacture of food	1 2	456 51362	88 422	86 1181	90 2852	68 4875	59 8444	39 12769	26 20819
Manufacture of textiles	1 2	119 28836	25 97	13 178	20 661	16 1148	13 1754	17 5847	15 19151

Manufacture of wearing apparel	1 2	225 23375	59 291	41 563	51 1729	22 1380	26 3601	17 5042	9 10769
Publishing	1 2	213 6228	99 519	56 694	34 1005	12 877	7 1014	4 1297	1 822
Manufacture of wood	1 2	484 15186	204 969	106 149 8	116 3611	32 2258	12 1714	12 3195	2 1941
Manufacture of machinery and equipment	1 2	128 20511	28 106	16 122	21 707	25 1594	17 2492	12 3431	9 11959
Manufacture of furniture	1 2	164 11225	51 248	31 414	36 1099	17 1113	10 1475	17 5353	2 1523

1- number of enterprises; 2 – number of employees in industrial activity
Sources: Statistical Yearbook of Lithuania, 1998, p. 268

Thus, more than 70 percent of manufacturing enterprises in Lithuania have up to 20 employees, this being in conformity with the category of small and medium enterprises.

SMEs in 1996, if calculated from the total number of enterprises, accounted for 10 percent of food sector enterprises, 2 percent of textile sector enterprises, 6 percent of manufacture of wearing apparel enterprises, 16 percent of wood sector enterprises, 7 percent of publishing sector enterprises, 3 percent of manufacture of machinery and equipment sector enterprises, 5 percent of manufacture of furniture sector enterprises.

In the food industry itself small enterprises constitute 57 percent of the branch enterprises, in textile – 48 percent, wearing apparel enterprises 67 percent, manufacture of wood – 88 percent., publishing – 89 percent., manufacture of machinery and equipment – 50 percent, manufacture of furniture – 71 percent.

In SMEs of Lithuania in 1996 over 27 thousand employees (11 percent of working in industrial enterprises) worked.

In addition, as of June 1,1999 there were 95 081 personal enterprises registered in Lithuania, which mostly work on family contractual basis, the number of the employees not exceeding 9 people. The number of employees here is also attributed to the small business.

With the start of the establishment of the private sector in Lithuania, upon completion of the first (small privatization) privatization stage, quite many of small enterprises have become established in the services sector. At the beginning of 1998 the distribution of small enterprises according to the spheres of activities was as follows: 9.1 percent in manufacturing industry, 7 percent in construction, 16.6 - percent real estate, leasing, 20.2 percent – services, 41.3 percent - trade, 5.8 percent – other activities.

Of private enterprises operating in Lithuania where in 1996 worked 67 percent of all employed, SMEs constitute 90 percent.

The data provided show the importance of SMEs in Lithuania in the job creation and provision of jobs to the population.

SMEs in Lithuania possessing a considerable share in the economy also have problems that are indicated by the entreprenuers themselves. These are:

- lack of financial funds;
- the unfavourable existing financial and crediting system regarding small business;
- bureaucratic barriers in establishing and liquidating enterprises, etc.:

Among most important problems as indicated by SMEs are financial problems.

Conclusions

- In the European Union SMEs are of special importance. 99.8 percent of all companies are SMEs, 66 percent of total employment and 65 percent of business turnover belong to SMEs.

- SMEs in the European Union create far more jobs than major enterprises, thus still more increasing the importance SMEs.

- Of the enterprises operating in Lithuania, about 90 percent constitute SMEs, with almost 70 percent of the total number of the employed population.

- The significance of SMEs for the growth of economy and employment increase deserves special attention in the solution of SMEs problems, especially financial ones.

II. SMALL AND MEDIUM-SIZE ENTERPRISES IN EUROPE

II.1. Definition of small and medium-size enterprises in the European Union

There was no uniform standard in the European Union countries in differentiating between small, medium and big enterprises.

The European Commission has adopted a Recommendation concerning the definition of SMEs which now provides a clear global framework for all measures directed towards micro-, small and medium-size enterprises.

The adopted definition is as follows:

1. Small and medium-size enterprises, hereinafter referred to as "SMEs", are defined as enterprises which:

   - Have fewer than 250 employees,
   - Have either an annual turnover not exceeding ECU 40 million or an annual balance-sheet total not exceeding ECU 27 million;
   - Conform to the criterion of independence.

2. "Small enterprise" is defined as an enterprise which:

   - has fewer than 50 employees,
   - have either an annual turnover not exceeding ECU 7 million, or an annual balance-sheet total not exceeding ECU 5 million:
   - Conform to the criterion of independence.

3. "Micro-enterprise" is defined as an enterprise which:

   - Have fewer than 10 employees.

	Micro-enterprises	Small	Medium-size
Max. number of employees	<10	<50	<250<250
Max. turnover (in million ECU)	-	7	40
Max. balance-sheet (in million ECU)	-	5	27

To be classed as an SME or micro-enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25 percent owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME or micro-enterprise, whichever may apply. The thresholds for the turnover and the balance sheet total will be adjusted regularly, taking into account changing economic circumstances in Europe (normally every four years).
Prior to January 1998:

Criterion	Definition of an SME
Number of employees	500
Turnover	<ECU 38 million
Or Balance Sheet	None

The earlier ownership requirements: less than 33 percent owned by non-SME except bank or venture capital company.

The Commission undertakes to adopt the appropriate measures to adapt statistics that it produces in line with the following size-classes:

- 0 employees
- 1 to 9 employees
- 10 to 49 employees
- 50 to 249 employees
- 250 to 499 employees
- 500 employees plus.

Such recommendations are valid for all EU states.

II.2. Definition of small and medium-size enterprises in Lithuania

The Law on Small and Medium-size Business Development of the Republic of Lithuania, enforced on January 1, 1999 (adopted on November 24, 1998 No. VIII-935**)** has replaced the previous Law on Small Enterprises and specified small and medium-size business entities and forms of support applicable in their respect.

In the first reading of the Law on Small enterprises (1992) in force until 1 July 1995, small enterprise was defined only by number of employees, which not exceed 100 persons.

According to the Law on Small Enterprises (1995), a small enterprise was an enterprise that didn't have more than 50 employees and the general annual income of which did not exceed LTL 500 000.

The Law on Small and Medium-size Business stipulates the following small and medium-size business entities:

1) physical persons and entities that do not have the rights of a legal entity and that have acquired business licences;
2) micro enterprise – individual (sole proprietorship) enterprise that employs only the members of one family (husband and wife, parents, step-parents, children, step-children);
3) small enterprise – an enterprise with the average annual number of employees not exceeding 9 and the gross income – LTL 1 millin;

4) medium enterprise – an enterprise with the average annual number of employees not exceeding 49 and the gross income – LTL 5 million.

In Lithuania small and medium-size enterprises are defined as enterprises which function in accordance with the Law on Small and Medium-size Business and Law on Enterprises (24 Nov., 1998) include:

- individual (sole proprietorship) companies;
- general partnerships;
- limited partnerships;
- limited joint stock companies;
- joint stock companies;
- agricultural companies;
- other companies.

In 1997 individual (sole proprietorships) enterprises from total number of SMEs constitutes 73 percent, limited joint stock companies – 21 percent, joint stock companies – 1.2 percent, agricultural companies – 3.2 percent, general partnerships – 1 percent, other – 0.6 percent.

II.3. EU policy for SMEs support

All Member States of European Union have strengthened their policies for SMEs. The objective of many of these measures is to both preserve jobs by supporting existing SMEs and create new jobs by supporting business start-ups and the development of firms with high growth or employment potential.

European Union plays an important role by reinforcing the co-ordination of regional, national and Community policies and programmes (Integrated programme in Favour of SMEs and the Craft Sector, 1993), helps to create an open and stable business environment for enterprises through two of its major strategic goals, namely by implementing the Internal Market and establishing Economic and Monetary Union.

Although SME policy now ranks higher than ever on the political agenda, the European Commission believes that much more can be achieved through a fresh approach focused on several priority areas. It has targeted the regulatory environment, innovation market, labour and human resources market, financial market, and product and services market.

This new strategy was originally outlined in the Report "Small and Medium-size Enterprises: a dynamic source of employment, growth and competitiveness in the European Union", which was adopted by the Commission on 29 November 1995 for presentation to the Madrid European Council in December 1995.

The report stressed the importance of stimulating a truly entrepreneurial culture throughout the EU if the full job creation potential of SMEs is to be unlocked. This required a change of

attitudes, starting in the education and training systems and continuing through the relationship between the entrepreneur and public administrations, financial institutions and large businesses.
To achieve this goal, the Commission proposed a number of priority policies and measures to be undertaken by Member States and the EU. These form the basis of the Third Multiannual Programme for SMEs and the Craft sector, for the period 1997-2000.

