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SELECTED ISSUES REGARDING THE DEVELOPMENT OF THE SME SECTOR IN THE EUROPEAN UNION

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Streszczenie. Małe i średnie przedsiębiorstwa (MŚP) są często uznawane za podstawę gospodarki europejskiej, gdyż stanowią źródło potencjalnych miejsc pracy i wzrostu gospodarczego. Ze względu na ich potencjał w tworzeniu miejsc pracy odgrywają istotną rolę w procesie budowania dobrobytu społeczności lokalnych i regionalnych. W artykule przedstawiono wyniki badań dotyczących rozwoju małych i średnich przedsiębiorstw w państwach członkowskich UE przy wykorzystaniu rankingów wybranych wskaźników i analiz sektora MŚP, w odniesieniu do ogólnej sytuacji gospodarczej. Dane statystyczne przedsiębiorstw przeanalizowano pod kątem: liczby przedsiębiorstw, wielkości zatrudnienia oraz wartości dodanej generowanej przez ten sektor. Badania dynamiki zmian strukturalnych sektora MŚP pokazuje, że wzrostowi liczby przedsiębiorstw nie zawsze towarzyszy wzrost produktywności i zatrudnienia. Zauważono, że ogólna sytuacja gospodarcza kraju ma wpływ na dostęp MŚP do różnych źródeł finansowania, zwłaszcza finansowania dłużnego. Sformułowano więc wniosek, że w celu efektywniejszego wspierania rozwoju sektora MŚP należałoby przede wszystkim zmienić niektóre przepisy prawne i administracyjne.

Key words: access to financing sources, comparative analysis, development of SME sector.

Słowa kluczowe: dostęp do źródeł finansowania, analiza porównawcza, rozwój sektora MŚP.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are often referred to as the backbone of European economy, providing a potential source for jobs and economic growth. SMEs are defined by the European Commission as having less than 250 persons employed. They should also have an annual turnover of up to EUR 50 million or a balance sheet total of no more than EUR 43 million (Commission Recommendation of 6 May 2003). These definitions are important when assessing which enterprises may benefit from the EU funding programs aimed at promoting SMEs, as well as in relation to certain policies such as SME-specific competition rules.

Annual structural business statistics with a breakdown by size-class are the main source of data for analysis of SMEs. A limited set of the standard SBS variables (number of enterprises, persons employed, value added, etc.) is available mostly down to the 3-digit (group) level of

the activity classification (NACE), based on criteria that relate to the number of persons employed in each enterprise. The number of size-classes available varies according to the activity under consideration (Baza Eurostat, <http://ec.europa.eu/eurostat/web/structural-business-statistics/structural-business-statistics/sme>).

One of the main challenges the authors face in their examination of EU countries is to come up with a precise definition of the research subject and a set of regional development factors that capture selected aspects of SME development, to be used in further analysis as. They also have to meet formal, statistical and subject matter selection criteria. The research material consisted of data and reports from Eurostat. The research problem this paper attempts to address is: Is it true that the better the country's economic conditions are, the higher is the SME financing? Does it also translate into easier access to sources of business development funding, enhanced economic efficiency and improved labor market?

COMPARISON OF ECONOMIC DEVELOPMENT BETWEEN THE EU COUNTRIES

One of the basic criteria for the evaluation of a country's economic development is gross domestic product (GDP). GDP *per capita* is used, *inter alia*, to compare development between Member States and to assess the convergence process. Basic characteristics of statistical GDP *per capita* are showed in Table 1.

Table 1. GDP *per capita* in years 2008 and 2012 [USD]

Years	Maximum	Minimum	Interval	Average
2008	84 734	14 566	70 168	33 482
2012	89 577	15 672	73 905	33 831
Difference	4844	1106	3738	349

Thus, one can note an increase in the value of average, maximum and minimum economic growth of EU countries, and an increase in spreads in 2012 of about 3.7 thousand US confirm existing discrepancies between the EU countries. To capture economic development variation between countries, rankings based on countries' GDP *per capita* indicators for the years 2008 and 2012 were compared and their growth rate was calculated (Table 2).

In both rankings Luxembourg came first, whereas the lowest GDP *per capita* – more than five times lower – was recorded for Bulgaria and Romania. In 2012, as compared to 2008, only 6 countries showed a decline in GDP *per capita*. The largest decline was recorded in Greece (17%), and by a few percentage in the Netherlands, United Kingdom, Spain, Cyprus and Slovenia. The highest GDP *per capita* growth was observed in Poland (ca. 25%), Romania and Lithuania (ca. 15%), as well as in Germany (ca. 12%). The question is whether these changes in enterprise development in the countries surveyed were accompanied by increased funding for SMEs?

