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THE ASSESSMENT OF USING FUNDS TO SUPPORT BUSINESSES IN THE SLOVAK REPUBLIC¹

***Abstract:** In the year 2013, 48,384 students altogether graduated from the 1st and 2nd grades of tertiary education at all universities in Slovakia. There were only 10,817 graduates of technical sciences, which is less than a quarter. In that period, as many as 7,091 university graduates and even more than 20,600 high school graduates had to register at the Labour Office as the unemployed, because they did not find jobs. The aim of this paper is to highlight the diversity of business conditions for future and current entrepreneurs, especially graduates, and analyse how the Active labour market policy may support those businesses.*

***Keywords:** unemployment rate, education, school graduates, entrepreneurship, financial support*

JEL : M 21, M 51

Introduction

The Slovak Republic has been a member state of the European Union (EU) for more than ten years. Although the EU countries differ in many aspects, they are united in their commitment to democracy, in efforts to enable the functioning of the common market and spreading prosperity. Supporting the creation and growth of enterprises and promoting employment in particular SMEs are key activities, which the European Union uses to increase the performance of regional economies. To improve the economic performance of individual regions, it is essential to encourage entrepreneurs, to attract investment and improve their production capacity. According to the materials of 2013, it will also help in the case of less developed regions. [1]

Theoretical Background

An active labour market policy has always had two major and overlapping functions – economic and social ones. The first focused on a temporary lack of demand for labour and tried to provide the income by assisting to find a job. The

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second function was more stable efforts to promote the re-allocation of labour on a geographical principle and change professions and skills of the unemployed and thus provide an income for the people concerned. In the context of the slow recovery of economies, which are accompanied by several economic downturns, the Active labour market policy plays a key role in reducing the risk of structural unemployment.

According to the latest data of the Central Office of Labour, Social Affairs and Family (ÚPSVR) on 30 November 2014, there were 374,018 unemployed in Slovakia. The unemployment rate in the Slovakia is currently on average 12.25%. One of the problems of such high unemployment rate is the complex setup of the entire education system in Slovakia. On the one hand, it produces too many graduates of secondary schools and universities oriented to humanities, who have difficulties to find suitable jobs. On the other hand, our educational system does not provide an adequate number of graduates of technical sciences. Those problems result in the described situation in the Labour Offices. Likewise, many theoreticians [2] and personnel managers in companies [3] are trying to solve the problem of high unemployment rate and inadequate labour offer.

The mismatch between the skills and competencies of graduates on the one hand and the requirements of labour market on the other hand, causes many other problems in the Slovak Republic.

The digital map of schools serves as a guide for parents and for future high school students. It can significantly help in choosing right schools and future profession for students, who can be potential entrepreneurs [4]. The network of schools and school facilities, containing also centres of practical teaching and practical teaching departments of the Slovak Republic is published with a detailed description (school address, code numbers of fields study, forms of study, and types of study), languages (Slovak or Hungarian) also in the materials of the Institute of Forecasts and Information, which belongs to the Ministry of Education, Science, Research and Sports of the Slovak Republic [5]. According to the material, there are 129 grammar schools, which should be the right choice for the best students who are able to continue their studies at universities. The highest number of secondary schools represents vocational and technical schools – most of them are in the Prešov region (183) – which accounts for 15%. Vocational schools are mainly focused on the construction; however, the number of construction companies has decreased to one third during the crisis. There are also 62 academies focused on trade, hotels or education and social or technical sciences. In addition to that, there is also a network of other secondary schools, for example, 36 secondary technical schools, 22 secondary medical schools, 4 conservatories, 6 secondary schools of art, as well as a number of practical training centres. The problem is that students often experience practical education only in schools, and they are not adequately prepared for economic practice.

Universities offer the options of internal (full-time) form or external form of study. 77.19% of graduates (48,384) were studying daily and 22.81% of all graduates were studying in the external form in 2014. We should also mention large differences between the fields of study. There are also several fields of study, where there is no

external form of studying (e.g. pharmacy).

Only 1,257 students successfully graduated from the third grade – postgraduate studies. The share of graduates from postgraduate studies who pursue their studies in the external form is much higher (576) than that of internal doctoral students. These students are often already employed during their studies in order to ensure their social security.