The Proposals of Commission:

1. Reduce Red Tape, which hampers European entrepreneurship:
   - Develop a bold strategy of administrative and regulatory simplification;
   - Make access to SMEs programmes simpler and more streamlined.

2. Ensure better involvement of SMEs organisations in the decision-making process:
   - Improve consultation of SMEs organisations when preparing policies.

3. Help finance SMEs, which create new jobs:
   - Reduce (and eventually eliminate) tax discrimination between equity and debt;
   - Encourage the creation of capital markets for SMEs in Europe;
   - Extend the Edinburgh SME Loan Facility by 2 billion ECUs;
   - Provide cost-free loan guarantees for small enterprises (in particular from the European Investment Fund).

4. Reduce market distortions and inefficiencies:
   - Introduce competition into protected markets and minimise market distortions from State Aid;
   - Expand public procurement opportunities for SMEs, including cross-border procurement.

5. Vigorous action to promote Research / Innovation / Training to assist SMEs:
   - Encourage the creation of new technology based firms;
   - Ensure greater participation by SMEs in the Community's major research and training programmes.

6. Enhance the competitiveness and internationalisation of SMEs:
   - Complete the Internal Market;
   - Improve networking, export assistance and industrial co-operation.

II.4. Lithuania policy for SMEs support

Policy of the Government of the Republic of Lithuania for SMEs

The Government of Lithuania regards the development of Small and Medium-size Business to be one of the most important economic policy tasks. SMEs development is to be assessed as the means for achieving labour market balance and implementation of employment policy. Therefore, new legal acts regulating small and medium businesses have been adopted, new institutions established, and those existing involved in the promotion of business development are being strengthened. The policy pursued by Government in this sphere is oriented towards the creation of a SMEs-friendly legal and economic environment, the elimination of bureaucratic barriers, the formation of a technical and financial support system, the improvement of business infrastructure and business self-governance.

The Government by its Resolution No. 15 of January 8, 1998 approved a Small and Medium-size Business Development Programme that was devised pursuant to EU recommendations on the promotion of small and medium business development. While implementing this Resolution, a model for the creation of regional small and medium business development programmes has been prepared.

On May 14, 1998, the Government approved the regulations of the Small and Medium Business Development Fund. The Fund is aimed at accumulating resources of the Privatisation Fund that were allocated by resolutions of the Government, State budget assignments and resources from foreign donor funds.

The Business Development Board in accordance with established procedures adopts decisions for the use of the Fund-allocated resources. The funds shall be used for giving guarantees for loans granted to small and medium business, as well as for the establishment of business incubators and covering of their operating expenses, the development of business infrastructure, the creation and development of a business information system, business publications, partial crediting for the preparation of regional and target programmes and their implementation, the training of entrepreneurs, consulting and for promoting other small and medium size business development activities.

In 1998, the Business Development Board approved the procedure for consultancy and training of small and medium entrepreneurs, whereby small entrepreneurs can be consulted and improve their qualifications under easy terms. In order to expand the activity of the Small and Medium Business Development Fund, the Government approved the Resolution on 20th May 1999. It lays down the procedure of partial compensation of credit interest (up to 50 %) of loans for disabled individuals engaged in economic activities; small and medium business enterprises and individuals (up to 3 years from the beginning of the activity), including private practise physicians; farmers, co-operative companies of farmers and farmers partnerships for acquisition of new agricultural machinery.

From January 1, 1999, a Law on Small and Medium-size Business Development has come into force. This specifies small and medium-size business entities, as well as forms of applicable support thereof.

On June 26, 1998, standard articles of incorporation of business incubators were approved. The uniform business incubator incorporation and development scheme was prepared, as well as the procedure for provision of State financial support to the foundation and development of business incubators.

The SMEs Development Agency, business consulting centres and the Lithuanian Chamber of Commerce, Industry and Crafts assist small and medium enterprises to exchange information with EU businessmen, and to assimilate the EU *acquis*, in creating a legal basis, regulating small and medium business activities and terms. In December 1998, a home page was created on the Internet for private business beginners. Here, information is supplied on business regulating laws, the forms of ownership of enterprises, their registration procedures, forms of support to entrepreneurs, and addresses of consulting firms, as well as other important business-relevant information.

In addition to the previously undertaken export credit insurance and political risk insurance, it has been permitted to effect insurance of credit against goods and insurance of loans received by small and medium enterprises for investment projects.

The legal environmental

In addition to the mentioned laws and resolutions of the Government, implementing the policy of SMEs regulation and stimulation, other laws have been adopted in Lithuania to regulate the general business environment.

The Company Law regulates the foundation and activities of persons who have the right to engage in regular economic and commercial activities on behalf of their company.

Foundation of companies, their legal status, activities, registration and liquidation are stipulated in the Company Law, laws on different types of enterprises (Public Company Law, Law on Partnerships, Law on the Register of Companies, etc.) contracts for corresponding activities, by-laws and other normative documents.

Business in Lithuania is regulated by a number of laws, of which most important are:

- The Law on the Farmers' Households of the Republic of Lithuania (4 July 1989 No. XI-3066).
- The Law on Enterprises of the Republic of Lithuania (8 May 1990 No.I-196).
- The Law Taxes on Profits of Legal Persons (31 July 1990 No. I-442).
- The Law on Competition of the Republic of Lithuania (September 1992)
- The Company Law of the Republic of Lithuania (5 July 1994 No.I-528).
- The Law on the Register of Enterprises of the Republic of Lithuania (8 May 1990 No.I-440).
- The Law "Concerning the Enforcement of Amendments to and Supplement of Company Law of the Republic of Lithuania (adopted on 17 April 1996).
- The Law on Tax Administration of the Republic of Lithuania (28 June 1995 No. I-974).
- The Law on Partnership of the Republic of Lithuania (16 October 1990 No. I-676).
- The Law on Agricultural Companies of the Republic of Lithuania (16 April 1991 No. I-1222).
- The Law on State Social Insurance (21 May 1991 No. I-1336).
- The Law on Employment Contract of the Republic of Lithuania (28 November 1991 No. I-2048).

- The Civil Code of the Republic of Lithuania (1994).

In accordance with the Law on Small and Medium-size Business, support to SMEs is foreseen:

1. Support to small and medium business entities is provided according to the small and medium business development programmes of the Government, counties or municipalities.

2. Preparation and implementation of small and medium business development programmes are financed from the resources of the Government and (or) municipality small and medium business promotion funds.

3. Funds for small and medium business promotion are foreseen from the State budget, municipality budgets and are allocated by a decision of the Government from the funds of the Privatisation fund.

4. Entrepreneurs and their organisations prepare business development plans and implement them by participating in small and medium business development programmes effected by the Government, counties or (and) municipalities.

Small and medium business entities can use the following forms of support:

- tax loans and tax privileges in the procedure prescribed by the laws;
- financial support from small and business development funds;
- financial support of the Government and municipalities according to small and medium business development programmes;
- consultancy and training services on easy terms according to business development programmes;
- services of business incubators and technological parks;
- support of the guarantee institutions established by the Government and (or) insurance enterprises as well as other institutions promoting business development;
- professional improvement services under easy terms according to business development and employment programmes;
- State order preference;
- support for new job creation;
- microcrediting systems for business beginners;
- accelerated amortisation is applied.

Forms of that support shall not be applicable to the following small and medium business entities:

- State and municipality enterprises;
- enterprises where more than ½of voting shares belong to the State and municipality ownership;

- enterprises where more than ½of voting shares belong to other enterprises, not falling within the definition of small and medium business entities;
- enterprises, involved in the following not encouraged activities: hunting and relevant activities, manufacture of alcoholic beverages, manufacture of tobacco products, motor vehicle fuel retailing, wholesale, retailing of alcoholic beverages and tobacco products, financial intermediation, accumulation of insurance and pension funds, supporting financial intermediation, real estate operations, legal activities, activities for organisation of gambling games and wager.

The privileges for enterprises and conditions for their granting have been indicated in the laws of the Republic of Lithuania:

- for legal persons the total income of which within the taxable period does not exceed LTL 1 million and the average number of the listed staff is less than 50 person, for taxable profit a 15 percent profit tax tariff is applied. That privilege is not applicable to those legal persons that are involved in trading in alcoholic beverages or tobacco products, retail and wholesale trading in oil products (including cases when other goods are also traded), in providing catering services and selling alcoholic beverages, including beer, and tobacco products.
- profit used for investments in one's own enterprise is taxable by applying a zero (0 percent) tariff.
- new registered enterprises in the first taxable year are exempt from advance taxes. Such enterprises start paying these taxes from the fifth month of the next taxable year. If within the last previous year the total income did not exceed LTL 100,000, the enterprises must not pay advance taxes in the current year.
- the amount of losses in the taxable year can be transferred to the next taxable year (not longer than for 5 years);
- for economic partnerships and individual (personal) enterprises having no rights of a legal person the total income of which within the taxable period does not exceed LTL 1 million and the average number of the listed staff is less than 50 person, for taxable profit a 15 percent profit tax tariff is applied (except certain activities), etc.