Table 2. Comparison of GDP per capita indexes for 2008 and 2012 and growth rate

Country	Ranking in 2008	Ranking in 2012	Growth rate of GDP per capita [%]
Luxembourg	1	1	5.7
Netherlands	2	2	-1.1
Ireland	3	3	3.5
Sweden	4	5	4.2
Austria	5	4	8.8
Denmark	6	7	5.0
Finland	7	9	0.0
Germany	8	6	12.5
Belgium	9	8	8.2
United Kingdom	10	11	-2.1
Italy	11	12	1.1
France	12	10	5.6
Spain	13	13	-4.2
Cyprus	14	14	-6.6
Greece	15	20	-17.1
Slovenia	16	15	-3.8
Czech Republic	17	16	4.7
Portugal	18	18	0.2
Malta	19	17	11.1
Slovakia	20	19	8.1
Estonia	21	21	8.2
Hungary	22	24	8.9
Lithuania	23	22	15.5
Croatia	24	25	3.2
Latvia	25	26	11.8
Poland	26	23	25.4
Romania	27	27	15.5
Bulgaria	28	28	7.6

STRUCTURAL AND PERFORMANCE CHANGES IN THE SME SECTOR

Overall, SMEs accounted for 66.5% of all European jobs in 2012 and for over 3.4 trillion EUR value added at current prices against a total value added produced by private, nonfinancial sectors of approximately 5.9 trillion EUR. Quantitative changes in the SME sector are graphically presented in Fig. 1 and Fig. 2. based on classification of business enterprises by number and by number of employees.

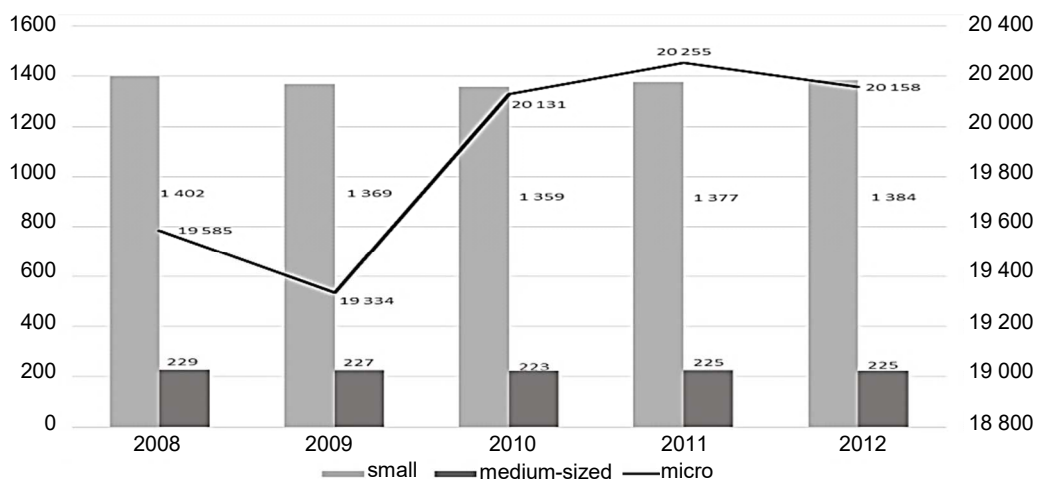


Fig.1. The number of enterprises in SME for 2008–2012 [thousands]

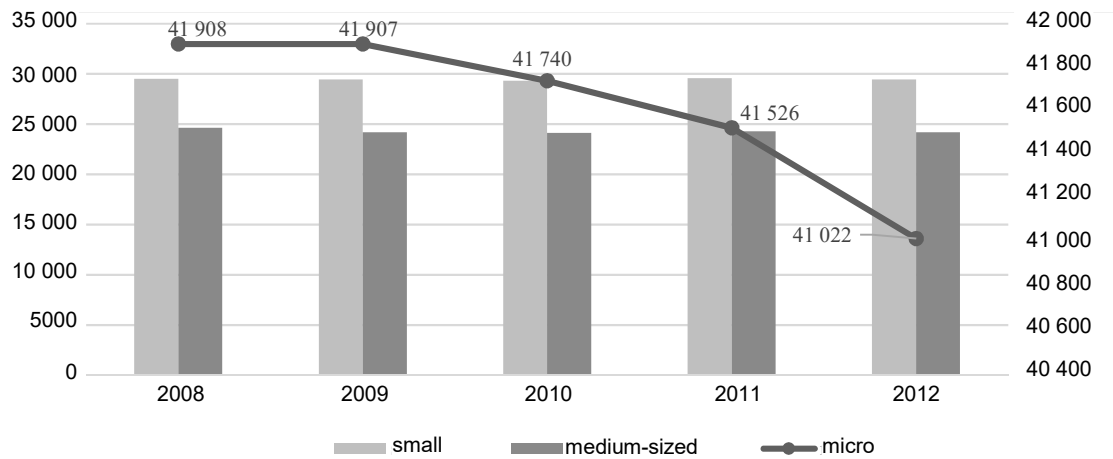


Fig. 2. Number of persons employed in SME for 2008–2012 [thousands]

Changes that occurred in the entire SME sector can be defined as minor. The number of micro enterprises increased by 0.3 p.p., while small companies by 0.25 p.p. and medium-sized by 0.05 p.p. In turn, analysis of the changes in employment showed that during the study period the number of persons employed in the SME sector decreased by 1.5 million persons (1.3% of the total employees). The largest drop in employment (about 885.5 thousand persons) was recorded in the group of micro-companies and the smallest drop (about 75.5 thousand persons) in small-sized companies.

