



# Specific Support for Slovakia

## **Boosting the Slovak start-up ecosystem: Progress assessment**

Horizon 2020 Policy Support Facility



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European Commission  
Directorate-General for Research and Innovation  
Directorate A — Policy Development and Coordination  
Unit A4 — Analysis and monitoring of national research and innovation policies

Contact (H2020 Specific Support for Slovakia):  
Diana Ivanova van Beers, Policy Officer: [diana.ivanova-van-beers@ec.europa.eu](mailto:diana.ivanova-van-beers@ec.europa.eu)  
Benoit Abeloos, Policy Officer: [benoit.abeloos@ec.europa.eu](mailto:benoit.abeloos@ec.europa.eu)

Contact (H2020 PSF coordination team):

Román Arjona, Chief Economist and Head of Unit A4 - [roman.arjona-gracia@ec.europa.eu](mailto:roman.arjona-gracia@ec.europa.eu)  
Stéphane Vankalck, PSF Head of Sector, Unit A4 - [stephane.vankalck@ec.europa.eu](mailto:stephane.vankalck@ec.europa.eu)  
Diana Senczyszyn, PSF Team Leader, Unit A4 - [diana.senczyszyn@ec.europa.eu](mailto:diana.senczyszyn@ec.europa.eu)

European Commission  
BE-1049 Brussels

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*Specific Support for Slovakia*

# **Boosting the Slovak start-up ecosystem: Progress assessment**

Prepared by independent experts:

Paulo Andrez (Portugal, Chair)

Hannes Leo (Austria, Rapporteur)

Sigrid Johannisse (Netherlands, Expert)

Jari Romanainen (Finland, Expert)

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## THE PSF SPECIFIC SUPPORT PANEL

**Paulo Andrez, Chair (Portugal):** Innovation expert helping governments to design and implement entrepreneurship policies. In addition, he chairs the PSF Panel of Experts in Romania in relation to incubation, acceleration, business angels (BAs) and venture capital (VC) policies. Founder and board member of the DNA Cascais Incubator Centre; president emeritus of the European Trade Association for Business Angels (EBAN) and board member of the Portuguese Business Angel Federation (FNABA). He is also a business angel investor in several companies and a serial entrepreneur. He is a guest lecturer in several European universities on the topic of 'Risk mitigation in early-stage projects'.

**Hannes Leo, Rapporteur (Austria):** CEO and co-founder of cbased (Community-based Innovation Systems GmbH, a research and policy consultancy for science, technology and innovation policy and large-scale decision-making processes). As an analyst and consultant, Hannes has been extensively involved in analysing start-up ecosystems, particular aspects of ecosystems such as tax credits for entrepreneurs or venture capital, and the role of entrepreneurship in structural change. As an entrepreneur, he has first-hand knowledge of the issues start-ups face when building their company in terms of managing innovation and accessing markets, and dealing with different players within the ecosystem.

**Sigrid Johannisse, Expert (Netherlands):** Director of StartupDelta at the Dutch Ministry of Economic Affairs, an independent programme financed by the Dutch government. Prior to that, Sigrid worked in the Cabinet of Vice-President Neelie Kroes in the European Commission for the Digital Agenda and was her advisor for the Startup Leaders Manifesto for entrepreneurship and innovation. During her previous career at the Ministry of Economic Affairs, Sigrid held managerial positions and was responsible for large investment programmes for high-tech systems and IT, and led innovative policy approaches such as the Green Deals, adopted now by the European Commission in the form of Innovation Deals.

**Jari Romanainen, Expert (Finland):** Executive policy advisor for the Finnish Funding Agency for Innovation (Tekes) and the Ministry of Employment and Economy in Finland, and senior consultant with Technopolis Group. Over the last 20 years, Jari has been responsible for designing, implementing and evaluating science, technology and innovation policies and related policy measures in Finland. He has both strategic and practical experience of the full range of policy measures aimed at enhancing research and development (R&D) and innovation, supporting commercialisation, and developing and governing innovation systems.

## **THE PSF SPECIFIC SUPPORT TO SLOVAKIA**

The Horizon 2020 Policy Support Facility (PSF) is an instrument aimed at supporting Member States and countries associated to Horizon 2020 in improving the design, implementation and evaluation of their national research and innovation (R&I) policies and systems. The PSF was set up by the European Commission, DG Research and Innovation, under Horizon 2020.

Specific support services provide tailored advice, expertise and good practice to help Member States and Associated Countries in the design or implementation of a specific reform or topic concerning R&I strategies, programmes or institutions. This is carried out by an international and independent expert panel which formulates concrete and operational recommendations to the national authorities on the reforms necessary to address the specific objectives.

The Slovak authorities expressed their interest in receiving specific support under the Horizon 2020 Policy Support Facility in a letter of 22 September 2015. The support was requested in the context of the national 'Strategy to support start-ups and further develop the start-up ecosystem', adopted by the government of the Slovak Republic in June 2015, and the envisaged creation of a start-up committee and the establishment of a scheme to support BAs.

The PSF expert panel, comprising four independent experts from Portugal, Austria, Finland and the Netherlands acting in their personal capacity, worked from April 2016 to August 2016. It presented its recommendations in a report delivered at the end of 2016. In June 2017, it returned to Slovakia to discuss the implementation of the 2016 report's recommendations with Slovakian authorities and stakeholders.

## EXECUTIVE SUMMARY

In 2016, the PSF expert panel was asked to provide input on measures to: (1) improve the business environment for start-ups and investments in R&D; (2) develop the incubation/acceleration system and attract investors to create new incubators/accelerators; and (3) establish and implement a transparent and effective scheme to support BAs.

In its 2016 report (European Commission, 2016), the PSF expert panel answered these questions but went further by developing more holistic recommendations aimed at the overall management of the start-up ecosystem. It stressed that the start-up ecosystem must be managed in a coordinated way in order to maximise impact: focusing on isolated measures to stimulate segments of the ecosystem might do more harm than good and lead to unbalanced developments.

The overall conclusion of the progress assessment carried out by the panel in 2017 is that, while the Slovak government is on the way to implementing some of the measures it recommended in 2016 (especially those financed by the European Structural and Investment Fund (ESIF)), many of the recommendations for managing the start-up ecosystem had not been taken up, despite their importance for maximising the impact of the ESIF-funded measures.

