



Mutual Learning Programme

DG Employment, Social Affairs and Inclusion

Peer Country Comments Paper – Slovak Republic

Is the financial subsidy enough?

**Peer Review on
"Entrepreneurship training for the unemployed:
the Austrian Entrepreneurship Lab example"
Austria, 24-25 October 2019**

Written by Zuzana Polackova.

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Unit A1

Contact: Kim Henriksson

E-mail: EMPL-A1-UNIT@ec.europa.eu

Web site: <http://ec.europa.eu/social/mlp>

European Commission

B-1049 Brussels

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1 Introduction

This paper has been prepared for the Peer Review on "Entrepreneurship training for the unemployed: the Austrian Entrepreneurship Lab example" within the framework of the Mutual Learning Programme. It provides a comparative assessment of the policy example of the host country and the situation in Slovak Republic. For information on the host country policy example, please refer to the Host Country Discussion Paper.

2 Situation in the Slovak Republic

Despite the fact that the start-ups in Slovakia are currently experiencing a great boom (EC, 2018) and a number of initiatives are dedicated to support a viable ecosystem for entrepreneurs, the link with the support for entrepreneurial skills of people registered at the public employment service (PES) does not resonate in the debate about the start-ups.

Active labour market policies (ALMPs) and support for people registered at the PES are seen rather conservatively in Slovakia. The emphasis is on measures providing direct job subsidies. Despite recent positive trend emphasising measures aimed at training or upskilling job seekers, the teaching of entrepreneurial skills in these programs is not a priority. Similarly, topics relating to the preparation for the Industry 4.0 are not high on the policy agenda.

2.1 Role of ESIF

The Slovak government has repeatedly declared an interest in developing a business environment and investing in programs aimed at supporting entrepreneurship. In the programming period 2014-2020, support for the development and teaching of entrepreneurial skills is among the priorities for funding under the European Structural and Investment Funds (ESIF).

Within the framework of the Operational Programme (OP) Human Resources, a separate call for support for individual projects aimed at supporting self-employment among young people, in particular young people not in employment education or training (NEET), was published. This call contained a significant element of entrepreneurship training and strengthening of entrepreneurial skills. However, it was not met with great interest. Out of the total budget EUR 10 million, less than 10 % was contracted.

Within the framework of the OP Research and Innovation, a large project called *Národné podnikateľské centrum* (National Business Centre)¹ has been implemented through which eight regional centres aimed at supporting business and entrepreneurial skills were created. In addition to the organisation of various educational events, the project offers opportunities to participate in a business incubator program, use co-working space and cooperation with mentors. The activities of the centre are provided both to entrepreneurs and individuals who have not (yet) established a company. The contribution of the OP Research and Innovation is nearly EUR 30 million and the National Business Centre undoubtedly represents the greatest structure for the support of entrepreneurial skills in Slovakia at the moment. Participation of registered job seekers and other unemployed is not ruled out. So far, however, no specialised activity for unemployed individuals has been organised within the framework of the project.

¹ <https://www.npc.sk/sk/>

2.2 Entrepreneurial skills support schemes in general

The National Business Centre is a part of the Slovak Business Agency², which is an organisation that specialises in the support of businesses and provides monitoring of the business environment.

An important role in preparing for entrepreneurship, even if not in connection with job seekers, is played by a program of practice enterprises. This program is implemented by the Slovak Centre for Training Firms³ at all stages of formal education.

In promoting entrepreneurial skills, non-profit initiatives such as Impact Hub and various co-working centres are coming to the forefront. Despite the fact that several of these centres are trying to support initiatives aimed at promoting entrepreneurial skills in social entrepreneurship, people registered by the PES are not perceived as a relevant target group.

3 National policies and measures

3.1 Active labour market policies measure "Contribution to self-employment activity"

The most important measure related to entrepreneurship training for the unemployed in Slovakia is an ALMP called *Príspevok na samostatnú zárobkovú činnosť* (Contribution to a self-employed activity) (hereinafter referred to as the Contribution). This measure is implemented under the §49 of Act 5/2004 Coll. on employment services.

Individuals who have been registered at the PES for a minimum of three months⁴ and their business plan was approved by an evaluation panel can apply for the Contribution of a value between EUR 3 326 and 5 321. The amount of the Contribution is conditional on the level of registered unemployment in the district of the applicant.

A successful recipient of the Contribution is obliged run their business for three years since receiving the funding. The payment is made in two instalments with 60 % of the Contribution paid immediately after approval. The payment is not based on performance of the business but is linked to a budget, which is part of the approved business plan and can be changed only in exceptional cases.