One of the ways of innovating the education system and bringing it closer to the needs of the real labour market is the implementation of new approaches and new methods of education at our universities. Equally important is the effective use of funds to promote entrepreneurship so that graduates could not only be employed in various enterprises at home or abroad, but they could also become entrepreneurs, and later on they could create new job opportunities in their own businesses. This would also decrease the number of registered unemployed.

In most countries, the definition of registered unemployed follows the definition of the International Labour Organization (ILO), which defines registered unemployed as people who do not work, who are actively seeking new employment, and who are ready to work.

In the Slovak Republic, the various measures of Active labour market policies can be provided to jobseekers, whose status is defined in the Act No. 5/2004 Coll. on Employment Services (the Act). The jobseeker is defined in the Act as a citizen who can work, wants to work, who is seeking employment, and who is registered at the jobseekers register at the Labour Office, and fulfils other requirements of the Act.

The Act also defines a candidate for a job, i.e. a citizen looking for a different job, or who is interested in providing professional counselling services and education and training for the labour market, and who is not a jobseeker.

Active labour market measures are oriented to supply side of the labour market, the potential of the workforce and on increasing the employability and job mobility.

The role of active labour market policy is primarily to facilitate and accelerate the transition of the unemployed into the work, and through specific programmes to retain people's ability to work and find them job opportunities in the labour market. In the context of active labour market policy in Slovakia, there are supported and implemented measures, programmes, projects and activities that facilitate the integration and reintegration of jobseekers, especially those from disadvantaged groups in the labour market through several instruments of active labour market policy. In addition, the instruments of active labour market measures also facilitate business development by promoting job creation and maintenance of existing jobs and employees in supported areas.

The vast majority of instruments of the Active labour market measures under the Act on Employment Services were obligatory until 2012; it means that there was a legal claim for those contributions, if the statutory conditions had been met. Legal eligibility was naturally reflected also in their usage in the reporting period, although seasonal trends could be observed in some active labour market measures. Most of the instruments of Active labour market measures were implemented through

national projects as a means of a resource transfer from the EU, in particular from the European Social Fund under the Operational Programme Employment and Social Inclusion. Under the rules adopted by the European Social Fund, these instruments were co-financed from the state budget in the form of active labour market measures, usually in the ratio of 85% : 15%.

Objective and Scientific Methods

The aim of this paper is to highlight the diversity of business conditions for future and current entrepreneurs, especially graduates and analyse how the Active labour market policy may support those businesses.

When processing the article, there were used general methods – for example, analysis, synthesis, induction, deduction, but mainly standard statistical methods.

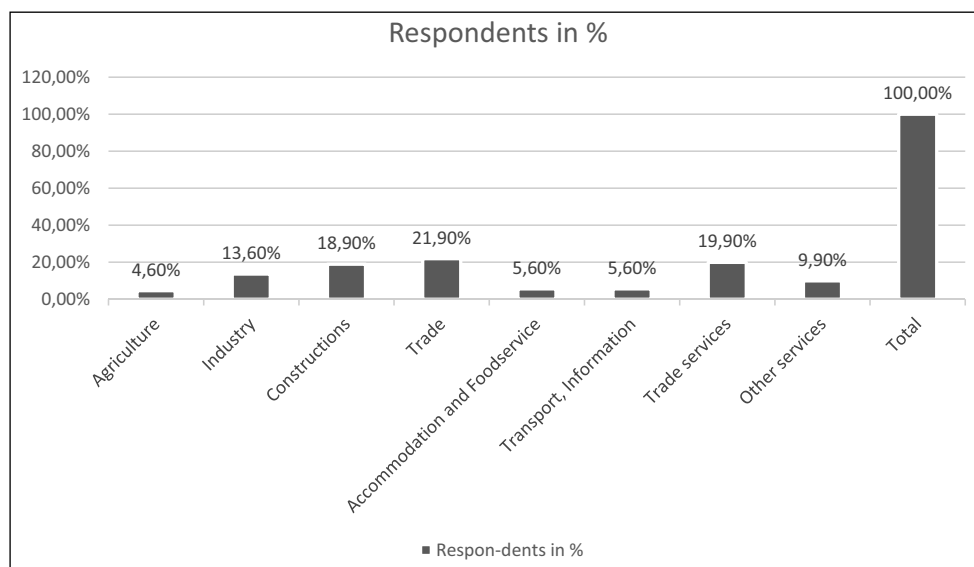
Several forms of activation of the unemployed population in Slovakia in general and specifically graduates inspired the team of authors to process the research on the support of one particular measure of the Active labour market policy (Contribution for self-employment) in theoretical and practical areas in the period 2005 to 2012.