SME Institutional Structure

The Government's policy pursued in the sphere of SME is effected by:

- The Ministry of Economy;
- The Business Development Board;
- The Small and Medium Business Development Agency;
- Interdepartmental Council for Consideration of Small and Medium-Size Business Problems and Coordination of Interests at the Ministry of Economy.

The *Ministry of Economy* is concerned with the preparation of proposals for the formation of a general small and medium business promotion and development policy in the country, and the improvement of the business environment. It effects coordination and control of a small and medium business development programme and its implementation measures, encourages and offers financial support to the preparation of target regional small and medium business programmes, and harmonises legal acts with *acquis* requirements in the SME sphere. The Ministry takes part in the work of the European Union and other international organisations (the European Commission, EU PHARE, OECD, etc.) on issues of small and medium business development. At the beginning of 1999, the Small and Medium Size Business Department was established at the Ministry of Economy.

The Business Development Board is a collegiate body, operating in accordance with the bylaws approved by the Government of Lithuania, adopting decisions on the use of the resources of the Export Promotion Fund and the Small and Medium Business Development Fund. It also handles other business development relevant issues that are delegated to it by Government. The Board also approves the trends, procedure and estimates of the use of the resources from the Small and Medium Size Business Development Fund.

With the assistance at the beginning of 1996 of the EU PHARE project for small and medium business development, in Lithuania, the *Lithuanian Small and Medium Business Development Agency* was established. Its main goals are to analyse and participate in the formation of a small and medium size business development policy in Lithuania, improve the business environment, encourage the establishment and development of small and medium-size enterprises, realise the assistance to small and medium business and regional development in Lithuania offered by the EU PHARE programmes, and organise training and consulting under favourable terms. The LSMBDA activities are coordinated by the Business Development Board.

With the improvement of business infrastructure and business self-governance, the role of the Lithuanian Small and Medium-size Business Development Agency has been strengthened. In 1999, the first branch of the agency was set up in Tauragë city. It covers the coordination of implementation of the Small and Medium-size Business Development Programme in the region, analyse the economic and social consequences of the programme, participates in preparing a regional small and medium business development programme and coordinates its implementation, as well as stimulates the creation of new jobs in the region.

The Interdepartmental Council for Consideration of Small and Medium Business Problems and Coordination of Interests (the *Small Business Council*) was established. The Council considers draft LR laws and LRG resolutions, expresses its opinion on the issues of the regulation of business conditions, and takes part in the solution of small business problems.

The SMEs development criteria

In 1998, the Business Development Board “A General Territorial Scheme for Further Development of Institutions Providing Financial Support to the Development of Small and Medium Business” was approved. It presented a scheme of territorial distribution of institutions granting support to small and medium business and criteria, on the basis of which the expediency of the establishment of new business supporting institutions would be assessed. The scheme listed the following criteria for the establishment of new institutions:

- a level of unemployment in cities and regions;
- a level of development of business infrastructure;
- the need to establish a new institution, (the number of potential entrepreneurs);

- initiative of local authorities.

Infrastructure Development
For the infrastructure development is foreseen:

- Support to established business incubators. An annual need for resources reaches LTL 3 million. Financing LTL 1.5 million is foreseen from the SME Promotion Fund and LTL 1.5 million from the State budget.
- Establishment of business incubators. Until the end of the year 2002, it is planned to establish 3 business incubators, the financial need for their establishment amounts to about LTL 4.5 million.
- Until the end of the year 2001, it is foreseen to set up 4 business centres. The need of resources here reaches LTL 1.6 million. Partial (LTL 800 000) financing is foreseen from the SME Promotion Fund. Additional credit-lines LTL 800 000 from EU funds are needed to satisfy the regions of the country.
- Until the end of the year 2001, two consulting business centres are planned to be established. The need for resources reaches LTL 400 000. A problem of financing has not been solved. To satisfy the need of the regions of the country, additional financing from EU funds is necessary.
- In the years 1999-2000, it is foreseen to set up 3 LSMBDA branches. The need for finance is LTL 270 000. A problem of financing has not been solved.

Establishment of the Regional Risk Capital Fund
The need for finance of one regional fund constitutes LTL 5 million per year. Financing is foreseen from the State budget.

Preparation and Implementation of the Micro-crediting Provisions:
In this field is planned:

- Analysis of micro-crediting models of EU countries and preparation of a draft micro-crediting model for Lithuania. The project implementation price amounts to LTL 25 000. At this stage, EU technical and financial assistance is needed.
- Practical implementation of micro-crediting models. The successful operation of a micro-crediting model may be restricted due to lack of funds. Annually minimum LTL 20 million is needed. Financing is foreseen from the State budget.

Implementation of Innovative Projects
It is planned:

- To implement the project for expandion of training and consulting under easy terms in regions with an underdeveloped business infrastructure. The need for project implementation amounts to LTL 150 000. Currently, financing issues have not been solved.
- To implement a project for qualification improvement (training) of SMEs employees.
- At the beginning of 2000, it is planned to start implementing SMEs development projects. Currently, financing issues have not been solved.

"Beginning" - the annual need of resources for project implementation reaches up to LTL 50 000.
"Development" - resources needed for project implementation amount to LTL 70 000 per year.
"Region" – the annual resources needed for project implementation reaches LTL 1.000 thousand and more.

Conclusions

- According to the European Commission recommendations, the following classification has been proposed:
    1) SMEs, with less than 250 employees and the turnover not exceeding ECU 40 million, an independent enterprise;
    2) small enterprise (not more than 50 employees and the annual turnover not over ECU 7 million, an independent enterprise);
    3) micro enterprise (fewer than 10 employees).

- In accordance with the Law on Small and Medium-size Business Development of the Republic of Lithuania, the following enterprises may be distinguished:
    1) micro enterprise (employees only the members of one family);
    2) small enterprise (not more than 9 employees and the gross income up to LTL 1 million);
    3) medium enterprise (not more than 49 employees and the gross income LTL 5 million).

Comparing Lithuania with the EU, a medium enterprise in Lithuania is the medium enterprise that as to the number of the employees is equivalent to the EU small enterprise.

- The EU has strengthened the SMEs support policy, providing financial support in the creation of new jobs, in supporting the implementation of new technologies, informing and training entrepreneurs.

- The Government of the Republic of Lithuania considers the development of SMEs to be one of the most important tasks of economic policy: the legal environment, institutional structures, etc. have been improved.

- SMEs in Lithuania have been granted tax privileges, financial support of SMEs by promotion funds, consulting services under easy terms are provided, business incubators and technological parks have been created, support has been granted for the creation of new jobs, favourable conditions for training have been created.

- In the short and medium-term in Lithuania it is foreseen to support business incubators, consulting business centres, to establish the Regional Risk Capital Fund, to create and implement a SMEs micro-crediting model in compliance with the experience of the EU countries.

III. FINANCING SOURCES OF SMEs

III.1. Financing and support for SMEs in European Union

The European Commission, upon summarising the experience of the European Union member states, recommends the following forms of support to small and medium-size enterprises:

- Information provision to SMEs, consulting and training of the staff;
- Tax privileges;
- Financial support.

Most popular is not financial support – provision of information, consulting and training of the staff. In the EU countries there are over 400 organisations, providing free services to SMEs.
Provision of services is subsidised by the State.

Most popular forms of financial support are: subsidies and grants, subsidised loans and credit guarantees. In the EU countries SMEs support is the element of regional policy. SMEs are especially supported in Denmark, Germany, Belgium, etc.

The European Commission has prepared and starts implementing the third programme for SMEs development, Lithuania planning to participate in it.

III.2. Enterprise funding sources in Lithuania

The following funding sources are used in Lithuania for establishing an enterprise and financing its activities:

- ♦ personal funds of the businessman;
- ♦ personal funds of his business partners;
- ♦ loans from friends and relatives;
- ♦ bank loans.

Research of small and medium businesses has shown that the majority of enterprises are financed from personal funds of the owner and his business partners. Only about 10 percent of enterprises use bank loans, because of big interest rates, and because the enterprises have no assets to mortgage, or because the bank is unwilling to provide small credits.

Small and medium enterprises that have small enterprise status have the possibility of obtaining preferential credits for business development from the proceeds of international loans provided to Lithuania as well as from commercial banks.