A detailed analysis of individual countries revealed significant changes (Fig. 3 and Fig. 4). Indicators of the dynamics of change (growth rates) have been calculated for the years 2008–2012, including the number of enterprises and persons employed.

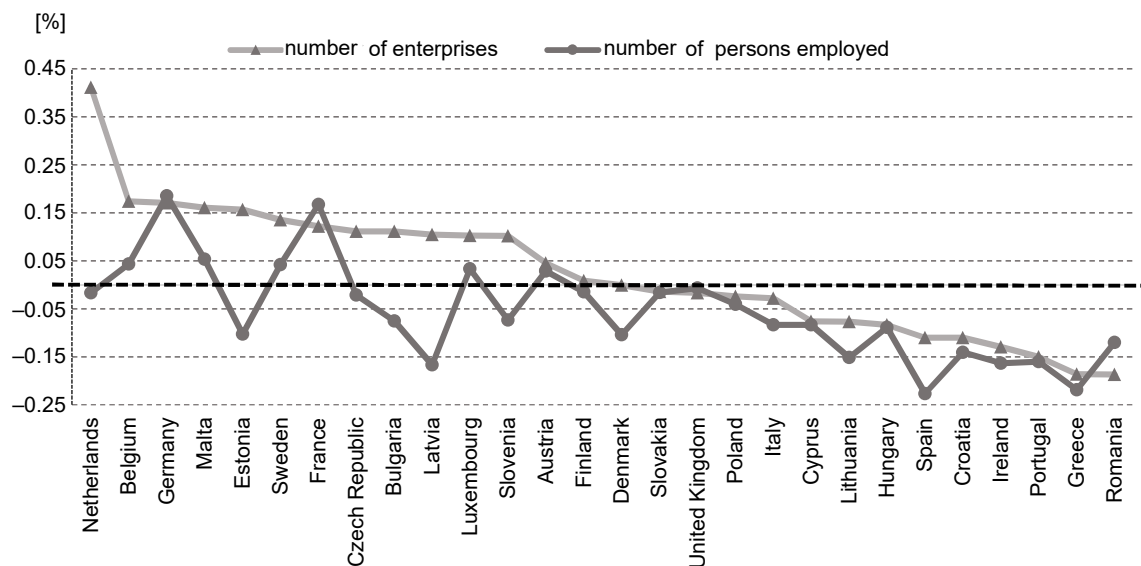


Fig. 3. Structural changes in SME in 2008–2012 by EU countries

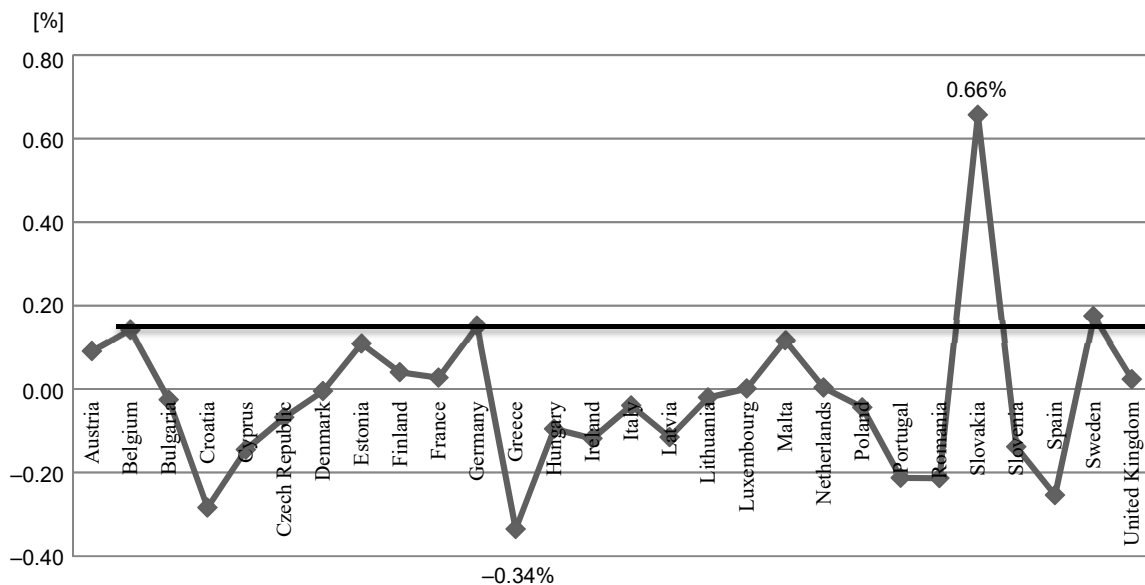


Fig. 4. Structural changes of Value Added of SME in 2008–2012 by EU countries

Analysis of changes within individual countries reveals that 50% of the countries (14 to be exact) recorded an increase in the overall number of enterprises, and only 25% noted an increase in employment and Value Added growth. The largest business growth was experienced by Germany, with over 17% increase in the overall number of enterprises and employment. Such countries as France, Malta and Belgium also showed a satisfactory growth rate. In case of the Netherlands, an over 40% increase in the number of enterprises was accompanied by a slight decline in employment (–1.7%). The worst situation prevailed in the countries hardest hit by the crisis (Spain, Greece, Ireland and Portugal). Relatively high decline in employment (over 10%) was recorded also in Romania and the Baltic States (Denmark, Estonia, Latvia and Lithuania). The largest increase in VA was seen in Slovakia (66%), with only a minor increase in the number of companies (ca. 0.1%) and employment (about 0.07%).

Finally, statistically derived indicators and classification criteria were adopted to estimate the level of changes in individual countries. Table 3 lists the criteria and classification symbols, and Table 4 presents the results of a comparison of the dynamics of changes in the countries surveyed.

Table 3. Classification ranges for dynamic indexes and their symbols.

Symbols	Interpretation	Number of enterprises	Number of employees	Value Added
↑↑	High growth	≥16.27%	≥4.77%	≥4.78%
↑	Average growth	<2.58%, 16.27%)	<–5.44%, 4.77%)	<–0.58%, 4.78%)
→	Moderate decrease	<–11.10%, 2.58%)	<–15.65%, –5.44%)	<–5.95%, –0.58%)
↓	Large decrease	< –11.10%	< –15.65%	<–5.95%