For obtaining evidence base for our further analysis, we cooperated with the Slovak Business Agency. The statistical population of the survey were all self-employed persons who have obtained a contribution for self-employment according to the § 49 of the Act on Employment Services in 2012. From all of them (8,690 self-employed persons) there was randomly selected sample of 787 entrepreneurs who were contacted in our survey. Together we have collected 302 responses, which means that the recovery rate reached 38.37%.

The structure of the respondents is captured in the following table broken down by the sector of their business activities. Differences to the structure of all beneficiaries of the contribution for self-employment in 2012 are stated in the third column to declare the representativeness of the sample. In the last column, we present the comparison with the structure of all self-employed, which started their business activities in 2012, to get a better overview of the overall structure of start-ups in this period.

Graph 1

Structure of the surveyed respondents by sectors in Slovakia



Source: own calculations.

Within the sector structure of the entrepreneurs surveyed, we identified the largest proportion of persons operating in trade (21.9%), trade services (19.9%) and construction (18.9%). Less presented were entrepreneurs from sectors of industry (13.6%), other services (9.9%), accommodation and food services, transport and information (both with 5.6%). The least represented were entrepreneurs from the agricultural sector (4.6%). The sector breakdown of the sample complies with the sector breakdown of all contribution recipients in 2012.

Research Results

The contribution for self-employment was in 2012 provided to jobseekers registered as jobseekers for at least three months, which met the condition to be self-employed continuously for at least two years, if they applied for this contribution in written request. The contribution was provided to cover costs related to self-employment. In terms of supporting job creation through instruments of Active labour market measures, the contribution for self-employment was the most often used measure. The contribution was differentiated according to the average rate of registered unemployment in the region where entrepreneurial activities of self-employed person were operated.

Firstly, we have evaluated the application of that contribution in various regions of Slovakia during the whole period of 2005 – 2012 by numbers of supported entrepreneurs.

Table 1

Number of supported self-employed persons in Slovak regions in 2005 – 2012

Region / Year	2005	2006	2007	2008	2009	2010	2011	2012	Total
Bratislava region	233	452	609	627	772	897	869	728	5 187
Trnava region	864	978	833	959	862	1 037	766	582	6 881
Trenčín region	861	859	830	986	1 378	1 879	1 575	1 096	9 464
Nitra region	1 116	1 156	1 010	1 185	1 304	1 316	1 160	825	9 072
Žilina region	1 591	1 675	1 371	1 559	2 039	2 835	2 539	1 577	15 186
BanskáBystrica region	1 945	1 911	1 524	2 088	2 225	2 561	1 973	1 408	15 635
Prešov region	2 155	2 226	2 462	3 244	2 794	2 877	1 979	1 471	19 208
Košice region	1 139	1 200	1 181	1 536	1 496	1 631	1 410	1 003	10 596
SR	9 904	10 457	9 820	12 184	12 870	15 033	12 271	8 690	91 229

Source: own calculations based on ÚPSVR data.

During the selected period, there were the most supported entrepreneurs in the Prešov region (19 208). Significantly were supported also the entrepreneurs of the Banská Bystrica (15 635) and Žilina regions (15 186). Presented distribution shows that mostly entrepreneurs from the least developed regions of Slovakia were supported with this contribution. This fact shows the right targeting of the measure as one of the instruments for reducing regional disparities.

On the contrary, the least supported were entrepreneurs in the Bratislava (5187) and Trnava regions (6881), which show the best long-term results in many macroeconomic indicators such as GDP per capita and unemployment. Approximately equal numbers of entrepreneurs were in the selected period supported in the Kosice (10 596), Trenčín (9464) and Nitra regions (9072).

After examining the development of the number of supported self-employed in different years, we concluded that in almost all the regions of Slovakia, the number of supported business from 2005 to 2010 was continuously increasing. It the year 2010, the number of supported self-employment was at its maximum overall in Slovakia, as well as in almost all regions of Slovakia. The exception was only the Prešov region, where most entrepreneurs (3244) were supported in 2008. Slight decrease of number of supported entrepreneurs occurred in 2011 and continued in 2012, when there was the lowest number of supported entrepreneurs in the selected period, only 8 690 in Slovakia.