In Lithuania, the activities of the enterprises are financed through **commercial banks**, **funds, credit unions, Labour exchange, Programmes of Government of the Republic of Lithuania.**

Banks

Lithuania's commercial banks (except the Industry Bank providing services only to legal persons) at the request of the client may perform the following bank operations and provide the following services:

- To open accounts in national and foreign currency;
- To accept deposits in national and foreign currency;
- To perform cash operations;
- To buy, sell and convert foreign currency;
- To carry out international settlements through banks correspondents;
- To intermediate in buying and selling securities of the Government of the Republic of Lithuania and shares of the enterprises;
- To buy, sell and collect travellers' cheques, personal cheques and bills;
- To provide credits and services:
    - Credits according to the EU PHARE programme;
    - Credits for financing of import operations;
    - Short-term loans;
    - Medium- and long-term loans;
- To issue one-time and long-term bank guarantees, bank recommendations, etc.

According to the valid laws and other legal acts, banks may be engaged in investment activities:

- To establish enterprises;
- To be co-owners or shareholders of enterprises.

Restrictions of investment activities of banks:

- total investments of the bank in the shares or capital of other enterprises cannot exceed 10 percent of the main capital of the bank;
- bank cannot acquire and control the controlling block of shares of another company;
- the above restrictions of investment activities of the bank are not applicable to the bank investments in the shares and capital of enterprises, which pursuant to the legal acts of the Republic of Lithuania are attributed to enterprises involved in crediting and financial activities (e.g., leasing, financial brokers' enterprises);
- the bank is prohibited to acquire shares of the enterprise, which controls the controlling block of shares of that bank, or be a co-owner of that enterprise.

In Lithuania through commercial banks loans to enterprises are granted from own funds and are distributed from foreign loans received.

Distribution and usage of foreign loans (preferential credits)

As of January 1999 foreign loans amounting to USD 2867.52 million (assets allocated to entities and subsequently partially repaid to the Lithuanian banks) were granted to entities and for budgetary needs. Loans used – USD 2523.08 million. The state of foreign debts by different financing trends is shown in Table 2.

Table 2. Distribution of foreign loans by financing trends, 1 January 1999-04-28
Mill. USD

Distribution of foreign loans	Distributed	Used	Repaid to Lithuanian banks	Repaid to foreign creditors	Debt of entities
Total	**2867.52**	**2523.08**	**105.08**	**799.07**	**1618.93**
National currency stabilisation	182.00	182.00	-	87.36	94.64
Agriculture	76.13	76.07	-	-	76.07
Fuel and energy	479.56	471.92	79.35	218.31	174.26
Investment projects*	1393.90	1059.07	21.42	202.52	835.13
Small and medium business	**51.49**	**51.49**	**4.31**	**-**	**47.18**
Budget deficit cover	629.81	629.81	-	288.00	341.81
Municipalities budget	54.63	52.72	-	2.88	49.84

*USD 13.28 million being on deposit are ascribed to investment projects.
Foreign currency was calculated to USD using the official Litas and foreign currency rate as of 1 January 1999
Sources: Foreign Loans Extended to Lithuania 1990-1998. Statistics Lithuania, 1999.

Foreign loans for the development of small and medium business

AS of January 1, 1999, the Lithuanian commercial banks disposed USD 51.48 million of foreign loans allocated for the development of small and medium enterprises (SME). USD 26.99 million of which were received from the EU, USD 20.4 million – from the Swedish AB Svensk Eksportkredit credit organisation and USD 4.11 million – from the International Monetary Fund. USD 36.3 million were allotted to finance investment projects of entities. Due the bankruptcy of the three commercial banks a foreign loan of USD 22.02 million, which was meant for them, is not included in that amount (Table 3).

Table 3. Distribution of foreign loans granted on behalf of the Republic of Lithuania for small and medium business
Mill. USD

	Foreign loans source	Distributed to enterprises	Used	Repaid to Lithuanian banks	Repaid to foreign creditors	Debt of entities	Interest paid
Total		**1924.46**	**1694.37**	**105.08**	**465.76**	**1123.53**	**88.46**
Small and medium business							
	Total	51.49	51.49	4.31	-	47.18	12.38
	EU	26.98	26.98	-	-	26.98	3.71

	IMF	4.11	4.11	2.64	-	1.47	1.08
	SEK	20.40	20.40	1.67	-	18.73	7.59

Assets allocated to credit entities and subsequently repaid to Lithuanian banks.
Foreign currency was calculated to USD using the official Litas and foreign currency rate as of 1 January 1999
Sources: Foreign Loans Extended to Lithuania 1990-1998. Statistics Lithuania, 1999.

These banks were: the "Tauras" bank, having received USD 20.86 million of foreign loans from the European Union and International Monetary Fund, the "Vakarø" bank and "Lietuvos Akcinis Inovacinis bank", both of which received USD 0.58 million of foreign loans from European Union. The "Turto" bank is in charge of further administration of the foreign loans received by those banks.

A sum of USD 32.46 million or 89.4 percent of all loans received was used by economic entities. Repaid USD 17.04 million. Interest paid – USD 8.45 million. Debt of the commercial banks to the foreign creditors – USD 47.16 million. For the usage of foreign loans USD 12.19 million of interest were paid by the commercial banks to the Ministry of Finance.

Major share of loans granted on behalf of the Republic of Lithuania was diverted for business development: 17.1 percent – for textile production; 16.0 percent – for wholesale and retail trade; 11.0 percent for production of food-stuffs and beverages; 9.3 percent for construction (Table 4).

Table 4. Distribution of foreign loans through the Lithuanian commercial banks
Mill. USD

Kind of economic activities	Granted	Received and used	Repaid to the bank	Debt	Interest paid
Total	36.30	32.46	17.04	15.42	8.45
Manufacture of food products and beverages	3.74	3.57	1.68	1.89	1.09
Manufacture of textile	8.63	5.56	3.42	2.14	1.77
Manufacture of wood and wood products	1.46	1.45	1.02	0.43	0.42
Manufacture of chemicals and chemical products	1.50	1.50	1.50	-	0.47
Construction	3.01	3.01	1.54	1.47	0.89
Retail trade	4.12	4.00	2.58	1.42	0.99
Hotels and restaurants	3.08	2.86	0.57	2.29	0.39
Water transport	1.48	1.48	0.09	1.39	0.32
Business consulting	1.58	1.58	0.67	0.91	0.34

Health and social work	1.32	1.32	0.39	0.93	0.15
Other	6.38	6.13	3.58	2.55	1.62

Sources: Foreign Loans Extended to Lithuania 1990-1998. Statistics Lithuania, 1999.

71.6 percent of the loans, i.e. USD 20.4 million received from the **Swedish AB Svensk Eksportkredit** (G-24) credit organisation, were allocated by the Government of the Republic of Lithuania for the developing small and medium business. Control over these loans was charged on 4 commercial banks: "Hermis", "Medicinos", "Ðiauliø" and "Ûkio". The loans were granted to the commercial banks with the interest rate of 9.24 percent. AS of 1 January 1999, the commercial banks using the assets repaid allotted USD 27.63 million for financing investment projects of economic entities with an interest rate of 14.24 percent annually. 87.4 percent of the loans granted or USD 24.15 million were used by enterprises. As of January 1999 the sum repaid equalled USD 13.74 million or 56.9 percent of the allotted loans. For the loans received enterprises paid USD 6.85 million as an interest to commercial banks. The commercial banks repaid USD 1.67 million of the loans to the Ministry of Finance and paid interest of USD 7.59 million.

Major assets gained from the Swedish credit organisation were used by the commercial banks for business development: 16.5 percent of the loans were directed for the production of textiles; 17.6 percent – for wholesale and retail trade; 10.1 percent for production of food-stuffs and beverages; 10.2 percent for construction; 6.2 percent – for production of chemicals and chemical products [p.64].

30.8 percent of the loans gained from the **European Union** or USD 26.99 million were directed by the Lithuanian Government to develop small and medium business. Control over these loans was charged on 7 commercial banks: "Hermis", "Viniaus", "Vakarø", "Ûkio", "Tauras", "Litimpeks", "Lietuvos Akcinis Inovacinis". The loans were granted to the commercial banks with a liberal interest rate for a seven-year period. The commercial banks allotted USD 6.35 million to finance investment projects of economic entities. The latter sum did not include USD 21.02 million of the European Union loan meant for three Lithuanian commercial banks "Tauras", "Vakarø", and "Lietuvos Akcinis Inovacinis" since they went bankrupt. Further control over the loans of those three banks was charged on the "Turto" bank.