Table 4. The results of comparative analysis of the dynamics of changes in the SMEs

Growth rates of the number of enterprises	Symbols	Growth rates of the Value Added			
		↑↑	↑	→	↓
↑↑	X	Belgium, Germany	Netherlands	X	
↑	Malta	Austria, Luxembourg, Sweden	Bulgaria, Czech Republic, Estonia, France, Latvia, Slovenia	X	
→	Finland, Slovakia	Denmark, Hungary, Lithuania, United Kingdom	Cyprus, Italy, Poland	Croatia, Spain	
↓	X	Greece	Portugal, Romania	Ireland	
Growth rates of number of persons employed	↑↑	Malta	Germany	France	X
	↑	X	Austria, Belgium, Luxembourg, Sweden, United Kingdom	Czech Republic, Netherlands, Poland	X
	→	Finland, Slovakia	Denmark, Hungary, Lithuania	Bulgaria, Estonia, Cyprus, Italy, Slovenia, Romania	Croatia
	↓	X	Greece	Latvia, Portugal	Ireland, Spain

On the basis of the above-given data it was found that only in case of 6 countries, an increase in the number of enterprises and employees was accompanied by increased Value Added (VA). Among the surveyed countries the highest business growth, along with increased economic efficiency, was observed in Malta. The worst situation in terms of VA dynamics prevailed in Croatia, Ireland and Spain. Employment growth does not always favor an increase in VA. Both phenomena show a parallel trend only in 7 countries. Despite the drop in the number of enterprises and persons employed, a high increase in VA was recorded in Finland and Slovakia.

ANALYSIS OF SME ACCESS TO FINANCING SOURCES

Small and medium-sized enterprises represent over 99% of businesses in the EU, therefore it is crucial to support their growth and innovation. However, one of the most important issues facing SMEs is their difficulty in accessing finance. The European Commission works to improve the financing environment for small businesses in Europe. The EU financing programs are generally not provided as direct funding. Aid is channeled through local, regional or national authorities, or through financial intermediaries such as banks and venture capital organizations that provide funding through financial instruments (http://ec.europa.eu/growth/tools-databases/crowdfunding-guide/index_en.htm).