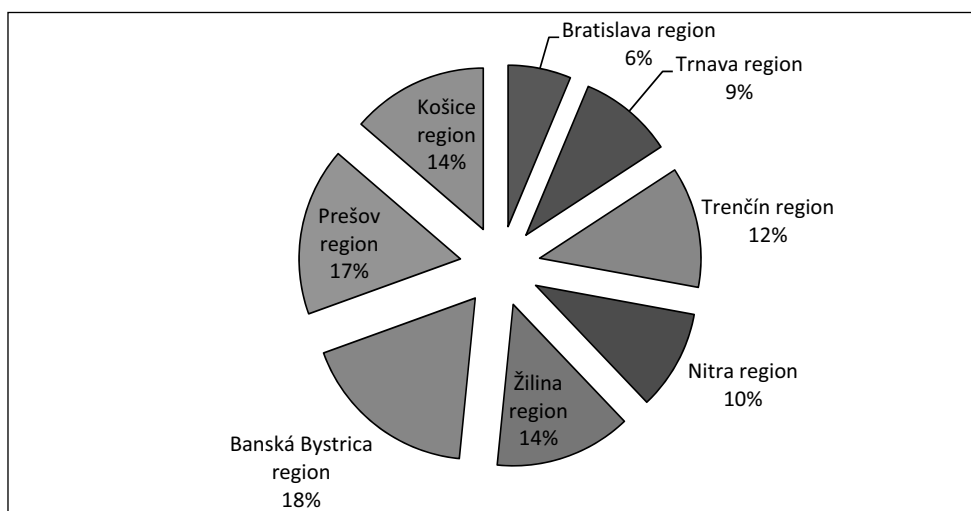
The decline may be explained by the condition stated in the Act. According to the Act, everyone who wanted to obtain the contribution for self-employment in 2012 had to participate in the training for starting self-employment, and that should be ensured and provided for jobseekers by the Office of Labour, Social Affairs and

Family in a given district. We assume that decreased number of contributions for self-employment in 2012, compared with 2011 (by 3 681) was caused by insufficient number of trainings which are defined in the Act as one of the conditions for obtaining the contribution for self-employment (problems with public procurement).

In total, during the entire period 2005–2012 there was the highest number of supported self-employed persons in the districts of Prešov (12,066), Prievidza (11,755), Žilina (11,580) and Nitra (11,061), while the lowest number of supported were in the districts of Medzilaborce (902), Sobrance (1,206), Turčianske Teplice (1,541), and Poltar (1,556).

Graph 2

Share of supported self-employed persons in the total number of self-employed person starting business in 2005 – 2012



Source: own calculations.

Based on the calculated share of supported self-employed in the total number of self-employed who started their activities in the period from 2005 to 2012, we can conclude that the chosen form of business support is most widespread in the Banská Bystrica (34%), Prešov (32%), Žilina and Košice regions (both 26%). These results show a very important fact. In the selected period in Slovakia, almost 24% of all self-employed cumulatively started their entrepreneurial activities owing to obtaining the contribution for self-employment, which is provided according to §49 of the Act on Employment Services. To sum it up, in the period 2005–2012 nearly one in five self-employed persons who started their activities during the period were supported with the contribution.

From the regional aspect, this importance is increasing even more in the already mentioned less developed regions, which convinces us again about the assumption that the selected type of business support can have a significant impact on reducing

regional disparities in Slovakia. This fact is even more significant given the fact that the contribution in the less developed regions of Slovakia, which do suffer from higher unemployment, is for higher for individual beneficiaries than for beneficiaries in regions with lower unemployment rates.

Data on the total amount of funds spent in all districts during the selected period shows that most funds of this measure were spent to support entrepreneurs in the regions of Prešov (€61,382,930), Banská Bystrica (€49,307,433) and Žilina (€38,889,567). Conversely, the smallest financial support has been directed to the Bratislava (€11,971,737) and Trnava regions (€14,907,230).

For the sake of better illustration of the amount of contribution to an entrepreneur in various regions of Slovakia in 2005–2012, the average contribution is presented in the table below. It should be added that the amount of the contribution to specific districts varied and depended on the unemployment rate in a particular district.