The loans were granted by the commercial banks with a different interest to enterprises: from 10.07 percent up to 13.12 percent. Amount used by enterprises – 94.2 percent of the loans granted, i.e. USD 5.98 million. By 1 January 1999, amount repaid to the banks – 20.1 percent of loans or USD 1.2 million. Enterprises paid USD 0.96 million of interest to the commercial banks for the loans received. The commercial banks paid USD 3.54 million of interest to the Ministry of Finance.

The majority of the loans gained from the European Union were diverted to develop these businesses: 42.2 percent – for business of hotels and restaurants; 26.4 percent – for manufacture of textiles.

1.2 percent of the loans gained from the **International Monetary Fund**, i.e. USD 4.11 million, were directed by the Government of the Republic of Lithuania for business development. Control over these loans was charged on 4 commercial banks: "Hermio", "Turto", "Ðiauliø", and "Tauro". The loans were given to the commercial banks for 5 years with an interest rate of 10 percent. The commercial banks allocated USD 2.33 million to finance investment projects of entities (the latter sum does not include the loan of USD 1.0 million from the International Monetary Fund directed to the "Tauras" bank to finance investment projects of small and medium enterprises, because bankruptcy proceedings were instituted against the bank and further control over the loan has been charged on the "Turto" bank).
The commercial banks granted loans to enterprises with an interest rate of 13 percent. As of January 1999 the whole amount provided was used. Repaid to the banks – 90.1 percent of the loans granted or USD 2.1 million. Enterprises paid USD 0.64 million of interest to the commercial banks for the loans granted.

Major loans gained from the International Monetary Fund were allotted by the commercial banks to develop this business: 31.4 percent – for production of foodstuffs; 28.9 percent for wholesale and retail trade; 12.9 percent – for construction.

Lithuanian Development Bank, promotes establishment and modernisation of companies. The bank does not give loans for real estate and securities operations.

Lithuanian Development Bank gives medium and long-term loans for investments in the establishment of new companies and modernisation and development of the existing ones.
Credits are given to private production, processing, repair and tourism companies registered in Lithuania that have not more than 500 employees. State enterprises undergoing privatisation to become SMEs are also eligible for obtaining a loan from this bank.

The enterprise willing to receive a loan shall file an application for a loan, a business plan, the financial accounts for the past three years, and conclusions of independent auditors.

The minimum sum of the credit given by the Lithuanian Development Bank for one project is ECU 5000, maximal – ECU 250,000. The loans are given for a period of 1 to 5 years or for a longer period. The interest rate is 15 percent.

Lithuanian Development Bank was founded in 1994 and since its foundation until 1997 has given loans for more than ECU 12 million.

According to the last data (June 1998), the Lithuanian Development Bank has given loans for ECU 20 million. In accordance with the programme for crediting of small and medium enterprises, the bank provided 40 loans to Lithuanian economic entities (5 of which were granted to small-size enterprises). Loans have been used for investments, establishment of new enterprises, and modernisation and expansion of the functioning enterprises.

Bank Vilniaus Bankas credits the import and export of goods.

Short-term loans (with 15-18 percent interest rates) are given for the purchase of raw materials, materials and other commodities.

For obtaining a loan to cover export expenses of goods (up to 80 percent), a valid contract for the sales of goods with a foreign partner is necessary. The minimum sum of the credit is USD 20 000.

Medium term loans are allocated from direct credit lines with foreign banks (for a period of 1 to 5 years).

For obtaining a loan the enterprise must have been active for at least half a year, submit a project defining how the loan will be used and have a liquid collateral with a real market value. Usually, the required collateral is real estate.

AB Lietuvos Taupomasis Bankas (Lithuanian Savings Bank) mostly provides short- and medium-term loans.
Loans in Litas for the period up to 1 year are given to with a 14-percent annual interest rate, in currency – with an 11.5-percent annual interest rate.
Annual interest rate for medium-term loans is 16 percent in Litas and 12 percent in currency.
Most frequently the loan amount does not exceed LTL 300 000 (USD 75 000).
For obtaining a loan a business plan and collateral are needed.

European Bank for Reconstruction and Development credits the establishment and funding of production entities.

Main requirements for obtaining a loan:
- The company has to be registered in Lithuania;
- Not less than 50 % of the equity must be private;
- The minimum loan is USD 132 620 ;
- The repayment term of the loan is – 1- 4.5 years.

European Bank for Reconstruction and Development has allocated USD 5 million for the newly founded Baltic Small Equity Fund. The capital of the fund (USD 10.7 million) will be directly invested in the equity capital of small enterprises in the three Baltic States. The investments of the fund will be directed to companies with the annual turnover from USD 150 000 to USD 2 million with from 5 to 100 people employed. Small portfolios of such companies will be purchased by investing in the companies from USD 25 000 to 400 000.

Loans from the **World Bank** are given for crediting medium- and long-term investment projects (for a period of 1 to 8 years).

Main requirements for obtaining a loan:
- goods or services for not less than USD 1 million have to be purchased through an international tender;
- goods or services for less than USD 1 million have to be purchased according to the commercial practice acceptable for the World Bank.

Funds

Baltic-American Enterprise Fund gives credits directly to SMEs without intermediaries, i.e. services of commercial banks are not needed.
The Fund aims at financing capital investments of enterprises (purchase of equipment, reconstruction and refurbishment of buildings, etc.).

Loans are given to enterprises that have been active for not less than 6 months. For obtaining a loan the enterprise must file an application, specifying:

- the amount of the loan;
- the main activities of the enterprise and its legal status;
- major shareholders and their equity shares;
- purpose of the loan
- the collateral and its market value.

If the requested loan exceeds USD 100 000 a business plan has to be submitted.
The loans are given for a period from 5 to 7 years, and the interest rate does not exceed 15 percent.

Baltic-American Business Fund was established in 1989. Until September 1998 it has provided loans for more than USD 30 million.

From 1998 the Fund applies the risk capital investment strategy (see ch.IV.6).

Lithuanian Business Consultancy Fund provides assistance to medium enterprises by offering consultancy support and covering up to 50 percent of the price of the services (not more than USD 10 000).

The Fund supports various business consultations: market research, creation of strategic performance plans and business plans, implementation of information technologies and quality standards, etc.

Enterprises willing to obtain support from that Fund should have less than 500 employees, should be active operators for not less than 2 years, enterprises of private property, involved in production activities (except agriculture and building for lease or resale).

Baltic Investment Fund invests in medium and big enterprises in Lithuania, Latvia and Estonia, that implement new technologies, have a consistent managing structure and good possibilities for expanding their activities. Fund plans to be active for 10 years.

Baltic Small Equity Fund is the first risk capital institution in Lithuania (see ch. IV.6).

Main conditions for obtaining a loan from **PHARE**:

- Loans are provided for crediting investment projects of private SMEs. Loan proceeds can be used for the purchase of fixed assets and increase of the working capital related to these assets.
- Loans are not provided to SMEs which are engaged in agricultural activities, in pure trade or in real estate activities.
- The loan cannot exceed DEM 125 000 for one enterprise according to the second PHARE programme or DEM 100 000 for the first PHARE programme.
  Commercial banks are requested to provide smaller credits up to DEM 30 000 .
- Each loan cannot exceed 75 percent of the total funded value of the project, the rest (25%) have to be financed from the company's own resources.
- The loans are provided for the period of 3-10 years depending on the implementation period of the project. The interest rate is not more than 12 percent.

In 1993, following its first programme PHARE allocated a loan of ECU 3 million to Lithuania. In 1995 a preferential credit line (second programme) for ECU 4 million was opened for funding SMEs investment projects.

According to the data from the Bank of Lithuania, as of September 1, 1998, commercial banks allocated 308 loans in accordance with first and second PHARE SME development programme for the funding of investment projects. According to the first programme, loans have been given to 140 enterprises, to the second programme – 168 enterprises. Of these 102 enterprises have fully repaid loans, 85 enterprises returned more than 30 percent of loans granted.. The average loan is about DEM 65 000. The money received back is used for financing new projects.

Regional funds

For SMEs financing, creation of new jobs, municipality regional funds have been used in Lithuania. In 1998, 26 municipalities (there are 56 municipalities in Lithuania) were in possession of funds, the total amount of which constituted LTL 2.17 million. In separate municipalities the amount of funds comprised LTL 10 000 – 300 000.
In 1999, 27 municipalities in their SMEs support funds have accumulated LTL 1.1 million.

Credit unions

According to the Law on Credit Unions (February 21,1995), mutual short- and medium-term loans have been foreseen for credit union members for SMEs development.
As of September 1, 1998, 28 credit unions, having 2 755 members and over LTL 6 million of assets, operated in Lithuania.