On a small scale, individual PES can provide support for those who are preparing to use the Contribution. This optional support is provided in a form of two hour-long group session aimed at preparing a business plan which is a mandatory appendix for the application for the Contribution. The PES also offers individual consultations to interested individuals. However, their availability is contingent to a large extent on the caseload of PES officers in a particular PES. Beyond the Contribution, the support for development of the entrepreneurial skills of job seekers is limited and fragmented across individual PES.

The Contribution has existed with several variations since 2004 and is one of the most popular ALMPs. In 2018, the Contribution was used by 2 123 registered job seekers, of which 1 037 (or 49 %) were women. The budget of the measure amounted to approximately EUR 9 million in 2018, which was approximately 5 % of the total budget for ALMPs in Slovakia in that year (ÚPSVaR, 2018)⁵. Regardless of the large popularity

² <http://www.sbagency.sk/>

³ Slovak Centre for Training Firms is part of the State Vocational Education Institute of the Ministry of Education, Science, Research and Sport of the Slovak Republic.

⁴ In the case of job seekers, who have in the period of 6 months prior to registering into the unemployment register ended or discontinued self-employment, they must be registered in the unemployment register for at least 12 months before they can apply for the Contribution.

⁵ ÚPSVaR – Central Office of Labour, Social Affairs and Family.

of this measure, spending on it decreased over the years⁶. This is a result of more stringent conditions for the payment of the Contribution and changes on the labour market in Slovakia which is currently characterised by lack of labour force and relative availability of job opportunities.

In addition, the changes to the payment scheme, the amount of the Contribution and gradual lengthening the compulsory time to maintain the business has resulted in decrease of demand for this measure compared to the period before 2014.

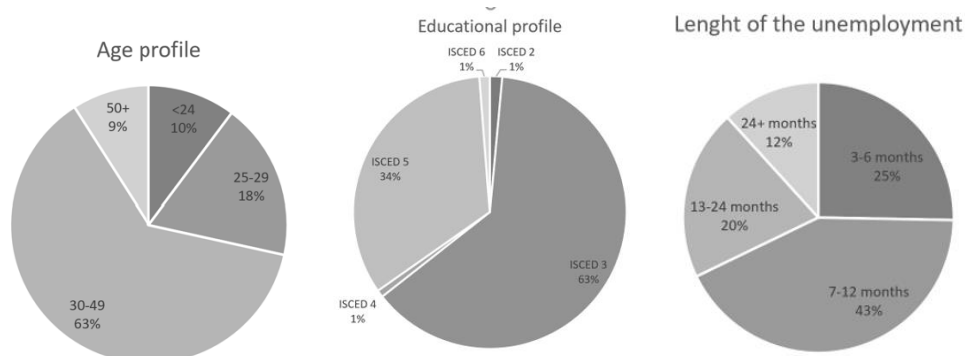
3.2 Profile of the Contribution recipients

Any jobseeker who meets the minimum length of registration at PES can apply for the Contribution.

From the total number of 2 123 people who started a business in 2018 with the help of the Contribution, the majority were between the ages of 30 and 49. In terms of education, the largest group are people with completed secondary education, of whom the largest part has completed secondary vocational school.

In terms of the duration of unemployment, the largest group is represented by people who have been registered as unemployed for 7-12 months.

Figure 1. The profile of the Contribution recipients



Source: PES, as of 2018.

A positive trend is an increase in the number of participants who are classified as disadvantaged. In 2018, 33 % of all participants were long-term unemployed and 43 % had not been in regularly paid employment at least 12 months before registering as unemployed. People over 50 years of age accounted for 1% of all participants⁷.

In 2018, successful applicants most frequently started businesses in the construction sector (19.7 %). The second most common sector of established companies was "scientific, professional, and technical activities" (14.2 %).

3.3 Quantitative evaluation of the measure effectiveness

According to the data from the Central office of labour, social affairs and family (ÚPSVaR, 2018), in 2018, 3.6 % of the recipients of the Contribution returned to the unemployment register within six months after receiving the Contribution.

A high level of success of the recipients of the Contribution is confirmed by the results of the experimental evaluation of ALMPs (Karasová et al., 2019). The evaluation analysed how many participants of different ALMPs were registered as unemployed six

⁶

| Year | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|------------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Number of participants | 2 123 | 2 267 | 1 951 | 2 655 | 2 760 | 4 897 | 8 690 | 12 271 | 15 033 |

⁷ An evaluation of the application of active measures on the labour market for the year 2018.

months after leaving the respective measures. Among the monitored measures, the recipients of the Contribution were assessed as the most successful. Only 12 % of participants returned into unemployment within six months after the time they have to maintain the business (i.e. three years after receiving the first instalment of the Contribution). In the case of the other measures, the return rate to unemployment was between 32 % and 74.6 %.