Table 2

The average contribution for self-employment in Slovakia's regions in 2005 – 2012

Region	2005	2006	2007	2008	2009	2010	2011	2012
Bratislava region	1 267	1 849	1 917	2 151	2 416	2 494	2 647	2 641
Trnava region	1 657	1 729	1 889	2 150	2 401	2 486	2 567	2 638
Trenčín region	1 642	1 750	1 911	2 156	2 409	2 489	2 911	2 698
Nitra region	2 090	2 131	2 321	2 670	2 684	2 985	3 419	3 622
Žilina region	1 787	1 861	1 988	2 234	2 407	2 930	3 299	3 252
Banská Bystrica region	2 199	2 315	2 552	3 099	3 582	3 641	3 764	3 924
Prešov region	2 251	2 403	2 599	3 114	3 597	3 805	3 954	3 985
Košice region	2 219	2 367	2 568	3 196	3 812	3 812	3 857	3 892
Slovak Republic	2 017	2 125	2 313	2 763	3 060	3 207	3 413	3 432

Source: own calculations based on ÚPSVR data.

In almost all the regions of Slovakia contributions were continuously increasing during the selected period. Similarly, these contributions were increasing also in almost all districts of the SR. Our calculations show that cumulatively for the entire period, the largest share in the total number of supported entrepreneurs on total number of self-employed persons who started their activities in the selected period was in districts Veľký Krtíš and Banská Štiavnica, in which the share exceeded 60% and in Tvrdošín 55%. On contrary, the smallest shares of supported entrepreneurs to all self-employed persons who started their activities in the selected period just under 10%, were recorded in the districts of Bratislava I – II, Košice II and III, and Skalica.

Discussion

Within the empirical research conducted on a sample 302 self-employed entrepreneurs, who were beneficiaries of the contribution for self-employment in 2012, we have come to the facts that can be seen as debatable:

- When examining the relevance and impact of the contribution for self-employment on the business activity of entrepreneurs who have been beneficiaries of this contribution, we have found that 72% of businesses would carry out their business activities even without obtaining the analysed contribution. A direct impact on business development and new self-employed is demonstrated at just under 30% of cases.
- It is important to mention that 32% of supported entrepreneurs agreed with the statement that their business had the character of employment contract. We must also add that such flexibility in the labour market is not a Slovak standard, and therefore it is necessary to determine whether, in such cases there is no pressure on employees from their employers.
- Based on the results of the activities of supported enterprises, we found that almost 70% of entrepreneurs considered their business to be successful. The percentage of the successful companies can be linked to their ability to sustain the entrepreneur or other employees.
- Moreover, the survey showed that 92% of supported enterprises reached an annual turnover up to 20,000 euros. In the context of regional comparisons, we identified most entrepreneurs with the lowest turnovers in Banská Bystrica and Prešov, and most entrepreneurs with higher turnovers in Bratislava, Trnava and Trenčín. This finding suggests that businesses in economically advanced regions, which are characterised by lower unemployment and higher purchasing power of the population, have more opportunities for the realization of its activities, which is associated with a higher turnover.
- The entrepreneurs who did not reach the profit in the last accounting period stated, that the most common reason of their losses were external factors of the business environment and lack of customers, poor market situation, and high competition.
- We have identified a correlation between the entrepreneur's level of education and the salary of his employees. Higher wages of employees in businesses of entrepreneurs with higher education are primarily due to the sectors in which these businesses are active. University-educated entrepreneurs are in most cases engaged in trade services and trade, where the activities require additional operational staff with higher work productivity.
- The worst assessed areas of entrepreneurial activity of surveyed entrepreneurs were weak linkages of their activities to research and development and the associated use of innovation in their businesses. The best-assessed areas by entrepreneurs themselves were their abilities to fulfil their obligations towards their business partners as well as the quality of own production or services.

- The last and probably the most important indicator of whether the impact of provided support to entrepreneurs was favourable, is their intention to remain on the market and carry out business activities further. In their databases, ÚPSVR monitors the durability of jobs created for self-employment. These data indicated that the life of enterprises created each year in all three time scales (up to 6 months, 6-12 months and over 12 months) compared with the previous year generally increased.