More concretely,

- the measures suggested by the panel concerning the management of the ecosystem and the exchange between actors within it will, on the whole, not be implemented. These measures would have created institutions (e.g. Connection Hub), interactions and datasets that could have stimulated networking in the ecosystem and created the basis for evidence-based decisions. Some of the tasks foreseen by the panel for the Connection Hub as a pivotal networking institution (e.g. points of single contact, access to accelerators abroad) were allocated to the Slovak Business Agency (SBA).
- of the eight measures suggested by the panel to support the establishment of a business angel community, only two are in the process of being implemented. The expected implementation date has been shifted back, although the resources available are substantial. The abandoned measures (e.g. business angel federation, business angel certification) were deemed necessary by the panel to establish a vibrant business angel community.
- while before the PSF exercise the Slovak government foresaw a much bigger role for the public sector – the SBA in particular – in the area of incubation and acceleration services, the expert panel rather suggested the creation of proper incentives that put start-ups at the centre, with the aim of creating a level playing field for private and public operators. At present, neither of these options seem to be materialising.

A further issue to be highlighted is that the sums allocated from the European Structural and Investment Funds (ESIF) to support the Slovak start-up ecosystem are substantial compared to the (domestic) resources that have been invested so far. As a result, it is difficult to manage this process in line with the country's absorptive capacity and to avoid crowding out private initiatives. Slovakia will effectively start implementing the first measures in 2018, which means that the time available to spend these large resources is further compressed, risking overstressing the absorptive capacities of the start-up ecosystem, and thereby reducing the potential impact substantially.

On a positive note, it can be highlighted that Slovakia has made significant efforts since 2016 to improve its business environment. It has introduced a substantial number of changes that will improve the framework conditions for small and medium-sized enterprises (SMEs) and ease the start-up phase for newly founded enterprises. Moving up the Global Entrepreneurship Index<sup>1</sup> (from 41<sup>st</sup> position in the world in 2015 to 36<sup>th</sup> in 2017) and the World Bank ranking is an important motivation for these initiatives. The 2016 report emphasised that progress in this area is vital for the start-up ecosystem but will benefit the wider economy, too. This is definitely a win-win strategy.

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<sup>1</sup> <https://thegedi.org/global-entrepreneurship-and-development-index/>

## 1 INTRODUCTION

In 2015, the Slovak authorities asked the Horizon 2020 (H2020) Policy Support Facility (PSF) to analyse and report on the following questions concerning Slovakia's start-up ecosystem:

- How can Slovakia improve the business environment to promote entrepreneurship and start-ups?
- How can the country improve business incubation and acceleration?
- How can Slovakia increase the existing small community of business angels?

The ensuing report, *Boosting the Slovak start-up ecosystem*, was delivered at the end of 2016. It presented detailed recommendations in response to these questions and outlined the following action lines, which were detailed in 21 recommendations:

1. **'Manage with care' – supporting the start-up ecosystem.** Create a connecting hub tasked with the following: linking stakeholders, making them visible to the outside world, providing information on initiatives and support measures, collecting data to monitor the system, promoting the participation of start-ups and SMEs in public procurement, and helping the ecosystem to learn quickly by setting up communities of practice.
2. **Go for radical rather than incremental reforms of the business environment.** As incremental reforms of the business environment tend to go unnoticed, a radical move to improve the quality of legislation, based on the recently reformed regulatory impact assessment process, is necessary to foster the change process. Existing crowdsourcing platforms, and those to be developed further, can substantially support the reforms. Eliminate unfavourable regulations for start-ups.
3. **Provide more support for demand- and success-driven incubation.** Establish a demand- and success-driven support programme for incubators that allows for the development of both public and private incubators, while addressing the current challenges in the Slovak incubator landscape. The programme should be based on accreditation of incubators and limited public funding for the companies accessing them.
4. **Accelerate and let go – use international experience and support smart specialisation at home.** Set up a brokering service helping Slovak companies to apply to and access leading international accelerators. This gives them access to the highest-quality mentoring, international top investors and corporate customers, with relatively small public investment. Support a single privately operated, internationally oriented accelerator in a selected smart specialisation area.
5. **Renew the framework for the commercialisation of research.** Develop joint principles and processes for universities regarding technology

transfer and spin-offs. Support universities in establishing a model and provide clear rules for the use of research infrastructures for commercial purposes. Require all universities to establish a technology transfer strategy and action plan.

- 6. Let the (business) angels fly – mobilising private funding for start-ups.** Support the creation of business angel networks and a national federation of BAs. Public support should be provided for the professionalisation of BAs, the management of business angel networks and the national federation. Create a certification process for BAs that will then be able to co-invest with the government. The first co-investment scheme should be operational in 2017 and the second should start in 2019.

The team of experts returned to Bratislava on 28 and 29 June 2017 with the aim of investigating implementation of the 2016 report's recommendations with Slovakian authorities and stakeholders. The following assessment is based on the discussions with a diverse group of people during this visit and on a written survey on the implementation of each recommendation. The next chapter gives a summary of implementation status and the planned interventions, while Chapter 3 concludes by describing the major driving forces behind those developments and formulates some conclusions.

## **2 PROGRESS AFTER THE REPORT WAS PUBLISHED**

Since the 2016 report was delivered, there have been several policy interventions to strengthen the Slovak start-up ecosystem. In particular, the Slovak authorities implemented the following three measures, which had already been initiated at the time of the 2016 report and had been endorsed by the said report:

- Establishing a simplified joint stock company
- Improving the business environment
- Abolishing the business angel scheme.

Efforts made to improve the business environment were based on broad stakeholder consultations. At the end of July 2017, the government decided to implement 35 regulatory changes to the business environment (see the list of measures in the annex) with the aim of reducing regulatory burdens (particularly for start-ups) and consequently moving up the ladder in the World Bank's 'Doing Business' ranking. Most of the measures will have to be implemented during 2018.

There were also some indications that a substantial number of projects to develop the start-up ecosystem were in the pipeline but that progress overall was slower than expected. This was partly attributed to the intensified scrutiny of projects within the administration to avoid mistakes and critiques from the EU Court of Auditors. While strict scrutiny is of course helpful to avoid the repetition of some past problems, red tape inside the administration seems to have grown to such an extent that it is often a struggle to conclude processes within a reasonable period. Despite this, there were no doubts on the Slovak side that all the available resources would be spent. Other factors which might have had an impact were the change in government and the fact that Slovakia held the presidency of the Council of the EU in the second half of 2016, which obviously required a lot of attention and resources.