The European Commission developed the *SME Access to Finance (SMAF) index* to monitor developments in SMEs' access to financial resources and to analyze differences between EU countries. The index is calculated using a baseline of EU 2007 = 100, and so it allows a comparison between countries and across time. The index is a weighted mean of two sub-indices: access to debt finance index (85% of the weighting) and access to equity finance index (15% of the weighting). *Debt finance sub-index* includes the following indexes: percentage of firms using bank loans, interest rates on loans up to 250 thousand EUR, interest rates for overdrafts, percentage of firms using bank overdraft, credit line or credit

cards overdraft, rate of firms using leasing, hire purchase or factoring, rate of companies choosing not to apply for bank loans because of possible rejection, rate of firms that apply but whose needs are satisfied only in part, rejected loan applications and unacceptable loan offers, willingness of banks to provide a loan (rate of respondents who indicated a deterioration). Whereas the *Equity finance sub-index* includes: total venture capital investment in thousands of EUR (% of GDP), number of venture capital beneficiary SMEs (scaled by GDP), total volumes invested by business angels in thousands of EUR (% of GDP), number of deals in which business angels invested (% of GDP), percentage of firms feeling confident to talk about financing with equity investors/ venture capital firms (http://ec.europa.eu/growth/tools-databases/smaf/index_en.htm).

The index is calculated using data from European Central Bank for debt; from European Venture Capital Association and European Business Angel Network for equity and from the EC and ECB's Survey on the Access to Finance of SMEs (SAFE) for both sub-indices. High values in the overall Index and its sub-indices indicate better performance of access to finance indicators relative to the EU level in 2007. The rankings according to the SMAF indexes contained in the Table 5 show variance in access to financial resources between UE countries in 2008 and 2012. However, differences in the value of the sub-indices indicate the causes of changes in ranking positions for each country.

Table 5. The countries rankings by the SMAF indexes and difference of sub-indices

Countries	Ranking in 2008	Ranking in 2012	Differences of sub-indices in 2008–2012	
			debt finance	equity finance
Sweden	1	7	-1.47	-24.78
Germany	2	1	15.85	-8.25
France	3	3	13.69	-1.64
Austria	4	2	12.84	10.10
Finland	5	4	16.29	-15.86
Luxembourg	6	14	4.98	-29.08
Slovakia	7	15	1.04	-5.47
Cyprus	8	25	-12.60	1.73
United Kingdom	9	18	5.43	-18.71
Denmark	10	17	1.40	13.46
Belgium	11	12	7.29	-5.95
Malta	12	11	7.37	1.32
Netherlands	13	5	18.18	-3.30
Slovenia	14	8	11.29	7.12
Italy	15	21	-6.39	2.69
Czech Republic	16	13	14.61	-17.41
Poland	17	20	9.04	-11.46
Croatia	18	6	19.78	8.90
Ireland	19	16	9.06	23.34
Portugal	20	27	-6.26	-20.42
Estonia	21	19	7.52	13.87
Greece	22	28	-16.26	-5.43
Lithuania	23	10	19.06	25.03
Bulgaria	24	26	4.29	9.63
Romania	25	24	9.90	0.28
Latvia	26	9	29.41	11.42
Spain	27	22	16.55	-14.86
Hungary	28	23	17.78	14.51

In the ranking of SMAF, 12 countries reported decreases in funding, which however is not always due to the deterioration of debt financing and equity financing. The largest decrease in Cyprus, with 17 points, resulted mainly from drastic deterioration of debt financing and insignificant improvement of capital finance. A similar situation, though on a much smaller scale, was observed in Italy. In the United Kingdom as well as in Luxembourg, Slovakia, Belgium and Poland, the situation was just the opposite. Debt financing improved and significantly weakened enterprise capital funding. The least favorable financing conditions occurred in Greece, Portugal and Sweden, with diminished debt and equity financing.

Access to debt finance sub-index is comprised of indicators based on the take-up of different sources of debt finance, SME perceptions of loan finance and actual interest rates. The EU28 debt sub-index value has increased by 8 points since 2008. Across member states, 23 countries have seen their relative performance on this sub-index improve since 2008. Latvia represents the strongest performing country, whereas Greece, Cyprus, Italy, Portugal and Sweden have the least favorable environment for debt finance.

Access to equity finance sub-index is calculated with data from the European Venture Capital Association and the European Business Angel Network reflecting investment volumes and numbers of beneficiaries. Here Lithuania, Ireland, Estonia, Denmark, Hungary and Finland are the strongest performing countries, whereas Luxembourg, Portugal and Sweden have the least favorable equity finance environments. The EU28 sub-index value has decreased by 1 point since 2008. 13 countries have improved their relative performance in the equity finance sub-index between 2008 and 2012.

TRENDS AND DIRECTION CHANGES IN THE SME SECTOR

The structure of business activity sectors in terms of VA generation showed only a minor change (within one percent) in the study period. With respect to the structure of VA, its leaders come from C-Manufacturing, G-Wholesale and retail trade, which in the years 2008 and 2012 accounted for ca. 20% of the share. Third position, with ca. 13%, was taken by M-Professional, scientific and technical activities. A similar situation occurs in the structure of employment. Three sections employ more than 50% of the total SME employees, including section G employing approximately 26% of the total employed in the SME, section C with 20% and section M with 10%. Sections B, D and E represent the smallest employment size. Three sections (B, C and F) showed a significant drop in employment (up to around 10% in B and C, in section F up to 14%). The changes affected the reduction of the VA earned sectors (Table 6).