Loans from the labour exchange

Lithuanian Labour Exchange provides initial organisational and financial support to the unemployed, which start their own business. The loan for business is allocated if for the last three years the applicant has worked not less than 24 months according to an employment contract and had the obligatory state social security (SODRA) insurance. The unemployed can choose different forms for running their business: to establish personal (individual) companies, general partnerships, private companies or obtain a license.

The loan is without interest and is given for a period of not more than 3 years.
According to data provided by the Lithuanian Labour Exchange, the amount of the loan is LTL 3 500. During the period of 1991-1999, 4573 loans were given for starting private business.

Programme of the Government of Lithuania

For financing of SMEs development programmes the Government of the Republic of Lithuania uses the funds from the budget and privatisation funds. In addition, municipality funds are used (see Regional funds).

In the spring of 1998, the Government of the Republic of Lithuania decided to establish under the Ministry of Economy, a SME Promotion Fund and Commission, which would administer funds allocated for the promotion of SMEs.

Funds can be used for the establishment of business incubators, business centres and technological parks, for partial financing of their foundation and operation expenses, qualification improvement services under favourable terms according to business development programmes, partial financing of SMEs innovation projects, partial coverage of interest on the loans obtained for implementation of business projects to the disabled involved in commercial activities and small and medium business entities starting their business (up to 3 years).

In 1998, the approved estimate of the SME promotion fund constituted LTL 19 million. It is foreseen to use LTL 11.4 million in the first half of 1999.

The SMEs Loan Insurance Company will make it possible to obtain loans for the businessmen who have no property to mortgage.

The Government of the Republic of Lithuania through export and import insurance provides support to SMEs.
Alongside the previously effected export credit insurance and political risk insurance, commodity loan insurance and insurance of loans obtained by SMEs for the implementation of investment projects have been carried out. The capital of the export and import insurance company constitutes LTL 28 million (LTL 8 million received from the SMEs promotion fund).

Partial financing has been given to six business incubators from the SME promotion fund. In the first business incubator, established at the Kaunas University of Technology on March 25, 1999, 22 business enterprises have been already operating.

Conclusions

- The forms of support for SMEs recommended by the EU are the information, consulting and training provided to SMEs, tax privileges and financial support.

- In Lithuania SMEs are financed through commercial banks, funds, credit unions, the Labour Exchange, programmes of the Government of the Republic of Lithuania.

- In Lithuania foreign loans under easy terms are distributed through commercial banks.

  Within 1990-1998, credits amounting to USD 2867.52 million were received, of which 88 percent have been used.
  For crediting of SMEs USD 51.48 million were received from the EU, Swedish JSC Swensk Exportkredit, and International Monetary Fund.

  Major share of loans granted on behalf of the Republic of Lithuania was diverted for business development: 17 percent for textile production, 16 percent for wholesale and retail trade, 11 percent for food production, 9 percent for construction.

- SMEs have been credited by Lithuanian and international banks as well: Lithuanian Development Bank, AB Vilniaus Bankas, AB Lithuanian Savings Bank, European Bank for Reconstruction and Development, World Bank.

  Lithuanian Development Bank provides medium and long-term loans for investment for the establishment of new companies and the development of the existing ones.

  AB Vilniaus Bankas credits the import and export of goods.

  The European Bank for Reconstruction and Development credits the establishment and funding of production entities.

  The World Bank credits medium and long-term investment projects.

- SMEs are credited by funds established in Lithuania: the Baltic-American Enterprise Fund, Lithuanian Business Consultancy Fund, Baltic Investment Fund, PHARE, and Lithuanian regional funds.

  They grant credits for investment, provide assistance to SMEs by offering consultancy support, invest in SMEs, credit investment projects, finance the creation of new jobs.

- Credit unions provide mutual short and long-term loans for the development of SMEs.

- The Labour Exchange finances the business start-up.

- Programme of the Government of Lithuania for supporting of SMEs encourages the establishment of business incubators by their partial financing, provides support to SMEs through export and import insurance, etc.

IV. VENTURE CAPITAL IN EUROPE

Private Equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues – a succession in family-owned companies, or the buy-out or buy-in of a business by experienced managers may be achieved using private equity.

Venture capital is a means of financing of company whereby the venture capitalist acquires an agreed proportion of the share capital (equity) of the company in return for providing the requisite funding.

Venture capital is, strictly speaking, a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business.

The various stages of investment can be defined as follows; **Seedcorn**, S**tart-up**, **Expansion Financing**, **Management Buy-out (MBO**), **Management Buy-in (MBI**), **Secondary Purchase**.

The venture capital in Europe

The total volume of venture capital concentrated in Western European investment funds and investment companies now exceeds ECU 50 billion, and is growing by an annual 10 percent. 40 percent of this is represented by Great Britain, 20 percent by France and 10 percent by Germany. Capital so far invested in Italy, Holland, Sweden, Spain and Belgium now exceeds ECU 1 billion.

Funds operating in Eastern and Central Europe have grown encouragingly both in number and in terms of capital volume since 1990. They are not yet ripe for inclusion with other European statistics; it is for precisely this reason that the European Venture Capital Association (EVCA) with PHARE-EU support, has started a 7-nation-wide programme, also aimed at analysing the economic environment, local fiscal conditions, and problems which may be occasioned by these. Total capital available in Polish funds is now on a level with Switzerland; Hungary is on a level with Portugal and Norway.

Two thirds of all venture capital in Europe comes from institutional investors: banks, pension funds and insurance companies, in that order. The percentage made up by the contributions of governments and private entities comes to an annual average of around 3 percent each. Governments typically enter the arena in order to achieve high profile development-related targets (e.g.: the introduction of new production methods, or providing support for new inventions) or to sponsor small and medium-sized businesses investing in underdeveloped sectors.

According the survey of 500 companies operating with venture capital funding in 12 European countries, made by Coopers & Lybrand (The Impact of Venture Capital in Europe, 1996), the "typical company" profile is as follows: it is a young business set up in the 90s, medium-sized and with an annual turnover of ECU 35 million. It was able to increase its annual income by 35 percent a year between 1991 and 1995, and created 15 percent more jobs each year. It also upped its internal investments by 25 percent a year, and put 8.6 percent of profits into R&D, while annual exports rose by 30 percent - all these factors make it an internationally highly competitive concern.

Venture capital investors acquired an average of 46 percent of the company shares, having a majority in 39 percent of companies. In 42 percent of cases, the volume of capital invested was below ECU 1 million, and below ECU M in 71 percent of cases.

81 percent of the companies' managers were of the opinion that development would have been much slower without venture capital. They cited three very positive factors in connection with working together with venture capitalists: the financial advice they gave; the help in developing company strategy and drawing up business plans; and their active participation in decision-making at management level.

In the mid-90s, the favourite invests of United States venture capitalists were companies with a health-care/pharmaceutical or information technology angle. European venture capitalists have been more conservative: over 40% have favoured companies producing consumer goods and industrial finished products, and a quarter of the funds have found their way into the high-tech sector.

On average venture capitalists are acquiring stakes in 5 000 new companies annually. They are selling shares of about the same number. Calculated simply on the basis of company size, over 80 percent are small or medium-sized businesses (i.e., employing fewer than 200), but taken on the basis of the amount of capital invested, the proportion is more like 50-60 percent.

The majority of investments lead to **MBOs** or are turned into development capital. One in five companies belongs to the **start-up** category, though here again, the proportion on the basis of invested capital is lower (about 5-6 percent), as some companies receive smaller investments.

IV.1. European Private Equity and Venture Capital Association (EVCA)

The European venture capital industry can trace its roots back 50 years but growth started in earnest in the 1980s. It now provides the European private corporate sector with permanent access to professional sources of growth capital.
In the past 12 years, capital of EUR 80 billion has been raised from banks, pension funds, insurance companies and other long-term sources of capital.

The mission of European Private Equity and Venture Capital Association is to promote globally and to facilitate European venture capital and private equity. EVCA’s many roles include providing information services for members, creating networking opportunities, acting as a lobbying and campaigning organisation and working to promote the asset class both within Europe and throughout the world. EVCA’s members are the leading players in the industry who actively participate in the association’s board of directors, committees, advisory groups and task forces.

EVCA was formed in 1983 at the joint initiative of the industry and the European Commission and is acknowledged as the leading representative of the pan-European industry. EVCA’s membership has grown from 43 founding members in 1983 to over 410 today and comprises members from more than 30 countries.

Through promoting the European venture capital and private equity sector to institutional investors, advancing the interests of members within European institutions and working towards effective and accessible exit opportunities, EVCA aims to create an environment in which venture capital can thrive.