However, the target groups of individual ALMPs are different in many aspects. The success of the measures is largely determined by the support and its target group. In comparison with to other measures, participants in the Contribution can be assumed to have a greater degree of human capital because this is the only measure which requires the active participation of the applicant.

3.4 Application process and entrepreneurial skills support for the Contribution applicants

Potential applicants receive information about the Contribution at information meetings which all new jobseekers must attend within approximately one month from the registration at the PES. The group information meeting lasts approximately one hour during which jobseekers are informed about their rights, responsibilities and the ALMPs for which they may be eligible.

Applicants express their interest in the support promoting entrepreneurship by submitting a written application, following a consultation with their job councillor. A business plan of approximately 10 pages is part of the written application. Before creating it, the applicant may undergo a short informational and educational event of two hour-long meetings aimed at developing a business plan, mastering a compulsory test and defending the business plan. After submission of all necessary documents, the applicant is invited to a written test on preparedness for business and basic orientation in the legislative framework of business in Slovakia. After the completion of the test, an oral defence of the business plan in front of a commission follows. The point of the defence is not only the presentation of the business plan but also creating a space for raising any potential comments on the business plan. In case the applicant does not defend the business plan successfully, he/she may apply for the Contribution again at any time after necessary alteration of the business plan.

Appointed employees of the individual PES, who evaluate the submitted business plans, play a major role in the success of the measure. In the event of an irregularity, they contact the candidates and informally encourage them to supplement/correct the submitted business plans. Therefore, a possible failure to defend the business plan is eliminated through personal support from the specific employees of the PES.

3.5 Comparison with the Entrepreneurship Lab

In contrast to the Entrepreneurship Lab model, there is no evaluation of the personal characteristics of potential applicants in Slovakia; the selection is made solely based on the quality of the business plan.

A fundamental difference between the two models is the emphasis on a different stage in the preparation for business. While in Austria emphasis is placed on the process of strengthening the capacity of the participants, on the formulation and creation of the business plan, in Slovakia the focus is on receiving a financial contribution where the condition to receive the contribution is a business plan. In the implementation of the Contribution measure in Slovakia, the applicant is provided with support. However, it is limited and based on individual availability of specific employees at the PES.

Unlike in the Austrian example, there are no mechanisms to strengthen cooperation among the participants of the programme, i.e. the entrepreneurs starting their businesses with the support of the Contribution. Further, in contrast to Austria, the allocation of the Contribution signifies the end of the support services provided by the PES. After the Contribution has been provided, the only remaining task of the PES is to

monitor the recipient, who within one year from receiving the Contribution, must submit a content report on their business and account for the first payment of the contribution. The PES also monitors whether the business license is active for at least three years after receiving the Contribution. If the recipient for any reason terminates the business license earlier, the Contribution has to be returned in full.

4 Assessment of success factors and transferability

In Slovakia, there is no measure equivalent to the Austrian Entrepreneurship Lab. The only measure which exists in relation to supporting entrepreneurship is built on allocating a financial contribution to start a business. All participants receiving the Contribution start a business and a high share of them continues the business even after intervention is over. However, the Entrepreneurship Lab cannot be compared with the Slovak practice because the models are built on different principles: while the measure implemented in Slovakia is built on receiving a financial contribution with certain obligations attached, the basis of the Entrepreneurship Lab is participation in an training/capacity building program and supporting individual soft skills. In addition, the decision to start a business is voluntary.

It is possible to consider an alternative, with a program inspired by the Entrepreneurship Lab implemented by PES. In such case, it would be appropriate to consider the linking of such a program with the already existing structures aimed at supporting entrepreneurship, e.g. National Business Centre. The link between the programs with the already existing structures aimed at supporting entrepreneurship is particularly important from the point of view of social capital of the participants in the program. Social capital and social networks of people registered at PES often do not intersect with business environment and potential participants of the program are often unaware of the existence of support programs in the business environment. Just as programs aimed at promoting entrepreneurial skills often do not perceive people registered by the PES as potential entrepreneurs. Job seekers registered at PES are often perceived in Slovakia as the target group of social services; the option of promoting entrepreneurial skills and creativity of job seekers is rarely considered. Programs, which aim to promote creativity and include topics reflecting the trends of Industry 4.0 are almost never discussed in relation to people registered at the PES in Slovakia.

It appears that the process of selecting participants and the type of people selected have a fundamental impact on the overall success of the Entrepreneurship Lab. A similar system of evaluating and selecting participants for a specific program does not exist in Slovakia; the selection is made purely on the basis of fulfilling administrative requirements. The absence of a comprehensive methodology of profiling of job seekers in Slovakia is also often pointed out in the context of employment services as such.