To arrive at a more comprehensive and systematic overview of the state of implementation of the recommendations in the 2016 report, a survey was sent to the Ministry of Economy. The Slovak government provided information on the planned implementation, resources allocated, institutions responsible at government and agency level, and the likelihood of implementation. The list included 27 items as some recommendations encompassed more than one measure/activity.

Thus, the survey enabled a holistic analysis of the planned interventions in the start-up ecosystem. The outcome is presented in the following sub-chapters and follows the structure of the report: managing the start-up ecosystem, improving the business environment, enhancing incubation and acceleration services, and better access to finance.

## **2.1 'Manage with care' – supporting the start-up ecosystem**

The start-up ecosystem concept has emerged as a means of explaining and managing entrepreneurship at a regional level by looking at the interaction between different actors and conditions. An entrepreneurship or start-up ecosystem can be defined as “a set of networked institutions [...] with the objective of aiding the entrepreneur to go through all the stages of the process of new venture development. It can be understood as a service network, where the entrepreneur is the focus of action and the measure of success” (Isenberg, 2010 and 2011).

The start-up ecosystem approach was adopted by the team of experts as the analytical backbone when developing the recommendations. Creating a competitive start-up ecosystem is linked to many different policy fields and public and private actors. The main aim should be to create the right environment for start-ups to emerge, survive and grow. This should be part of an integrated longer-term economic policy strategy linked to the specific characteristics, strengths and outlook of the Slovak economy, the scientific environment and the fiscal and educational system. Clearly, private and semi-public (universities) initiatives should take the lead, while the role of the public sector is to create the appropriate framework and support conditions.

The panel's recommendations for developing the Slovak start-up ecosystem focus on fostering cooperation between all actors within the system by creating a Connecting Hub to be responsible for this. This involves enabling learning at the ecosystem level, designing policies to stimulate entrepreneurial talent and entrepreneurship, connecting the different nodes, and monitoring the evolution of the system, and — last but not least — measuring progress within the ecosystem.

While the 2017 survey indicated that most of the measures are still “in the making”, it must be stressed that this was an assessment in the mid-summer of 2017 and that their final materialisation remains to be seen. Nonetheless, the planned moves suggest substantial efforts on the part of the Slovak government to implement the suggestions in the 2016 report.

The table below represents the implementation progress of the initiatives suggested by the PSF expert panel in their 2016 report. The responsible entities and the budget were provided by the Slovak government.

Table 1: Measures to manage the start-up ecosystem

Initiative	Status <sup>1)</sup>	Funds committed (Y/N)	Start	End	Entity responsible	Budget (EUR)	Origin of funds
2.1 Develop the start-up matrix (live)		N					
2.2. Organise a public-private community of practice (CoP)		N					
2.3. Points of single contact for start-ups	 	Y	Q3 2017		Ministry of Economy Slovak Business Agency	N/A	ESIF
2.4. Develop digital skills		Pending	N/A	N/A	Ministry of Education Deputy Prime Minister's Office for Investments	N/A	N/A
2.5 Reinforce entrepreneurial education		Y	Partly implemented	Permanent activity	Ministry of Economy Ministry of Education Ministry of Finance State Vocational Education Institute	59 300 in 2016 44 000 in 2017	National funds, ESIF
2.6. Promote the EU start-up visa		Y	Implemented		Ministry of Interior Ministry of Economy	No additional budget necessary	N/A
2.7. Foster mentoring programmes	 	Y	Q3 2017	N/A	Ministry of Economy Slovak Business Agency		National funds/ ESIF - OP research and innovation
2.8. Smart public procurement for start-ups		Y	N/A	N/A	Public Procurement Office	N/A	ESIF

Initiative	Status <sup>1)</sup>	Funds committed (Y/N)	Start	End	Entity responsible	Budget (EUR)	Origin of funds
2.9 Set up Connecting Hub	●	N					
2.10 Monitoring platform implementation and managed by a non-executing agency	●	N					

*Note: 1) The 'traffic lights' signal if a measure has not been implemented (red), is pending (yellow) or is in the course of being or has already been implemented (green).*

According to the feedback received in 2017, some 'soft' measures were partly implemented. These encompassed setting up a point of single contact for start-ups, reinforcing entrepreneurial education, fostering mentoring programmes and working on smart public procurement programmes for start-ups. These measures are to be financed mainly by the European Structural and Investment Funds (ESIF), and in the case of mentoring programmes, by national funds too.

In contrast, the measures aimed at managing the start-up ecosystem were not taken up essentially. This would have involved setting up a Connecting Hub which would have been managed by a private non-executive agency and would have developed the start-up matrix and worked towards connecting the nodes in the Slovak start-up system. The Hub would have had a pivotal role in gathering statistics about the start-up ecosystem, thereby allowing engagement in evidence-based policy-making. While the expert panel is aware that some initiatives can also be implemented by the private sector (e.g. Global Entrepreneurship Week for improving entrepreneurial education), its view is that the government should make more efforts to create synergies among the different initiatives.

The promotion of the EU start-up visa did not materialise during the Slovak presidency; however, the Slovak visa was implemented (but it did not attract entrepreneurs to settle in Slovakia).

## ***2.2 Go for radical rather than incremental reforms of the business environment***

As incremental reforms of the business environment tend to go unnoticed, a radical move to improve the quality of legislation was suggested. The measures put forward aimed at newly founded companies, start-ups and SMEs alike as an improved business environment could increase survival rates, enable firm growth and consequently leverage the returns of more specific policy interventions.

Slovakia's business environment has demonstrated that it can successfully support catching-up processes and is on a par with comparable countries in the neighbourhood, although there is still huge potential for improvement. While the number of laws and regulations is small, the sometimes low quality of intervention leads to substantial compliance costs. A number of studies (see the 2016 report) identify problems with corruption, non-transparent public procurement, tedious administrative procedures, and e-government structures in their infancy. If these are addressed, substantial resources can be freed up in companies to enable more productive employment.