The EVCA aims to act as a catalyst for the development of capital markets for entrepreneurial-managed European companies, and specifically to:

- promote opportunities in the capital markets for entrepreneurial companies and encourage the active involvement of institutional investors, investment banks, securities dealers, investment funds, regulators, policy-makers and others;
- facilitate the development of contacts among, and exchange of information between, these market participants;
- assess the need for, and viability of, a permanent association;
- develop a framework for exploiting the opportunities offered by capital markets for entrepreneurial companies;
- help specify priority actions for both policy-makers and market participants.

Its activities are intended to lead to:

- the introduction of more efficient market structures;
- the adoption of appropriate regulations and directives;
- a channelling of investment into entrepreneurial companies;
- a strengthening of the role of market participants and service providers;
- an increase in the quality and quantity of securities issued.

One of the roles played by the EVCA is to manage the activities of the European Seed Capital Fund network.

EVCA's many activities cover the whole range of private equity, from early-stage seed capital to development capital, and buy-outs and buy-ins to the flotation of venture-backed companies.

More than half of all investments are to provide **expansion** finance.

Venture-backed **MBOs** and **MBIs** are contributing significantly to Europe’s corporate restructuring effort and helping to create new entrepreneurial businesses.

The amount of capital committed to early-stage **(seed** and **start-up**) deals increased by more than 60 percent in 1997.

Technology investments account for nearly 25 percent of the total amount invested and the amount invested in the technology sectors increased by 71 percent in 1997.

European private equity offers excellent investment opportunities due to:

- Corporate restructuring taking place on the Continent;
- Ownership and management succession issues;

- Privatisation of state-owned companies;
- Improved liquidity through an increased number of exit routes and the development of high growth stock markets;
- EMU and the creation of a single European market.

Venture capitalists not only provide finance but also invaluable expertise in the form of:
- Financial advice;
- Corporate strategy/direction;
- A sounding board for ideas;
- Challenging the status quo;
- Contacts and market information;
- Management recruitment;
- Marketing strategy.

IV.2. Danish Venture Finance (DVF)

DVF - a growth-oriented venture company is a venture with an evergreen investment capacity of EUR 70 million. DVF is owned by more than 100 Danish financial, institutional and industrial investors.

DVF is an EU-sponsored Eurotech Capital Venture Company, belonging to a network of 15 European venture companies, which cooperate on transnational high-technology investments. In addition, DVF is a member of the EVCA.

DVF specialises in investment in young Danish growth companies and development projects with technological objectives and an international commercial perspective. Investments are primarily made in the form of share capital and within the following three core areas:
- Life Sciences
- Electronics and Information Technology
- Advanced Materials and Processes

In Electronics and Information technology in 1990-1998 DVF has invested EUR 27 282 000, DVF share in different enterprises of the electronics constitutes 5-100 percent.

In Advanced materials and Processes in 1990-1998 DVF has invested EUR 3 513 000. DVF share in different enterprises of Advanced Materials and Processes constitutes 34-100 percent.
DVF business strategy:

- The shareholder value of DVF´s shares is to increase gradually over the years;
- The added value is to come from investment in: young companies with large growth potential, new technologies with a large business potential, revolutionary new business concepts.

Before making an investment decision the following elements are by DVF assessed:

- Market potential;
- The quality of the technology or the business concept;
- The qualification of the management team;
- The capability of management to secure the investor liquidity within a reasonable period of time;
- Competitors.

DVF invests primarily in companies that have a high level of technological ambition and an international perspective in their corporate development. The total capital requirement may well be substantial (rarely under EUR 1-4 million) and can amount to EUR 10 - 20 million or more. However, the first time investment is typically EUR 0.7 million - EUR 3 million with 2-3 investors.

DVF prefers to assist in the putting together of a group of investors (often called an investment syndicate) who join together to undertake the task. Such investment syndicates often include both Danish and foreign investors.

Even though DVF in future normally will prefer to invest together with others, DVF may be the sole investors in the very early phases of a project. In that connection, DVF´s **start-up** investment can be around EURO 50 000, used to prepare the project for the subsequent investment rounds.

IV.3. British Venture Capital Association (BVCA)

The BVCA represents every major UK source of venture capital, which invests principally in the UK, accounting for around 90 percent of venture capital investment. It is dedicated to promoting the venture capital industry in the UK for the benefit of entrepreneurs, investors, venture capital practitioners and the economy as a whole.

The BVCA was founded in 1983. It operates through an elected Council and has a full-time Secretariat. It has 123 full members, 118 associate members, and 3 honorary members.

The full members companies are active in making equity investments, primarily in unquoted companies. These firms are funded by institutions (such as pension funds, insurance companies and banks), their parents (such as banks), or both.

The associate members include financial organisations with funds available for investment but for whom this activity is not their principal business; acquisition finance and mezzanine firms; gatekeepers who manage funds of venture capital funds and/or provide advice on international venture capital fund investment; and professional advisers who have experience in dealing with both venture capital firms and those seeking to raise venture capital.

The UK industry is the largest and most developed in Europe accounting for nearly 50 percent of total annual European venture capital investment, and is second to the USA in world importance.

Since 1983 the UK venture capital industry has invested over £23 billion (nearly £19 billion in the UK) in more than 16 500 companies.

Most – 49 percent of venture capital financing are for **expansion** - specifically to help existing businesses to grow and compete.

Research proves venture backed management **buy-ins** and **buy-outs** add significant value to the UK economy.

Over the four years to 1998, venture backed companies increased their staff levels at a rate over three times that of FTSE 100 companies and almost 60 percent faster than companies in the FTSE Mid-250.

The number of people employed in venture backed companies increased by 24 percent p.a., against a national growth rate of 1.3 percent p.a. Over two million people in the UK are estimated to be employed by companies backed by investment from British venture capital.

According the survey, all the companies felt that the venture capital firms had made a major contribution beside the provision of money and 56 percent rated the venture capital firms as superior in terms of effectiveness and commitment to their commercial banks.

Other major contributions cited by venture backed companies included venture capital firms being used as a sounding board for ideas, challenging the status quo, for their financial advice, guidance on strategic matters and their contacts and market information.

Raising any type of capital needs research and strategic targeting. Before approaching any source of venture capital you will need to have:

- a good business plan with an executive summary;
- assessed that venture capital is suitable for your business;
- know how much venture capital you require and what it will be used for;
- selected for approach only those venture capital sources that meet your requirements.

IV.4. Germany Venture Capital Association (BVK)

BVK was established in 1998, merged with Deutsche Capital Verband (DVCA). BVK has 123 full and 30 associated members. It unites German and operating in Germany companies with foreign capital. The Association is a non-profit organisation.

In Germany SMEs venture capital is used for the start-up of enterprises, business development and the company’s entry in the securities exchange.

At the end of 1997 BVK assets constituted DM 4274.77 million, of which 58 percent was made by crediting institutions.

According to branch investment structure BVK in 1997 has invested 16 percent in machine building, 9 percent in the wood and paper industry, 7 percent in information technologies, 7 percent in telecommunications, etc.

In Germany such structure existed as by financing stages: **expansion financing** – 55 percent, **MBO/MBI** – 18 percent, **bridge financing** – 10 percent, **start-up** – 9 percent, **seed** – 4 percent.

Venture capital exit from business is most often applicable to trade and sale –52 percent, buy back – 33 percent., secondary purchase – 7 percent., going public – 4 percent.

IV.5. Hungarian Venture Capital Association

Venture capital invested in Hungary arrived in two distinct waves. The first wave came with the change of political regime, and was characterised by the buoyancy of foreign expectations generated by the economic changes bound up with this. The first venture capital private equity fund in Hungary was established in 1989. The Hungarian Venture Capital Association was funded in 1991, the first in Central Europe.

The second wave began around 1995 and is still continuing to make its effects felt. Its main characteristic is the fact that it is no longer purely countrywide funds that are being set up, but more Central and Eastern European regional funds. The East European Food Fund is one such; likewise the ScanEast Fund, DBG Eastern Europe, part of CSFB's Central European Growth Fund, plus the Eastern European fund set up by Advent International, and supplemented by smaller, less capital-rich country funds. The appearance of these new funds is a sign that now, 5-6 years after the switch to a market economy, international financial confidence in the younger European democracies is growing. This has been strengthened by the upswing in economic growth and the fall in rates of inflation.

Approximately USD 800 million have been invested in Hungary until 1998, in some 400-450 companies.
By the end of 1998 approximately USD 1.5 billion venture capital funds were expected in Hungary.

The number of active venture capital investors in 1995 exceeds 25.
The main investors are as follows: 55-60 percent are US institutional or private investors; 10-15 percent are European institutional investors or banks (primarily the EBRD and ABN-

AMRO); the remainder is made up of Hungarian Government, bank (MFB, MKB, K&H, Postabank) and private investors.

