



2021 SME COUNTRY FACT SHEET'S BACKGROUND DOCUMENT

SLOVAKIA

1. Introduction




Slovakia's entrepreneurial culture is one of the most vibrant in the EU. With averages higher than the rest of the EU in key indicators such as early-stage, female and adult entrepreneurship, the country's entrepreneurial environment has numerous advantages. However, Slovak SMEs are lagging behind in terms of innovation and face big challenges, such as a shortage of qualified workers, excessive regulatory and administrative burden and payment delays. In addition, Slovakia needs to significantly improve in providing a 'second chance' to entrepreneurs.

SMEs in Slovakia have been significantly impacted by the COVID-19 pandemic and the policy decisions taken to combat it. In 2020, SME value added and SME employment dropped by 1.8% and 1.7%, respectively¹. The *accommodation and food services* sector, contracted significantly in both SME value added and SME employment, declining by 14.7% and 7.3%, respectively. The *construction* sector also declined sharply in terms of SME value added by 19.7% but increased by 1.1% in SME employment. Similarly, the *transportation and storage* sector declined by 7.1% in SME value added, while SME employment rose by 0.4%.

In 2021, a partial recovery of SMEs is expected. SME value added is forecast to grow by 6.1%, whereas SME employment is predicted to fall by 0.3%. Consequently, in 2021, SME value added is expected to be 4.2% higher and SME employment 2.0% lower than their respective levels for 2019.

SMEs contribute substantially to Slovakia's 'non-financial business economy'. In 2020, they created 72.3% of total employment, 7.1 percentage points more than the EU average of 65.2%. They generated 58.2% of total value added, also exceeding the EU average of 53.0%. However, average SME productivity, measured as the ratio of SME value added to SME employment, was approximately EUR 19 300, substantially lower than the EU average of EUR 40 000. Slovak SMEs employed an average of 2.4 people in 2020, which was also fewer than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2020

	 Number of enterprises			 Number of persons employed			 Value added		
	Slovakia		EU-27	Slovakia		EU-27	Slovakia		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
Micro	476 172	97.1%	93.3%	701 471	43.1%	29.6%	9.1	23.3%	18.7%
Small	11 006	2.2%	5.7%	221 300	13.6%	19.7%	5.9	15.1%	17.0%
Medium-sized	2 452	0.5%	0.9%	252 868	15.6%	15.8%	7.7	19.8%	17.3%
SMEs	489 630	99.9%	99.8%	1 175 639	72.3%	65.2%	22.7	58.2%	53.0%
Large	573	0.1%	0.2%	450 229	27.7%	34.8%	16.3	41.8%	47.0%
Total	490 203	100.0%	100.0%	1 625 868	100.0%	100.0%	38.9	100.0%	100.0%

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Slovak SMEs are improving their liquidity and financial stability, but more remains to be done

Slovak SMEs have recorded improvements in liquidity and financial stability (during the pre-COVID-19 environment). Liquidity indicators improved for a fourth year in a row, increasing by 0.09 points in 2018, reaching the value recommended by the Slovak Business Agency and marking an all-time record². This is helping SMEs to better access credit due to lower risks for banks. However, more remains to be done. According to the Eurobarometer Survey on SMEs and start-ups³, access to finance is the biggest obstacle for almost 20% of Slovak SMEs. Payment delays to suppliers in the health sector are still a critical issue⁴.

SMEs are increasingly participating in vocational education, which could help reduce skill mismatches

Slovak SMEs recorded an unprecedented increase in participation in vocational training programmes, accommodating roughly 32% of students entering vocational learning programmes in 2019, against a 15-20% share in 2015-2017⁵.

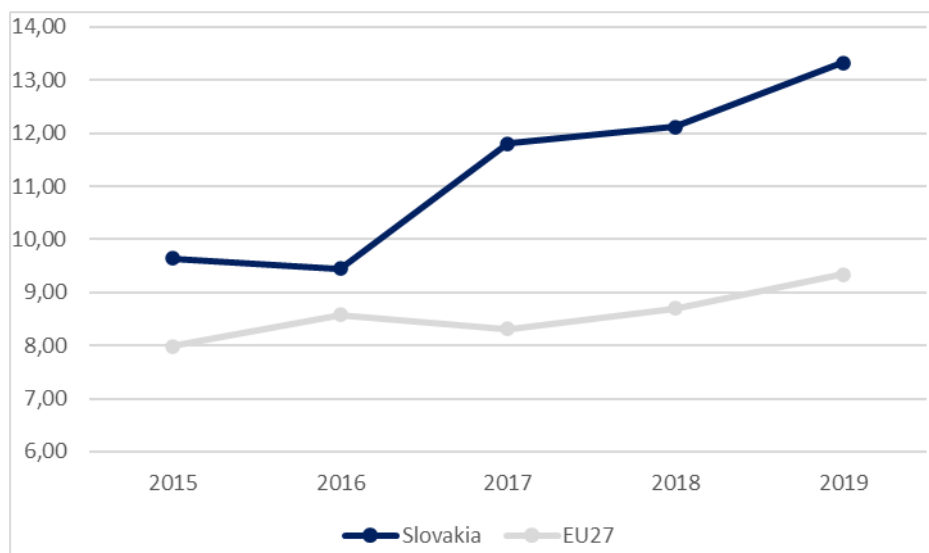
This could help address skills mismatches between the skills gained by graduates and those needed by SME employers – a big challenge for SMEs in Slovakia⁶.