Table 2: Measures to further develop the business environment

Initiative	Status <sup>1)</sup>	Funds committed (Y/N)	Start	End	Entity responsible	Budget (EUR)	Origin of funds
3.1 Reinvalidate the internal regulatory impact assessment		Y	Q4 2017	2020	Ministry of Economy	4.5 million	ESIF - OP Effective public administration
3.2. Start a company in 3 days or even in 1 day		Y	Already being implemented	2020	Ministry of Economy Ministry of Interior	N/A	ESIF, national funds
3.3. Leapfrog in e-government		Y	Already being implemented	2023	Deputy Prime Minister's Office for Investments and Information from the Slovak Republic	OP integrated infrastructure, priority: 7 947 666 768	ESIF - OP integrated infrastructure + national funds
3.5 Allow taxes to be carried forward for more than 4 years		N					

Note: 1) The 'traffic lights' signal if a measure has not been implemented (red), is pending (yellow) or is in the course of being or has already been implemented (green).

Most of the measures suggested by the panel for improving the business environment are being implemented:

- This encompasses steps to reinvigorate the regulatory impact assessment (see 2016 report, page 44) by investing EUR 4.5 million based on a strategy that was expected by the end of 2017. Implementation of the strategy is foreseen for 2020. A well-functioning regulatory impact assessment is of particular importance because there are many complaints about the quality of regulations in Slovakia. A significant improvement in this area would contribute to a more favourable business environment;
- Reducing the time needed to set up a company;
- Improvements to the e-government strategy.

The panel's suggestions to change the R&D tax credit into premiums and to increase the time to carry forward losses for more than four years were not taken up; likewise, the exemptions for social security expenses for the first employee. All the measures to be implemented are financed by the ESIF, but in some cases national funds are added.

Independently of the recommendations in the 2016 report, the Slovak government has already and will continue to enact regulations that aim to improve the business environment. At the end of July 2017, based on broad stakeholder consultations, the government decided to implement 35 regulatory changes to the business environment (see the list of measures in the annex) with the aim of reducing regulatory burdens (particularly for start-ups) and consequently moving up the ladder in the World Bank's 'Doing Business' ranking. Most of the measures will have to be implemented during 2018.

### ***2.3 Provide more support for demand- and success-driven incubation***

The recommendations aimed at further developing incubations and acceleration services in Slovakia while creating a level playing field between public and private actors in this area. The accreditation of incubators combined with the voucher scheme, better access to international accelerators and the professionalisation of support for start-ups at universities and research institutions targeted these objectives.

In more detail, the team of experts (see Chapter 4, recommendation 4.1) recommended an approach to support the development of both public (i.e. university-based and affiliated incubators as well as regional public incubators) and private incubators, while addressing all current challenges in the Slovak incubator landscape:

- An annual open call for the accreditation of incubators should be initiated following demand-led funding and implementation by a private institution.

The call should select and moderately fund those incubators that provide high-quality services;

- In addition, start-ups should receive a voucher that could be given to the incubator to cover part of the incubation costs for two years and up to a maximum of three years;
- A model should be developed enabling the incubators to benefit from successful start-ups;
- In addition, without going into detail, the following suggestions were made:
  - the privatisation of all of SBA's incubation activities;
  - a limit on the number of companies per incubator;
  - the creation of an association of incubators;
  - awareness-building measures and the constant monitoring of progress in the sector.

Table 3: Measures to improve incubator and accelerator services

Initiative	Status <sup>1)</sup>	Funds committed (Y/N)	Start	End	Entity responsible	Budget (EUR)	Origin of funds
4.1. Incubators accreditation and voucher scheme		N					
4.1. Redirect NPC's strategy so as not to compete with good private incubators		Y	N/A	N/A	N/A	N/A	N/A
4.2. Access to international accelerators through Connecting Hub		Y	Q3 2017	N/A	Ministry of Economy Slovak Business Agency	N/A	National funds
4.3. Establish an international accelerator in Slovakia		N					
4.4. Improve commercialisation of research; incentivise shared resources among universities		Y	Q4 2017	N/A	Ministry of Education and Slovak Centre of Scientific and Technical Information (SCSTI)	17.65 million	ESIF

Note: 1) The 'traffic lights' signal if a measure has not been implemented (red), is pending (yellow) or is in the course of being or has already been implemented (green).

The situation as assessed in 2017 is neither in line with the intention of the Slovak policymakers at the time of the 2016 country visits (i.e. that many of these services would be offered through the SBA) nor with the expert panel's recommendations. There are no plans to implement the incubator accreditation and voucher schemes or to motivate an international accelerator to start offering services in Slovakia.

Absorptive capacity and the role of the public sector was a topic that ran through the 2016 report, in particular concerning the issues of incubation and acceleration services. At the time of the panel's first country visit in 2016, the Slovak incubation landscape was relatively immature, in transition and fragmented. Since then, privately operated incubators have been gaining momentum. Their management is more professional and they have much better local entrepreneur, investor and company networks, as well as some relevant international connections. Their business models are primarily based on the success of incubated companies, thereby providing a route towards a more sustainable operation.

Based on the discussions during the country visits preceding the 2016 report, the team of experts noted that the government's plans – supported by resources from the Structural Funds – foresaw a heavy role for the public sector, and the SBA in particular, in the development of incubators and accelerators in Slovakia. There was a strong impression that the available SBA funds would lead to the crowding out of private investments. The team of experts strongly opted for the private sector taking the lead. The mix of suggested measures was intended to create proper incentives, putting start-ups at the centre, and to achieve a level playing field for private operators and the SBA. In this environment, public and private actors would be free to apply for funding and start-ups would decide whether to set up their companies in private or public incubators or accelerators.

While the suggestions in the 2016 report were not taken up by the Slovak government, those SBA incubation programmes that were already operational before the 2016 country visits are to be continued. However, 'continued' may be too strong a word since they were – at the time of writing this report – still awaiting implementation and remained at the 'procurement' phase<sup>2</sup>. In the meantime, the SBA's overall goal has also changed. With the exception of the generous public incubation centre in Bratislava's Nation Business Centre (NPC, operated by the SBA), the SBA now aims to set up virtual incubators rather than real ones, thereby having less effect on the Slovak start-up ecosystem.