The exiting channel of venture capital are foreseen:
- the trade sale;
- the shareholder buy-out.

The Hungarian fiscal environment does not make provision for venture capital. The majority of investment funds are registered in Western Europe, the USA or in a tax-free zone.
From 1996, new legislation regarding venture capital began to be worked out, conforming to EU norms.

IV.6. Venture capital in Lithuania

Lithuania's experience in using venture capital for enterprise financing has been insignificant so far. It has been just foreseen to establish the Lithuanian Small and Medium Business Risk Capital Fund. Foreign venture capital funds – Baltic Small Equity Fund, Baltic-American Enterprise Fund have been established, the International Financial Corporation is planning to establish a similar fund.

The first risk capital institution in Lithuania that invested in SME equity capital was **Baltic Small Equity Fund**.

The Fund is established in 1998.The shareholders of this fund are: EBRD (USD 5 million), Baltic American Enterprise Fund (USD 1 million), Baltic Small Equity Fund (USD 4.6 million) and Small Enterprise Assistance Fund – a non-profit organisation.
The Fund is supported by the Baltic States Investment Programme, which is financed by North European countries that have allocated ECU 1.2 million for the Fund.

Baltic Small Equity Fund operates in the Baltic countries. The Fund invests in small and medium-size enterprises by acquiring their shares.

The Fund makes investments according to the following rules:

- Investments in one enterprises should not exceed USD 400 000 (in local currency);
- Th Fund acquires 25-49 percent of the company's equity (the portfolio should belong to the citizens of the Baltic states);
- Fund management strategy is aimed at supporting the existing management of the enterprise;
- After having participated in the company's activities for 5-7 years, the Fund plans to sell shares;
- While selling shares of the company the right of priority is given to shareholders of the company.

The Fund does not make investments in certain activities, alcoholic beverages, production of arms, organisation of gambling and enterprises providing financial services.

Baltic-American Enterprise Fund in 1998 has approved its new strategy of operation – the use of venture capital for investments in private equity.

The Fund shows interest for enterprises with broad prospects in their growth. However, investment projects of start-up enterprises are also under consideration.

The requirements for enterprises set by the Fund:

- Clearly specified niche of operation on domestic and foreign markets;
- Highly professional managers of the company;
- Accounting, stock and financial control systems in conformity with the Fund requirements.

The Fund makes investments in enterprises following such rules:

- The size of investment may be USD 0.3-2.0 million;
- Investments are made in the medium-term period (3-5 years);
- Investments in private enterprises, registered in the Republic of Lithuania;
- Investments in 10-50 percent of property;
- Investments in ordinary shares, preference shares, and other financial measures, foreseen by the laws;
- Investments are mostly made in hard currency – USD;
- Together with an investment term loans are possible.

Baltic-American Fund is the long-term financial partner of the enterprise, with its representative in the Supervision Council. The fund not less than once per quarter attends the enterprise. The enterprise every quarter presents the financial support to the fund and informs on the economic and financial decisions adopted.

The fund shall sell its investments after 3-5 years pursuant to the following rules:

- Selling of shares in the future according to the price foreseen beforehand;
- Selling of shares to another investor;
- Primary public selling of shares.

Currently, according to that programme, the Baltic-American Fund starts negotiations with several enterprises concerning investing in their share capital.

International Finance Corporation (World Bank Group) is also planning to use risk capital in Lithuania's SME's.

Lithuanian Small and Medium Business Risk Capital Fund is foreseen to be established in 1999.

According to the concept for the Fund's performance, it is foreseen:

- To support SMEs establishment and activities;
- To support SMEs , implementing innovations and increased venture measures;
- To support business, innovations centres, associated business structures, implementing or assisting in implementing innovation implementation projects in small and medium-sized enterprises;
- To provide consultations, to organise training of entrepreneurs in the spheres of enterprise management and accounting.

The financial support of the Fund is extended to enterprises, starting up and developing successfully business, creating new jobs. The Fund participates in the share capital of SMEs applies the form of grants.

The clients of the Fund are enterprises that have been registered or are under registration in Lithuania that are implementing innovation projects and permanent residents of Lithuania, establishing new SMEs.

The Fund is state-owned (not less than 51 percent of shares belonging to the State or municipalities) and makes investments in enterprises for the medium-term period (3-5 years) in keeping with the following rules:

- The term for the participation in the enterprise's capital is specified in the agreement between the Fund and the enterprise;
- The Fund does not make investments in the speculative capital and the compromised enterprises;
- The resources of the Fund cannot exceed 49 percent of the initial authorised capital of the enterprise;
- Return on investment (ROI), foreseen in the innovation project, is differentiated according to regions;
- The newly established ones with the investment of the Fund made in money – not less than 20 percent of the general investment volume;
- The Fund may sell its shares or transfer 25 percent of the shares in the form of a grant to an enterprise.

Services provided by the Fund are differentiated according to the regional unemployment level. In Lithuania three regional levels of unemployment have been established with different investment being applied:

Region	A	B	C
Unemployment	$b>12$ %	$12\% \geq b \geq 8\%$	$b<8\%$
Investment level	till up 49%	till up 49%	till up 49%
Investment amount	till up LTL 500 000	till up LTL 400 000	till up LTL 300 000
ROI	≥7%	≥8%	≥9%
Investment term	till up 5 year	till up 4 year	till up 3 year

Grant	25%	20%	15%

The Fund as a shareholder has property and non-property rights foreseen by the laws. The Fund participates in the management of the enterprise or transfers its right in the procedure prescribed by the Joint Stock Company Law.

The operation of the Fund is controlled by the Business Development Fund and the manager of the SME development programme allocations – the Ministry of Economy and State Control.

Conclusions

- Venture capital in Europe is mostly invested in MBOs or are turned into development capital, one in five companies belongs to the start-up category.

- European Private Equity and Venture Capital Association (capital of EUR 80 billion) promotes globally and facilitates European venture capital and private equity. More than half of all investments is aimed at providing expansion finance.

- Danish Venture Finance (the venture with an evergreen investment capacity of EUR 70 million), make seed investments and in existing companies with large development potential.

- British Venture Capital association (since 1983 invested over £ 23 billion, most - 49 percent of venture capital – has been invested in the financing of expansion.

- German Venture Capital Association (assets at the end of 1997 – DM 4274.77 million) invests into expansion financing – 55 percent, MBO/MBI – 118 percent, bridge financing – 10 percent, start-up – 9 percent, seed – 4 percent.

- Hungarian Venture Capital Association (assets by the end of 1998 approximately USD 1.5 billion) invests in enterprises with high growth potential.

- The Lithuanian Small and Medium Business Risk Capital Fund has been just foreseen to be established. The bylaws of its activities have been already prepared.

  In Lithuania of actively functioning risk capital funds is just the Baltic Small Equity Fund (capital over USD 10 million). The Fund makes investments in expansion financing.

  The Baltic American Enterprise Fund foresees the financing of enterprises in the stages of start-up and expansion.

CONCLUSIONS AND SUGGESTIONS

The following conclusions could be drawn from the analysis carried out according to the project:

- SMEs both in Europe and Lithuania play an enormous role: in the EU 99.8 percent of all companies are SMEs with 66 percent of total employment and 65 percent of business turnover; in Lithuania 90 percent of all companies are SMEs with 70 percent of total employment.

- The EU and Lithuania strengthen the policy for SMEs support, providing financial support in creating new jobs, supporting the implementation of new technologies, informing and training entrepreneurs.

- In Lithuania SMEs are supported through commercial banks (especially by granting favourable credits from foreign loans with the governmental guarantee), funds credit unions, and PHARE.

- In Lithuania banks provide credits to enterprises that are in expansion, MBO/MBI stages.

- Venture capital in Lithuania is just at the embryonic stage.

In Lithuania the Small and Medium-size Business Risk Fund is foreseen to be established.

SMEs start-up has been financed by the Labour Exchange only.

Only the Baltic Small Equity Fund has been functioning in actual fact, using risk capital for enterprises in the expansion stage.

Upon generalising research conducted in the project and conclusions made, it is possible to state that **insignificant achievements have reached in Lithuania as compared to the experience of the European Union and Central European countries in using venture capital for SMEs financing and informing market players about the possibilities afforded by the risk funds.**

Striving to activate the establishment of the risk capital funds and the effect of their use for the growth of economy it should be necessary to:

- Provide important information and research results for **market players** about the possibilities for the use of risk capital in the form of printed matter and Internet.

- After the one-year long functioning analyse the operation of the **risk capital funds** in Lithuania, striving to identify the performance progress.
  With no progress achieved identify the causes of passive activities and evaluate **the prospects of risk capital in Lithuania.**

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