Employment structure may indicate industry specialization in the region. On both international and national scale, the largest employment is in sections G (Wholesale and retail trade; repair of motor vehicles and motorcycle) in 16 EU countries and in section C (Manufacturing), which dominates employment in 12 countries. Only three sections noted a decline in VA in 2012 compared to 2008. The biggest adverse changes occurred during the period in section F-Construction (approx. 2% decline in VA). The second section, with a large drop in VA was in sector C. In section H (Transportation and storage) changes were almost unnoticeable, while in the other sections there an increase in VA was observed, which is evidence of their development (Fig. 5).

Table 6. Structure of Value-Added and Number of Employees by section [%]

Section	Number of employees		Value Added	
	year 2008	year 2012	year 2008	year 2012
B	0.25	0.23	0.94	0.89
C	21.75	20.11	21.40	20.54
D	0.27	0.29	1.35	1.60
E	0.77	0.87	1.12	1.35
F	14.20	12.39	14.05	11.27
G	25.66	26.32	21.93	22.39
H	6.13	6.15	6.26	6.25
I	8.80	9.56	4.17	4.55
J	3.56	3.81	5.09	5.65
L	2.43	2.58	5.27	5.93
M	9.83	10.49	12.35	12.94
N	6.37	7.19	6.09	6.63

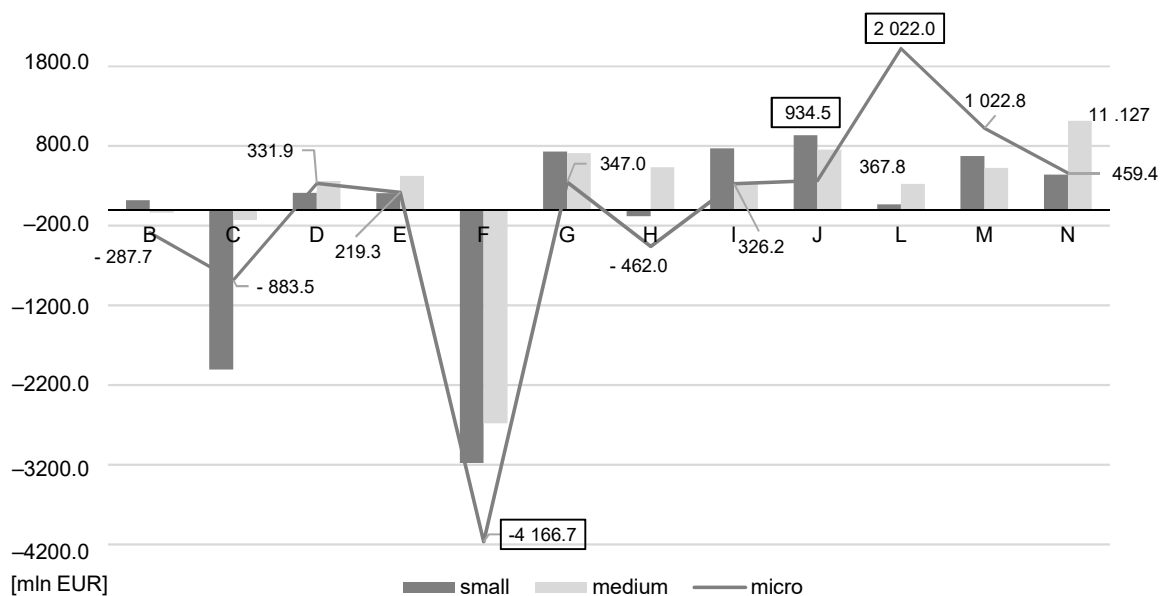


Fig. 5. Changes in the value of the VA indexes by section [mIn EUR]

Analysis of changes in VA by section and broken down by enterprise size classes showed that section F (Construction) experienced the largest decrease. In turn, the largest increase for micro-companies occurred in section L (Real estate activities), for small-sized companies in section J (Information and communication, ICT), and medium-sized in section N (Administrative and support services). Table 7 shows the direction and dynamics of these changes for all analyzed countries (except Greece).

As evident from the Table above, the United Kingdom and Austria are the most stable economically countries. In turn, Slovenia showed relatively the most dynamic development in almost all economic sectors (with the exception of section (C)). The biggest decline in economic performance was observed in Hungary and Romania.