An important inspiration is the emphasis on helping participants adapt to the Industry 4.0. According to OECD estimates, around 10 % of jobs in Slovakia will be substituted by machines and approximately another 30 % will be significantly changed in the direction of increased demands on the employee's expertise in the next 10-20 years (OECD, 2016). Activities aimed at adapting to the new conditions brought about by Industry 4.0 are almost entirely absent in ALMPs. This is one of the reasons the message from the Entrepreneurship Lab is important for Slovakia.

5 Questions

- The success of the Entrepreneurship Lab is largely based on the proper selection of the participants of the program. How exactly is the selection process conducted, what specific aspects are examined, which methods/techniques are used?

- Is it possible to identify moments, which are risky from the point of view of a loss of interest in the program on the participants' side in an 18 week long program? What is the approach in situations when the participants lose interest in cooperating?
- To what extent does the participation in the Entrepreneurship Lab program facilitate access to start-up capital; alternatively, is participation in the Entrepreneurship Lab linked to any form of financial aid?

6 List of references

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Annex 1 Summary table

The main points covered by the paper are summarised below.

Situation in the peer country

- Boom of start-ups in Slovakia, however people registered at PES are not perceived as a relevant group of potential entrepreneurs.
- Conservative approach to active labour market policies focused primarily on measures providing direct job subsidies, at the expense of measures aimed at improving the capacities of job seekers.
- Presence of large-scale entrepreneurial skills support structure in Slovakia (National Business Centre), however, with no specialised activities for people who are registered at the PES or are outside of the labour market.
- Absence of a solid structure focused on improving the entrepreneurial skills of job seekers.

Assessment of the policy measure

- The entrepreneurial potential of job seekers in Slovakia is supported by measure called "Contribution to a self-employed activity", under which 2 123 job seekers were supported in 2018.
- The core of the support is a financial subsidy. Other forms of support provided under the programme are limited.
- The selection of the participants is made solely based on the quality of a mandatory business plan. No other assessment of the applicants is done.
- There has been an increase in the number of participants who are classified as disadvantaged.

Assessment of success factors and transferability

- There are fundamental differences in the primary focus of the Austrian and the Slovak programme. In Austria, the emphasis is on the process of strengthening the capacity of the participants. In Slovakia, the focus is on financial contribution. More focus on the earlier stage of developing business idea should be paid in Slovakia.
- The selection of supported business and the process of selecting participants seems to have a fundamental impact on the overall success of the program. An overall assessment of job seekers' skills and a profiling system should be introduced also in Slovakia.
- The emphasis on adapting to the demands of the Industry 4.0 is an important inspiration. Activities aimed at adapting to the new conditions brought about by Industry 4.0 are almost entirely absent in active labour market policies in Slovakia.

Questions

- The success of the Entrepreneurship Lab is largely based on the proper selection of the participants of the program. How exactly is the selection process conducted, what specific aspects are examined, which methods/techniques are used?
- Is it possible to identify moments, which are risky from the point of view of a loss of interest in the program on the participants' side in an 18 week long program?

What is the approach in situations when the participants lose interest in cooperating?

- To what extent does the participation in the Entrepreneurship Lab program facilitate access to start-up capital; alternatively, is participation in the Entrepreneurship Lab linked to any form of financial aid?

Annex 2 Example of relevant practice

| | |
|-------------------------|---|
| Name of the practice: | Contribution to a self-employed activity |
| Year of implementation: | Ongoing since 2004 |
| Coordinating authority: | <i>Ústredie práce, sociálnych vecí a rodiny</i> (Central Office of Labour, Social Affairs and Family) through its local offices (PES) |
| Objectives: | The measure is performed as part of active labour market policies. The aim of the measure is to support the self-employment of jobseekers and to support the development of their entrepreneurial skills. |
| Main activities: | The substance of the measure is the distribution of a financial subsidy (the Contribution) to start a business to job seekers. A condition for receiving the Contribution is the development and defence of a business plan. The applicant may participate in information and educational workshops on developing a business plan and/or use individual consultancy provided by specific employees of PES |
| Results so far: | In 2018, the contribution was received by 2 123 applicants for employment, of which up to 33 % had been long-term unemployed. The success of the measure, measured by means of re-registration of applicants in the register at the PES, is high. In the period 6 months after the end of the time, during which the Contribution receivers are obliged to keep their business (i.e. three years after receiving the first instalment) only 12 % of all participants in the program have re-registered as unemployed. This is the lowest rate of all the observed measures of active labour market policies. |