Table 3

Vitality of self-employment according to §49 of Act No. 5/2004 Coll.

Period of self-employment after the completion of the contribution for self-employment / Year	2006	2007	2008	2009	2010	2011	2012
Less than 6 months	3 462	3 658	4 725	4 988	5 009	6 012	4 376
6 – 12 months	1 780	4 267	3 945	4 797	3 984	4 163	4 737
More than 12 months	70	4 558	8 331	12 307	13 645	13 971	13 790

Source: own calculations based on ÚPSVR data.

If we compare these three time periods, we can see that since 2009, the most (more than the sum of the two other time scales) of supported self-employed persons continued doing business for more than 12 months after the end of the two-year period after obtaining the contribution for self-employment, which is a positive phenomenon.

Our research also showed that the total of 7% of respondents believe in a significant development of their business in the next two years. The largest part of the business, 43% of respondents indicate that they are expecting some business development; 37% plan to maintain the current level of their business activities; 3% of respondents expect to reduce the scope of their activities, and 10% plan to quit their business activities [6].

Conclusion

The originality of this article is ensured by stating very important first exact results of own research in this topic that was conducted in cooperation with the Slovak Business Agency.

During the selected period the most supported self-employed persons were in the Prešov region (19,208 self-employed). Significantly supported were also the entrepreneurs from the Banská Bystrica (15,635) and Žilina regions (15,186). The distribution presented shows that mostly entrepreneurs from the least developed regions of Slovakia were supported with this contribution. This fact underlines

the right targeting of the measure as one of the instruments for reducing regional disparities.

In examining the development of supported self-employed in different years, we concluded that in almost all regions of Slovakia, the number of supported businesses from 2005 to 2010 was continuously increasing. In 2010, the number of supported self-employed was at its maximum in Slovakia in total, as well as almost in all the regions of Slovakia. The only exception was the Prešov region, where the most entrepreneurs (3,244) were supported in 2008.

Based on the calculated shares of supported self-employed in the total number of self-employed who started their activities in the period from 2005 to 2012, we can conclude that the chosen form of business support is most widespread in the regions of Banská Bystrica (34%), Prešov (32%), Žilina and Košice (both 26%). These results show a very important fact. In the selected period in Slovakia almost 24% of all self-employed cumulatively started the entrepreneurial activity owing to obtaining the contribution for self-employment, which is provided according to §49 of the Act on Employment Services. We can sum it up, that in the period 2005–2012 nearly one in five self-employed that started their activities during the period was supported with the contribution.

From the regional aspect, the importance as demonstrated is further increasing in the already mentioned less developed regions, which convinces us again on the assumption that the selected type of support can have a significant impact on reducing regional disparities in Slovakia. This fact is even more significant given the information that the contribution in the less developed regions of Slovakia, which do suffer from higher unemployment, is higher for individual beneficiaries than for beneficiaries in regions with lower unemployment rates.

Within the sector structure of the entrepreneurs surveyed, we identified the largest proportion of persons operating in trade (21.9%), trade services (19.9%) and in the construction industry (18.9%). Less presented were entrepreneurs from the sectors of industry (13.6%), other services (9.9%), accommodation and food services, transport and information (both with 5.6%). The least represented were entrepreneurs from the agricultural sector (4.6 %). The sector breakdown of the sample complies with the sector breakdown of all contribution recipients in 2012.

In examining sectorial importance of the selected form of business support (contribution for self-employment), we found that in 2012, the most supported entrepreneurs were operating in the sectors of trade (1888), constructions (1866) and trade services (1747). The lowest numbers of supported self-employed were operating in accommodation and food services (269), agriculture (311) and transport and information (474).

According to registers from the Statistical Office of the Slovak Republic, within the age structure of self-employed in 2012, the most represented were entrepreneurs in the age group 30–39 years (28.0%), followed by the category of 40–49 years (27.0 %), the category of 50–59 years (23.0%), and the category of less than 30 years old (13.7%). In the age group of 60 years and more, there were 8.2% active entrepreneurs.

The differences between the skills and competences of graduates on the one hand, and the requirements of labour market on the other hand, cause many economic, social and other problems in the Slovak Republic.

Finally, also many specialists of central organizations and personnel managers in companies are trying to systematically solve the problem of high unemployment rate and improper labour offer too.

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