Policy changes in recent years may have contributed to this positive trend. In 2019, the Ministry of Education passed an amendment to the vocational education law (*Zákonom č. 61/2015 Z. z. o odbornom vzdelávaní a príprave a o zmene a doplnení niektorých zákonov*) removing barriers for trade schools and employers so they can participate in the dual learning education system⁷.

A vibrant entrepreneurial culture

Slovakia is among the EU Member States with the highest early-stage entrepreneurial activity – both in general and for female entrepreneurship. Both indicators have risen considerably since 2015⁸.

Figure 2: Total early-stage entrepreneurial activity



Source: Global Entrepreneurship Report, 2019⁹

Entrepreneurial intentions have also been growing since 2016. They are now higher than the EU average, with approx. 2 out of 10 Slovaks reporting that they intend to start a business in the next 3 years¹⁰.

However, less than half of Slovaks consider entrepreneurship a desirable career choice, below the EU average of approx. 6 out of 10 citizens¹¹.

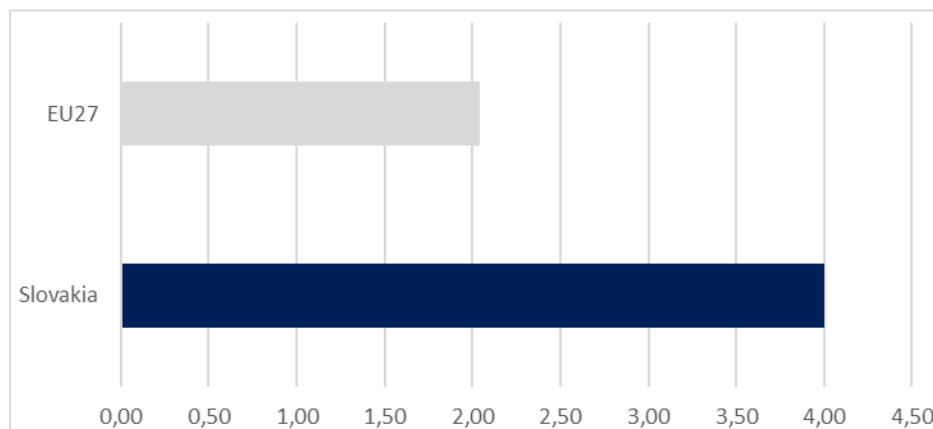
In 2020, the Ministry of Economy's award for innovative entrepreneurs (*Inovatívne výrobky a služby môžu získať Cenu ministra hospodárstva*) was launched to promote positive attitudes towards entrepreneurship, and encourage innovative products and services to be developed¹².

3. Key challenges

Slovakia performs well below the EU average in providing a 'second chance'

According to World Bank's Doing Business Index, resolving insolvency takes on average 4 years and is a high cost for the debtor – on average 18 % of their estate¹³. Slovakia is one of the worst performing Member States in these indicators.

Figure 3: Time to resolve insolvency (years)



Source: World Bank Doing Business Ranking, 2020¹⁴

Accessing qualified workers is a challenge for Slovak SMEs

Up to 80% of SMEs (and 93% for medium-sized enterprises) in Slovakia have claimed that the availability of a qualified workforce is a big challenge, which has only deteriorated over the last decade¹⁵.

According to the European Commission's Digital Economy and Society Index (DESI), Slovakia performs below the EU average in the 'human capital' dimension. Only 27% of Slovaks have above basic digital skills, below the EU average of 33%¹⁶. The share of employees that have ICT specialist skills stands at 15.2% – below the EU average of 19%¹⁷. The share of ICT graduates is slowly growing and has reached 3.3%, but it remains below the EU average of 3.6%¹⁸.

In addition to the above-mentioned efforts to involve companies and SMEs in vocational education, improving digital skills is a priority policy under the Slovak Digital Transformation Strategy 2030 (*Stratégia digitálnej transformácie Slovenska 2030*¹⁹), which aims to adapt the education system to address the current skills gap. According to the DESI²⁰, Slovakia ranks 20th in terms of "human capital". It still has one of EU's lowest proportions of female ICT specialists – only 0.9% compared to the EU average of 1.4%. The proportion of ICT graduates is slowly growing (3.3%) but remains below the EU average (3.6%). Low levels of digital literacy among young people is also a challenge. According to the Slovak School Inspectorate, 45% of schools do not have a single teacher qualified in IT-related subjects²¹.