The highest dynamics of growth was reported in section H (104.4%, Slovenia), and the biggest decline in section B (-84%, the Netherlands). By analyzing the dynamics of changes in VA in the various sections, it was found that the most growing business was power engineering (section D) with increase in growth reported in 21 countries. Municipal economy

(section E) and the ICT sector (section J) ranked second with an increase in 19 countries. The least developing sections were construction (section F, drop in 20 countries) and industrial processing (section C, decline in 17 countries).

Table 7. The dynamics of Value Added for UE28 countries by section [%]

	B												C	D	E	F	G	H	I	J	L	M	N
Austria	9.9	5.6	9.0	10.1	-1.8	11.3	4.1	8.3	11.7	18.9	8.8	9.6											
Belgium	-0.2	-5.7	16.7	2.8	11.6	17.2	3.6	7.0	6.6	89.3	32.0	27.0											
Bulgaria	91.5	11.8	70.1	7.7	-47.8	-6.0	10.9	10.5	11.9	-23.4	1.6	32.1											
Croatia	44.3	-24.9	21.4	-34.1	-54.0	-33.1	-28.2	0.1	-7.5	37.6	-17.1	-21.1											
Cyprus	-26.0	-18.2	47.8	56.7	-54.9	-6.9	3.9	3.5	5.3	-31.4	21.2	3.5											
Czech Republic	-21.1	-0.6	0.3	-1.5	-22.2	-2.8	-8.5	-5.5	-5.0	15.7	-9.0	-8.5											
Denmark	-19.3	-4.3	9.0	73.2	-23.6	-0.4	-10.8	-1.0	1.8	57.2	5.4	34.3											
Estonia	26.1	9.2	78.9	7.1	-3.6	1.2	24.0	17.3	9.3	37.8	5.6	27.9											
Finland	28.4	-23.5	6.7	29.3	6.3	2.3	-1.9	10.5	8.1	19.6	12.3	18.5											
France	0.2	-4.7	-1.0	22.3	-0.2	4.9	2.5	18.9	4.1	24.0	11.4	5.6											
Germany	-6.4	9.5	-5.5	18.1	21.0	25.8	1.7	35.0	7.3	-0.6	11.5	13.8											
Hungary	-3.9	-21.6		28.8	-34.9	-40.5	-26.4	-20.2	-46.4	15.3	-49.1	-19.3											
Ireland	-17.5	-6.0	-8.9	-4.8	-30.4	-22.1	2.4	-15.3	4.1	-9.2	-0.8	2.5											
Italy	-18.2	7.4	19.2	-7.3	-49.2	-7.5	-0.4	-16.1	28.0	4.7	-19.6	-12.4											
Latvia	11.8	-7.7	56.4	40.3	-30.0	9.6	10.3	5.0	-4.2	19.7	-8.2	13.9											
Lithuania	34.6	-1.2	22.3	-8.7	-36.0	-12.2	5.0	-20.0	-2.6	-9.4	-23.3	-15.9											
Luxembourg	-5.3	14.9	8.3	11.2	-56.8	-0.3	20.6	-1.3	10.0	-0.3	-7.1	-14.3											
Malta	4.7	-55.9	9.0	29.2	3.8	64.6	-0.9	14.7	14.9	12.0	0.2	-15.4											
Netherlands	-84.0	-2.4	-77.1	-74.4	13.9	4.7	16.1	15.2	13.0	-10.6	36.8	31.0											
Poland	17.5	2.1	34.4	9.1	-15.8	6.6	-0.4	13.3	4.4	12.4	0.5	-2.0											
Portugal	11.8	-1.7	26.0	16.4	-11.9	-12.2	7.2	3.9	1.5	15.7	8.4	12.1											
Romania	-17.8	-15.4	21.1	13.3	-45.0	-21.0	-9.4	-25.5	-10.3	-41.6	-12.8	-11.4											
Slovakia	-14.1	-14.7	6.3	-0.4	-36.7	-27.9	-1.4	-24.4	-2.0	-36.8	-13.0	19.0											
Slovenia	0.9	36.7	-4.8	10.0	54.3	61.9	104.4	80.8	22.2	93.5	79.3	58.5											
Spain	-18.4	-9.0	14.2	-4.1	-39.5	-19.4	3.8	-7.6	2.9	-36.9	-8.2	4.4											
Sweden	-27.4	-25.3	37.8	19.2	-57.1	-16.5	-3.8	-5.9	-7.8	-5.5	-13.1	-11.1											
United Kingdom	59.9	4.9	15.1	34.8	22.0	22.1	7.8	32.8	21.1	19.1	25.2	26.9											

The study's aim was to determine whether improved access to financing sources has a direct impact on the economic efficiency of enterprises SME. To this end, increases in VA were set against individual sub-indices of the SMAF index. It turned out that there is a direct ratio between improved access to various sources of funding and overall increase in VA. By far, the industrial structure of an economy is of the greatest importance. A marked increase in the VA was reported in countries where industrial processing (for Slovenia, Germany it is about 33% of the total) and modern technologies (sections J and M, for a total of more than 20%) were dominant. In other cases, no obvious correspondence was found, but additional research would be needed to establish that firmly. The findings are presented in Fig. 6.