This is the only visible impact that the 2016 report might have had on this issue: a somewhat curtailed role of the SBA with its revised objective to

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<sup>2</sup> The SBA programme to promote start-ups ended in March 2017. An extension is in the 'procurement' phase and the new SBA programmes – which were also already in the pipeline last year – have not yet materialised.

establish virtual incubators. However, in the panel's view, without support for private incubators and accelerators, the situation of start-ups looking for incubation and acceleration services cannot be expected to improve significantly.

The SBA's somewhat reduced role results in the 'green light' for not competing with the private sector (recommendation 4.1. in the 2016 report). Access to international accelerators has still to be organised by the SBA, as the institution suggested in the report for these services – the Connecting Hub – will not be established.

The intention to improve the commercialisation of research is on the agenda while the resources allocated by the ESIF are just EUR 17.65 million. Given the challenge of bringing the services offered in sync with the 2018 best practices, this is a clear underestimation of the resources required.

The panel's overall assessment based on the feedback is that support for incubation and acceleration services may not improve in the near future.

## ***2.4 Let the (business) angels fly – mobilising private funding for start-ups***

Financial capital is a central part of any (new) company and can be responsible for either its continued existence or its collapse. However, ultimately, money is just another way to bring entrepreneurs and their organisations closer to their actual goal, namely to create outstanding products and services that satisfy customers, fulfil needs, solve problems and hopefully make the world a better place.

The recommendations in the 2016 report focused on measures to support business angel (BA) investment by creating a favourable environment for this type of investor. This includes support for the creation of business angel networks (BANs), a national federation of BAs, resources for the professionalisation of BAs, the management of BANs, and for setting up the national federation, and last but not least, a certification process for BAs. The need for the latter is obvious if BAs are to co-invest with the government in the co-investment scheme, for which the first round of investments should have been carried out in 2017. The second round is foreseen to start in 2019.

Out of the eight measures put forward, only two are in the process of implementation. The expected implementation date has been put back although there are substantial resources at hand.

Given that most of the measures aiming at establishing a vibrant business angel community will not be executed, in the panel's view, it is unlikely that the resources of about EUR 45 million for the co-investment scheme can be well spent: this is only feasible if there is a viable community of certified BAs.

Table 4: Measures to improve access to finance

Initiative	Status <sup>1)</sup>	Funds committed (Y/N)	Start	End	Entity responsible	Budget (EUR)	Origin of funds
5.1 Accreditation of BANS							
5.1. Advisory group set up							
5.1. National campaign about BAs							
5.1. Redirect funds to VCs to a later stage of investments in order to not compete initially with BAs							
5.1. Support for BANS		Y	Q1 2018	12/ 2019	MoE	2 million	ESIF
5.1. Training for BAN managers and BAs							
5.2. BA co-investment fund		Y	Q4 2018	12/ 2033	SZRB AM SIH	45.4 million	ESIF/ National funds
5.2. BAs' certification							

Note: 1) The 'traffic lights' signal if a measure has not been implemented (red), is pending (yellow) or is in the course of being or has already been implemented (green).

### **3 ASSESSMENT AND CONCLUSIONS**

The purpose of the original report was to answer the following questions posed by the Slovak government to the expert panel:

- How should the business environment be improved to promote entrepreneurship and start-ups and boost business investments in research and innovation?
- How can Slovakia improve the incubation/acceleration system and attract investors to create new incubators/accelerators?
- How can the country establish and implement a transparent and effective scheme to support business angels?

The 2016 report answered these questions but also went further by developing more holistic recommendations aimed at managing the start-up ecosystem. It stressed that the start-up ecosystem has to be managed if it is to have an impact: focusing on isolated measures to stimulate segments of the ecosystem might do more harm than good and lead to unbalanced developments.

There are two ways of looking at the intended implementation steps indicated in the 2017 survey. The first is to simply count the measures which might materialise, that are still being debated or will not be implemented. The second approach is to look at the overall development towards start-ups in the longer run, taking into account what was already planned before the 2016 PSF report was launched and what has been changed by the report.

#### **Implementing what is in the ESIF Operational Programme**

In terms of counting measures to be implemented, the following categories can be identified:

1. Four measures are continuously being worked on by the government and were amongst the recommendations in the report:
  - Leapfrogging in e-government: the implementation of an updated e-government strategy is already under way.
  - Starting a company in three days or even one day: the government is working to reduce the current five days required, aiming to reach three days or less. The Slovak government should communicate to the international entrepreneurship community that setting up a company in Slovakia is quite easy. However, for international sites such as [www.ger.co](http://www.ger.co), the government does not provide information for international entrepreneurs.
  - Promote the Slovak start-up visa: this legislation has been implemented but, as of the June 2016 visit, no entrepreneur had been relocated to Slovakia as a result of this visa. This is not to be confused with the EU

start-up which the panel recommended should be promoted during the Slovak presidency. However, this did not occur.

- Reinforce entrepreneurial education.

Working on these areas was not an idea 'invented' by the experts but was already ongoing. The expert panel helped to reinforce these efforts by providing impartial advice on how to move forward.

2. Eight measures have been agreed and implementation was planned for the third and last quarter of 2017:

- Create a co-investment scheme for BAs. Between 2019 and 2033, the government intends to invest about EUR 45 million (about EUR 3 million per year) in this scheme.
- BAs will be supported with about EUR 2 million, with the aim of encompassing the whole spectrum of measures suggested in the 2016 report.
- Commercialisation of research will be granted an allocation of EUR 17.65 million. Work is ongoing to improve the national infrastructure regarding the support of technology transfer.
- The SBA is helping Slovak start-ups to get into established accelerators abroad.
- The internal regulatory impact assessment (see 2016 report, page 44) will be reinvigorated by investing EUR 4.5 million.
- The SBA will provide mentoring for entrepreneurs as a one-stop-shop.
- The SBA will also set up a point of single contact for entrepreneurs seeking counselling and mentoring.

3. There are seven cases in which the government will not implement the measure suggested by the PSF panel:

- Establish an international accelerator in Slovakia.
- Create an incubator accreditation and voucher scheme.
- Turn the R&D tax credit into a premium and enable losses to be carried forward for more than four years.
- Establish a monitoring platform managed by a non-partisan agency.
- Set up a connecting hub.
- Organise a public-private community of practice.