Slovak SMEs face excessive regulatory burden, particularly in terms of labour/employment

According to the Slovak Business Agency, 73% of the SMEs surveyed in Slovakia have identified excessive regulatory burden regarding labour/employment regulations as a key obstacle. Furthermore, 59.8% of all surveyed businesses reported the frequency of the changes in business legislation as an issue, with 57.5% of the SMEs claiming that new legislation being adopted without an impact evaluation on the business environment is the main reason behind their difficulties in complying²².

In addition, starting a business requires a high number of procedures²³ and getting the required permits and licenses takes longer than in most EU Member States²⁴.

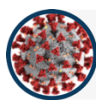
The government has taken some steps in recent years to reduce administrative burden. For instance, in 2019 two measures were adopted: i) the 'only once' law (*Rozšírenie využívania princípu 'jedenkrát a dost'*) forcing public administrations to apply the 'only once principle' more strictly²⁵; and ii) the 'Entrepreneurs' checklist' (Checklist povinností podnikateľa), creating a one stop-shop where businesses can find a complete list of obligations and explanatory guidelines drafted in clear language.

Corruption undermines the confidence of businesses. In 2020 Slovakia ranked 60th on the International Transparency Perception Index, one of the lowest scores in the EU²⁶.

Slovak SMEs show low innovation rates – compared with the EU average

Slovakia lags behind the EU average in terms of innovation performance²⁷, despite performing above the EU average in medium and high-tech product exports (132.5 vs the EU average of 100), and sales of new-to-market and new-to-firm product innovations (182.9, EU average 100). Only around 17% of Slovak SMEs are innovating in-house – significantly below the EU average of approx. 30%²⁸. Insufficient public financing and a lack of systematic support for R&D development are possible reasons behind the country's poor innovation performance. Shortfalls in enforcing legal protections of intellectual property are also a factor.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Slovakia experienced a near complete lockdown for a month in 2020, and many SMEs in several sectors faced bankruptcy or their savings being depleted. The worst hit sectors have been the *cultural* and *creative* sectors, as well as restaurants and hotels²⁹. In response, several policy measures were launched to financially support SMEs and entrepreneurs, including rent subsidies for businesses, salary subsidies, convertible loans and guarantees, as well as the 'Corona Law' (*Lex Corona*) package, which comprised 114 measures to improve the business environment in the context of the COVID-19 crisis.



GREEN TRANSITION OF SMES

Slovakia performs below the EU average in Environment, with the lowest SME investment in equipment for pollution control³⁰ and the lowest rate of SMEs that have benefited from public support measures to produce green products³¹. To fully participate in the green transition, the country needs a sharp increase in investment from SMEs in combination with public investments³².



MARKET ACCESS

Slovakia performs below the EU average in Internationalisation. Despite the low number of documents and low costs required to export or import³³, the country has some of the lowest rates of SME extra-EU exports or imports in the EU³⁴.



DIGITALISATION OF SMES

Slovak SMEs and businesses are lagging behind in digitalisation, and perform below the EU average in indicators such as "enterprises sending e-invoices"³⁵ or using their own websites or apps for sale³⁶. Only 11% of Slovak SMEs are selling online, against an EU average of approx. 17 %³⁷. However, while Slovakia ranks below the EU average in the share of households with 4G coverage and fast broadband, its 5G readiness is above the EU average – 33 % of the 5G spectrum has been assigned, against the EU average of 21%³⁸.



ACCESS TO FINANCE

The country performs in line with the EU average in access to finance. Bank loans and other traditional forms of financing are available, but there is a lack of available venture capital for entrepreneurs³⁹. The share of venture capital investments as a percentage of GDP is well below the EU average⁴⁰.