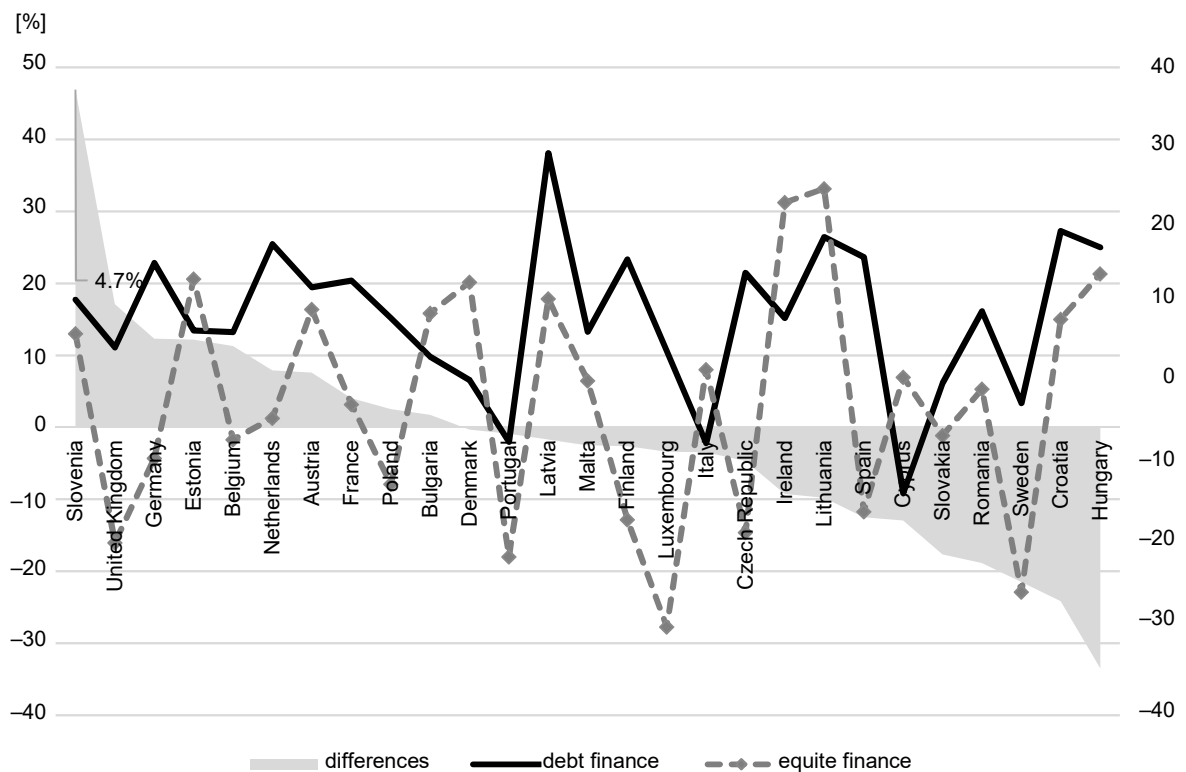


Fig. 6. Growth rates of VA and changes of sub-indexes of the SMAF index

CONCLUSIONS

A country's economic situation affects to a certain extent SMEs' access to funding sources, especially in case of debt financing. Hence the biggest business development was reported in Luxembourg, Netherlands, Germany, France and Austria. However, such situation does not necessarily mean that access to financing sources for the development of the SME sector is easy.

The dynamics of structural change in the SME sector shows that increase in the number of enterprises is not always accompanied by improved productivity and increased employment (Estonia, Latvia, Netherlands).

It can be safely concluded that a country's higher economic development (measured by selected diagnostic variables) does not translate into higher SME financing (captured by the SMAF index). Apart from economic development, certain legal and administrative regulations fostering the growth of the SME sector must first be put in place.

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Summary. Small and medium-sized enterprises (SMEs) are often considered to be the foundation of European economy, as they are a source of potential jobs and economic growth. Because of their potential in creating jobs, they play a pivotal role in the process of building the prosperity of local and regional communities. The article presents the results of research on the development of small and medium-sized enterprises across the European Union that applied selected indicators and an analysis of SMEs condition against overall economic situation. Available statistical data were analyzed by number of enterprises, size of employment and added value generated by a given economic sector. The study of the dynamics of structural change in the SME sector shows that the increase in the number of enterprises does not always translate to growth in productivity and employment. However, it was noted that a country's general economic situation affects the SME access to financing sources, especially debt financing. The latter issue should be among the ones addressed by decision makers who should ensure that legal and administrative provisions effectively support the development of SMEs.