- Develop the start-up matrix.
4. One measure the government had planned before the PSF project will not now be implemented, following recommendations from the PSF panel:
    - Establishing incubators and accelerators by the SBA, which now aims to provide virtual accelerators.
  5. One measure has not yet been decided:
    - Developing digital skills: here, the final decision has yet to be taken on the way forward.
  6. One measure suggested in the 2016 report is currently being worked on:
    - Innovative public procurement is being discussed in the Public Procurement Office's working groups.

The survey supports the view that Slovak policymakers have taken many steps towards reworking their system. The proposals made in the 2016 report may help to design better measures than those currently envisaged.

### **Start-up ecosystem: a concept not taken up**

A second view has to a different assessment. A closer look at the policy measures that received a green or yellow light shows an almost perfect overlap with the measures in the ESIF Operational Programme (OP). While the expert panel developed suggestions on how to implement these measures, these were embedded in a wider set of recommendations that aimed to develop the start-up ecosystem overall. However, the suggested measures that go beyond those already included in the ESIF OP were not taken up. This is particularly evident for incubation and acceleration services, as well as the establishment of a BA community. In both cases, measures suggested beyond those already included in the ESIF OP will not materialise which, in the panel's view, will significantly limit the efficiency and effectiveness of the Structural Funds. It is also unclear as to whether the specific recommendations given for the implementation of the measures in the ESIF OP will be taken up.

Although there may be reasons for not changing the institutional set-up or not establishing the suggested institutions, these are not obvious to the team of experts. In our view, as the sequencing and coordination between implementation steps are crucial, neglecting the demanding task of coordinating and monitoring the start-up ecosystem may create frictions that reduce the impact of resources.

The experts recognise that there is no standard approach to managing start-up ecosystems and there can be very different approaches based on specific local environments. It would like to assume that the Slovak authorities have their own approach to stimulating networking in the system, establishing reliable datasets to measure and evaluate progress, and helping start-ups to incubate and accelerate. Detailing how this will work would be helpful for all players in

the start-up ecosystem and would also help an assessment by outside experts. Should there be no alternative system planned to manage the ecosystem, the experts stand by the recommendations made in the 2016 report (see Chapter 2 in the 2016 report for more details).

### **Absorptive capacity: a concept on trial with Structural Funds**

This evolving pattern, i.e. implementation where funding is already secured in the confines that were set up when the Structural Funds were planned, also highlights the problems with Structural Funds overall:

1. The sums allocated to supporting the Slovak start-up ecosystem are huge compared to the (domestic) resources that have been invested so far. Thus it is difficult to manage this process smoothly in line with the country's absorptive capacity.
2. The planning has not been carried out in sufficient detail; specific hands-on experience with the issues encountered is missing.
3. Furthermore, priorities may change during the implementation phase or new insights may demand a change or at least a modification of strategy. These deviations are difficult to follow through, given the rigidities in the Structural Funds framework.

The challenge is not only to absorb Structural Funds because of their sheer size; the delay in implementing appropriate structures to access them is magnifying this problem. The delay in using the funds increases the risks that their effectiveness will be affected by the limited absorptive capacity.

### **Interest in start-ups is declining**

During the preparation of the first report (between April and end of June 2016), the team of experts visited Slovakia twice. This happened shortly after the parliamentary elections during the new government's formative phase and before the ministers took up their roles. Eventually, the minister of economy – the key player in initiating this report – changed. This also triggered changes in many of the top-level administrative positions in the ministry. Consequently, the policymakers who asked for PSF support were, in many cases, different from those tasked with implementing the recommendations. Furthermore, those making the decisions needed time to adapt to the challenges and to settle into their new positions.

During the second half of 2016, Slovakia held the EU Council Presidency and thus the major focus was on carrying out that job properly. The start-up issue was one of the topics raised during the presidency, but implementing the suggestions made in the PSF report was given a lower priority.

This seems to have continued after the presidency. During the follow-up meeting in 2017, experts noted that almost none of the participating policy-makers and stakeholders were aware of the 2016 report. The missing communications about and distribution of the report may be an indication of the

decline in ambition to further develop the start-up ecosystem and thus explain why only measures that were already in the ESIF OP are to be implemented.

There are other indications too that the interest in start-ups declined in 2017. The start-up 'mania' went into a cooling phase after the frenzy in 2015 and 2016 when large parts of Slovakia seemed to be extremely enthusiastic about start-ups. It is not clear when and why this started but it is manifest in the lower media attention. The flow of deals concerning incubators, BAs and venture capital funds was stable and even started to grow, despite receiving fewer (but higher-quality) applications. Entrepreneurs are simply better educated, more focused and do more research before approaching potential financiers.

Politicians also developed a more sober assessment of the impact start-ups might have on the country's industrial structure, assuming that the 'Slovak Google' was not around the corner, that the weight of start-ups in the overall economy might not be measured in per cent of gross domestic product (GDP), and that most start-ups might scale up abroad, leaving limited traces in Slovakia.

The interaction between policymakers, politicians and private actors in the ecosystem has also declined, with the actors appearing somewhat estranged during the expert panel's last visit.

Slow implementation in the start-up field may reflect a broader slowdown of activities in the implementation of EU funds, due to a delay on the Slovak side in clarifying their smart specialisation priorities and the subsequent delay in releasing EU funds – including the funds for the start-up ecosystem.

Although the causality and timing of these developments is unclear, they have led to a shift in political priorities. Start-ups are no longer considered as a top priority, while innovation in existing SMEs is now seen as a far more promising field, particularly if they are part of the smart specialisation industries.

Nevertheless, taking into account the initiatives outlined in the survey, the following conclusions can be drawn:

1. Slovakia is sincere about improving the business environment and has made significant efforts to introduce a substantial number of changes that will improve the business environment for SMEs and ease the start-up phase for newly created enterprises. Moving up the Global Entrepreneurship Index<sup>3</sup> (from 41<sup>st</sup> world position in 2015 to 36<sup>th</sup> in 2017) and World Bank ranking is an important motivation for these initiatives. The 2016 report emphasised that progress in this area is vital for the start-up ecosystem and also benefits the wider economy. This is definitely a win-win strategy.