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ² Slovak Business Agency (2020), *Analysis of financial performance indicators of small and medium-sized enterprises accounting in the double-entry bookkeeping system in 2018*, available at: http://www.sbagency.sk/sites/default/files/analyza_ukazovatelov_financnej_vykonnosti_msp_2018_final.pdf
- ³ https://data.europa.eu/euodp/en/data/dataset/S2244_486_ENG
- ⁴ https://ec.europa.eu/commission/presscorner/detail/en/inf_21_441
- ⁵ Slovak Business Agency (2020), *Dual learning and SMEs*, available at: http://www.sbagency.sk/sites/default/files/dualne_vzdelavanie_a_msp.pdf
- ⁶ Slovak Business Agency (2020), *Názory MSP na kvalitu podnikateľského prostredia na Slovensku*, available at: <http://monitoringmsp.sk/wp-content/uploads/2020/05/N%C3%A1zory-MSP-na-kvalitu-podnikate%C4%BESk%C3%A9ho-prostredia-na-Slovensku.pdf>
- ⁷ See Note 5.
- ⁸ Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*, available at: <http://www.gemconsortium.org/data/key-aps>
- ⁹ Ibid.
- ¹⁰ Ibid.
- ¹¹ Ibid.
- ¹² Ministry of Economy (2020), *Innovative products and services can receive the Minister of Economy Award*, available at: <https://www.mhsr.sk/press/inovativne-vyroby-a-sluzby-mozu-ziskat-cenu-ministra-hospodarstva>
- ¹³ World Bank (2020), *Ease of doing business in the Slovak Republic*, available at: <https://www.doingbusiness.org/en/data/exploreeconomies/slovakia>
- ¹⁴ Ibid.
- ¹⁵ Slovak Business Agency (2020), *Názory MSP na kvalitu podnikateľského prostredia na Slovensku*, available at: <http://monitoringmsp.sk/wp-content/uploads/2020/05/N%C3%A1zory-MSP-na-kvalitu-podnikate%C4%BESk%C3%A9ho-prostredia-na-Slovensku.pdf>
- ¹⁶ European Commission (2020), *The Digital Economy and Society Index (DESI)*, available at: <https://ec.europa.eu/digital-single-market/en/digital-economy-and-society-index-desi>
- ¹⁷ Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises*, available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ske_itspen2&lang=en
- ¹⁸ See Note 16.
- ¹⁹ Government of Slovakia (2019), *Stratégia digitálnej transformácie Slovenska 2030*, available at: <https://www.mirri.gov.sk/wp-content/uploads/2019/06/Strategia-digitalnej-transformacie-Slovenska-2030.pdf>
- ²⁰ Digital Economy and Society Index, European Commission, <https://ec.europa.eu/digital-single-market/en/scoreboard/slovakia>
- ²¹ <https://www.minedu.sk/statna-skolska-inspekcia-informuje-o-vysledkoch-svojej-cinnosti/>
- ²² Slovak Business Agency (2020), *analysis of selected changes in the labour regulations and their impact on SMEs*, available at: http://www.sbagency.sk/sites/default/files/analyza_vybranych_zmien_v_pracovno-pravnej_legislativnej_a_ich_dopadov_na_msp.pdf
- ²³ See Note 13.
- ²⁴ Global Entrepreneurship Monitor (GEM) (2019), *National Expert Survey*, available at: <http://www.gemconsortium.org/>
- ²⁵ Ministry of Labour, Social Affairs and Family of the Slovak Republic (2019), *Zmeny od 1. decembra 2019*, available at: <https://www.employment.gov.sk/sk/socialne-poistenie-dochodkovy-system/socialne-poistenie/legislativne-zmeny/zmeny-od-1-decembra-2019.html>
- ²⁶ <https://www.transparency.org/en/cpi/2020/index/ita>
- ²⁷ Slovak Business Agency (2020), *Inovačný potenciál MSP na Slovensku*, available at: <http://www.sbagency.sk/sites/default/files/inovacny-potencial-msp-na-slovensku.pdf>
- ²⁸ Eurostat (2016), *Community innovation survey*, available at: http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en
- ²⁹ Business Environment Monitoring (2020), *Impact of Covid-19 pandemic on the employment in Slovak Republic*, available at: <http://monitoringmsp.sk/2020/08/10/vplyv-pandemie-covid-19-na-zamestnanost-v-sr/>
- ³⁰ Eurostat (2017), *Environmental protection expenditure by size class (NACE Rev. 2, B-E)*, available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?wai=true&dataset=sbs_env_sc_r2
- ³¹ European Commission (2017), *Eurobarometer survey of SMEs and the environment*, available at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm
- ³² See Note 19.
- ³³ See Note 13.
- ³⁴ European Commission (2017), *Comext, International trade by enterprise characteristics*, available at: <https://ec.europa.eu/eurostat/data/database>
- ³⁵ Eurostat (2018), *Integration with customers/suppliers and SCM*, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_bde15disc&lang=en
- ³⁶ Eurostat (2018), *E-commerce sales*, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ec_eseln2&lang=en
- ³⁷ See Note 16.
- ³⁸ Ibid.

³⁹ Deputy Prime Minister's Office for Investments and Informatization of the Slovak Republic (2019), *Vision and strategy of the development of Slovakia to 2030*, available at: <https://www.mirri.gov.sk/en/index.html>

⁴⁰ Eurostat (2018), EVCA. available at: <http://www.investeurope.eu>
https://investeurope.eu/media/3052/20200512_invest-europe-investing-in-europe_-private-equity-activity-2019-final.pdf