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<sup>3</sup> <https://thegedi.org/global-entrepreneurship-and-development-index/>

2. Well-planned activities help to increase the impact of the resources already earmarked in the OP and thus maximise their impact. Falling within this category are all the measures supporting BAs and BANs, as well as the commercialisation of research, improvements to the regulatory impact assessment and easier access to mentoring and counselling services for start-ups. In some of these areas, the 2016 PSF report will seemingly contribute to developing specific measures. Most noteworthy is the fact that direct competition between public and private incubators now seems to be off the table – an outcome that was advocated by the expert panel. However, the funds come with an end date and thus early implementation will help to ensure that the system’s absorptive capacity – and the start-up ecosystem in particular – is not overstretched. As the implementation has been slow and further postponed, the likelihood that resources will be invested efficiently and effectively is declining.
3. On the whole, the measures recommended in the 2016 report concerning the management of the ecosystem and the exchange between actors in it will not be implemented. This would have created institutions (e.g. Connection Hub), interactions and datasets that could have stimulated networking in the ecosystem and formed the basis for evidence-based decisions. Furthermore, some of the tasks (e.g. points of single contact, access to accelerators abroad) foreseen by the panel for the Connection Hub’s pivotal networking institution were allocated to the SBA. Efforts should be made to ensure that the benefits for entrepreneurs from these services are on a par with the ‘best in class’ in other ecosystems. International benchmarking would be beneficial to attain and maintain high-quality support services for Slovak entrepreneurs. The structures to be benchmarked are:
  - the services of a monitoring platform, ideally managed by a non-partisan agency;
  - the organisation of a public-private community of practice;
  - the development of the start-up matrix.

Without these structures it could be very difficult to map progress in the system and extend, fine-tune or complement those measures already taken.

4. Of the eight measures recommended by the panel to support the establishment of a BA community, only two are in the process of implementation. The expected implementation date has been shifted back, although the available resources are substantial.
5. Given that most of the measures aiming at establishing a vibrant BA community will not be executed, in the panel's view it is unlikely that resources of about EUR 45 million for the co-investment scheme can be well spent, which is only feasible if there is a viable community of certified BAs.
6. In addition, Slovakia could be more ambitious in harvesting the potential of universities and research institutions to create entrepreneurs and start-ups.

This demands – as set out in the 2016 report – joint principles and processes for universities regarding technology transfers and spin-offs, including rules for the use of research infrastructures for commercial purposes, and a technology transfer strategy and action plan.

7. The speed of implementation was somewhat slowed by the elections, the European presidency and a more sobering view of the start-up ecosystem. Nonetheless, Slovakia seems on track to tap into some of the resources set aside for promoting the start-up ecosystem in the OP. The earlier the resources are invested, the less likely absorptive capacities will be overstretched and investments unproductive.

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## **ANNEX: MEASURES TO IMPROVE THE BUSINESS ENVIRONMENT IN SLOVAKIA**

### **Measures to improve the business environment**

adopted by the Government 28.7.2017

**Measure 1:**                    **Extension of the period for withdrawal of the employee from the Social Insurance Agency. From 1 day to 8 days.**

**Deadline:**                    31.12.2017

**Responsibility of:**        Ministry of Labour, Social Affairs and Family of the Slovak Republic

**Measure 2:**                    **Cancellation of a fine and a penalty for an employer in connection with a false declaration by an employee working on a student temporary work agreement.**

**Deadline:**                    30.6.2018

**Responsibility of:**        Ministry of Labour, Social Affairs and Family of the Slovak Republic

**Measure 3:**                    **In the expert panel of representatives of the Ministry of Labour and Social Affairs of the Slovak Republic, the Federation of Employers' Associations of the Slovak Republic (AZZZ SR – Asociácia zamestnávateľských zväzov a združení SR), the National Union of Employers (RÚZ SR – Republiková Únia Zamestnávateľ'ov), the Union of Towns and Villages of the Slovak Republic (ZMOS – Združenie miest a obcí Slovenska) and the Trade Union Confederation of the Slovak Republic (KOZ SR – Konfederácia odborových zväzov Slovenskej republiky) to evaluate the practice of informing employees and entrepreneurs who are not employers who, as part of their duties, drive a personal motor vehicle but are not professional drivers, with the provisions of Act no 8/2009 Coll. on road traffic.**

**Deadline:**                    31.3.2018

**Responsibility of:**        Ministry of Labour, Social Affairs and Family of the Slovak Republic

**Measure 4:** **Reassessment of health surveillance through occupational health services for employees working in the 1<sup>st</sup> and 2<sup>nd</sup> category.**

**Deadline:** 31.12.2017

**Responsibility of:** Ministry of Health of the Slovak Republic

**Measure 5:** **Develop an analysis of the functionality enhancement of the points of single contact for communicating with the Social Insurance Agency when employing the first employee.**

**Deadline:** 31.12.2017

**Responsible:** The Director General of Social Insurance, Ministry of Interior for legislative and technical issues analysis in relation to the points of single contact.

**Measure 6:** **Extend the deadline for fulfilling the employer's obligation to submit to the Social Insurance Company a pension insurance record sheet from 3 to 8 days after termination of employment.**

**Deadline:** 31.12.2017

**Responsibility of:** Ministry of Labour, Social Affairs and Family of the Slovak Republic

**Measure 7:** **Dissolve the obligation of the entrepreneur to detect illegal work with the employees of his service provider from Law no 82/2005 Coll. (§ 7b) on Illegal Labour and Illegal Employment and on Amendments to Certain Laws.**

**Deadline:** 31.12.2017

**Responsibility of:** Ministry of Labour, Social Affairs and Family of the Slovak Republic

**Measure 8:** **Analyse the simplification of the electronic reporting of aliens by accommodation operators and the registration of aliens while staying in the Slovak Republic with the proposal of alternatives for simplification of reporting, the calculation of savings and the quantification of the financial coverage of the proposed changes.**

**Deadline:** 30.6.2018

**Responsible:** Ministry of Interior, Ministry of Economy of the Slovak Republic

**Measure 9.:** **Introduce a change-tracking service on a property listing in the Land Register.**

**Deadline:** 31.12.2018

**Responsibility of:** The Office of Geodesy, Cartography and Land Register of the Slovak Republic

- Measure 10:** Reducing Administrative Burdens in construction and streamlining the process of obtaining a building permit.
- Measure 11:** Adopt an effective system for establishing regulatory principles for functional exploitation and spatial planning.
- Measure 12:** Simplify processes permitting small-scale structures with a positive impact on the process of building procedures for structurally complex building units.
- Measure 13:** Improve the professionalisation of the performance of the state building administration.
- Measure 14:** Introduce a system of controls during the construction process.  
**Deadline:** 31.12.2019  
**Responsibility of:** Ministry of Transport and Construction of the Slovak Republic
- Measure 15:** Introduce a single form for building permits and final inspection approvals to help streamline the construction process by providing better information on the construction process from the permit to the building approval.  
**Deadline:** 31.12.2019  
**Responsibility of:** Ministry of Transport and Construction of the Slovak Republic
- Measure 16:** Simplification of electronic submission equipment for vehicle registration.  
**Deadline:** 31.12.2018  
**Responsibility of:** Ministry of Interior of the Slovak Republic
- Measure 17:** Introduce the ability to obtain an extract from the Trades Register at the Integrated Citizens Service Centres (IOMO).  
**Deadline:** 31.12.2018  
**Responsibility of:** Office of the Deputy Prime Minister for investment and informatisation in cooperation with the Ministry of the Interior of the Slovak Republic
- Measure 18:** Inform entrepreneurs about available public administration services at the point of single contact following the efficient, reliable and open public administration (ESO – Efektívna, Spol’ahlivá a Otvorená verejná správa) reform focusing on small and medium-sized enterprises.

**Deadline:** 31.12.2017  
**Responsibility of:** Ministry of Interior, Ministry of Economy of the Slovak Republic

**Measure 19:** **Review option to replace consent confirmation by the tax administrator of the absence of arrears above EUR 170, including in the context of acts performed by the registry courts, by checking the publicly available list issued pursuant to §52, Art. 1(a) of the Tax Code. If the effectiveness of this solution is proven, then it is to be implemented.**

**Deadline:** 30.6.2018  
**Responsibility of:** Ministry of Justice of the Slovak Republic in cooperation with the Ministry of Finance of the Slovak Republic

**Measure 20:** **Reduce administrative burdens on entrepreneurs in relation to obligations under Act no 79/2015 Coll. on waste and on amending certain laws by introducing electronic waste reporting.**

**Deadline:** 31.12.2018  
**Responsibility of:** Ministry of Environment of the Slovak Republic

**Measure 21:** **Review administrative barriers to the creation and strengthening of own funds in capital companies.**

**Deadline:** 31.12.2017  
**Responsible:** Ministry of Justice, Ministry of Finance of the Slovak Republic

**Measure 22:** **Develop an analysis of the simplification of the tax base calculation for small and medium-sized enterprises.**

**Deadline:** 31.12.2018  
**Responsibility of:** Ministry of Finance of the Slovak Republic

**Measure 23:** **Develop an analysis of the increase in tax deductibility limits for small and medium-sized enterprises.**

**Deadline:** 31.12.2018  
**Responsibility of:** Ministry of Finance of the Slovak Republic

**Measure 24:** **Analyse the amount and frequency of advance payments of corporation tax and entrepreneurial income tax to reduce administrative burdens.**

**Deadline:** 31.12.2018  
**Responsibility of:** Ministry of Finance of the Slovak Republic

**Measure 25:** **Review the frequency of reporting on corporate tax and corporate income tax advances.**

**Deadline:** 31.12.2018

**Responsibility of:** Ministry of Finance of the Slovak Republic

**Measure 26:** **Establish assessment of taxpayers based on reliability.**

**Deadline:** 1.1.2018

**Responsibility of:** Ministry of Finance of the Slovak Republic

**Measure 27:** **Create an electronic interface with the ability of taxpayers to enter their own account for tax matters, where each taxpayer can control the amount of tax paid by type and possibly check the recorded arrears or overpayments.**

**Deadline:** 31.12.2018

**Responsibility of:** Ministry of Finance of the Slovak Republic

**Measure 28:** **Introduce the possibility of pre-filing a tax admission to a motor vehicle by the Financial Administration of the Slovak Republic.**

**Deadline:** 1.2.2019

**Responsibility of:** Ministry of Finance of the Slovak Republic

**Measure 29:** **Increase the super tax claim on spending on research and development to the level of 100 %.**

**Deadline:** 31.12.2017

**Responsible:** Ministry of Finance of the Slovak Republic, Ministry of Education, Science, Research and Sport of the Slovak Republic

**Measure 30:** **Create an analysis of the current state administration of the super tax claim expenditure on research and development in terms of taxpayers.**

**Deadline:** 30.6.2018

**Responsible:** Ministry of Economy in cooperation with the Ministry of Finance of the Slovak Republic

**Measure 31:** **Ensure the operation of a website about access to finance for businesses.**

**Deadline:** 30.6.2018

**Responsibility of:** Ministry of Economy of the Slovak Republic

**Measure 32:** **Review the size criteria in legal frameworks-related businesses where the entrepreneur arise specifically duties.**

**Deadline:** 30.6.2018

**Responsibility of:** Ministry of Economy of the Slovak Republic

**Measure 33:** **Develop a new law on investment aid.**

**Deadline:** 31.12.2017

**Responsibility of:** Ministry of Economy of the Slovak Republic

**Measure 34:**        **Develop cross-sectional documents mapping the current and future developments in the areas of specialisation according to the document 'Findings for prosperity: smart specialisation strategies RIS3'.**

**Deadline:**        Ongoing

**Responsibility of:** Ministry of Economy of the Slovak Republic

**Measure 35:**        **Ensure access to information under Art. 7, Directive no 2006/123/EC on services in the internal market, in the area of free movement of services in the internal market, which facilitates access to market services (streamlining access to business services in the service market) to service providers (entrepreneurs) from the other EU Member States.**

**Deadline:**        30.6.2018

**Responsibility of:** Ministry of Economy of the Slovak Republic.

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In 2015, the Slovak government asked the EU Policy Support Facility (PSF) to analyse and report on the following questions concerning Slovakia's start-up ecosystem:

- How can Slovakia improve the business environment to promote entrepreneurship and start-ups?
- How can the country improve business incubation and acceleration?
- How can Slovakia increase the existing small community of business angels?

In this report, the team of experts presents the changes made to the Slovak start-up ecosystem since the presentation of their recommendations in their first report at the end of 2016. As most of the measures are still 'in the making', their final materialisation remains somewhat open. Nonetheless, the planned moves suggest substantial efforts on the part of the Slovak government to implement the recommendations.

### *Studies and reports*

