

REGIONAL ACTION PLAN

On improving the framework conditions for alternative finance
for start-ups and social enterprises

Slovakia



Symbolic map

Author:

<i>Slovakia</i>	<i>Technical University of Kosice</i>
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Slovakia

Regional Action Plan

(Output 3.1)

1. Introduction

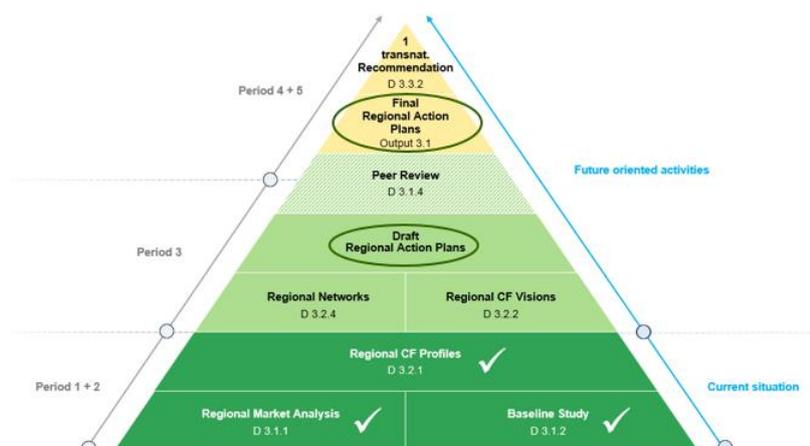
Within the CrowdStream project, each partner region has implemented a process of analysis of local conditions, stakeholder involvement and definition of long-term targets on Crowdfunding. These activities lead to the formulation of the Regional Action Plan (RAP) on the basis of the following inputs (available on <http://www.interreg-danube.eu/approved-projects/crowdstream>):

- Regional Market Analysis on Crowdfunding (D 3.1.1)
- Baseline study (D 3.1.2)
- Regional Profiles (D 3.2.1)
- Regional Stakeholder meetings (D 3.2.3)
- Regional Crowdfunding Visions (D 3.2.2)

The Regional Action Plan provides concrete measures for improving the access to alternative finance for innovative businesses and social enterprises. A peer review process was established to develop the final version of the Action Plans.

RAPs will be linked to the Pilot Actions that will be organized at partner region level in order to showcase solutions how public business support organisations can support CF campaigns of start-ups and social enterprises.

Inputs from the Regional Action Plans of all Danube area partner regions will feed into Policy recommendations aiming at improving the access to alternative finance for innovative businesses incl. social and creative entrepreneurs.



2. Main regional challenges and development needs

Main Challenge #1: Difficult policy and legislative environment

According to the report by European Commission - Main barriers to investment and priority actions underway (2016) a frequently changing legislative environment in Slovakia makes it difficult and costly for companies to comply with legislation, and legislative and regulatory processes are often viewed as insufficiently business-friendly. While the lack of evidence-based policy making is often noted, the framework for regulatory impact assessments is being strengthened.

Since 2015, some local crowdfunding platforms started their business and tried to survive in the difficult policy and legislative environment. Today, there are several laws and acts regulating activities of crowdfunding, but none of them was created as the answer to actual trend of raising crowdfunding volume.

Such a situation causes problems with design, transparency and standards of CF providers. And not only to providers, but also to investors and regulatory authorities who have intention to control market entities and predict potential problems. As presented by Ministry of Finance of Slovak Republic and National Bank of Slovakia, there is obvious need to change regulatory uncertainty but in the way not to make the barriers to expand for CF operators and their customers.

Main Challenge #2: Small national market

One of the basic requirement of good investment environment is developed financial market. The market in Slovakia can be regard as developed, and values of indicators lead to more positive position as overall assessment of the country (65th position of 138) describing overall business environment by World Economic Forum.

In accordance with that were also findings of World Bank in country profile for Slovakia. Globally, Slovak Republic stands at 44 in the ranking of 190 economies on the ease of getting credit and we are above the average of OECD.

But the CF ecosystem in Slovakia is limited in terms of the variety and number of local providers. The Slovakian crowdfunding industry represents a newcomer in Europe. So far, projects from Slovakia have widely used international crowdfunding platforms. Due to lack of local opportunities there can be observed outflux of investors and entrepreneurs to other markets. The reason is also the bigger success-potential on the foreign markets as Slovakia is small country while the population is over 5,4 million. Moreover, CF knowledge is not very spread and it leads to the small market volume, both on general market of alternative finance and on the CF market. E.g. in very similar country

to our - Czech republic, there is market volume per capita 3.0, while in Slovakia only 0,6 (European Alternative Finance Industry Report, 2018).

Slovakia has currently 11 existing crowdfunding platforms, from which 4 are donation-based, 2 equity-based, 2 reward-based, and 1 lending-based and 2 peer to peer platform. Most platforms have been operating since 2014 and thus, the survey participants' experiences are reflecting their experience with crowdfunding campaigns on international platforms, such as Kick-starter and Indiegogo.

Main Challenge #3: Low level of knowledge about CF leading to the low level of trust by investors, especially local people who seem CF as very risky

For investors in Slovakia is characteristic conservatism, high risk-aversion and insufficient education of investors. In such an environment, concept of CF has expanded among investors very slowly, while investors were waiting for the experience of early adopters proving its benefits.

Despite the opportunities provided by financial sector, Slovak entrepreneurs are still conservative and use to start a company primary by own sources. The situation has been changing and companies as well as investors are getting more and more familiar with CF. But we are still in the situation that majority of the population has no knowledge or just very basic about the CF what is linked also with challenge #1: Difficult policy and legislative environment, what prevents that from faster popularization.

3. Visions

Vision #1: By 2022, crowdfunding will become known and accessible source of financing for Slovak SME

Access to finance for SMEs was identified as one of the main challenges for economic growth. This was further supported by our findings from regional market analysis. According to the EIB, 30% of SMEs, in the Danube region, face liquidity problems and less than 30% of SMEs can access bank credits. Availability and accessibility of bank loans for small enterprises has declined by 25% over recent years, while collateral requirements have increased by 34%.

Crowdfunding can bridge this gap. There are various activities that aim to raise awareness of CF to become much more-known and used e.g. CrowdStream project and other initiatives, as Crowd-Fund-Port project, co-financed by Interreg Central Europe Programme. Thanks to the raising knowledge and offering helpful information, for both borrowers and lenders/investors/donors, in cooperation with trustworthy authorities,

like Ministry of Finance of Slovak republic and National Bank of Slovakia, CF will become more attractive for stakeholders in Slovakia and can help to support regional development by domestic funds.

Vision #2: Crowdfunding will become the tool for cooperation of government and society with the aim to finance small scale investment

Needs and requirements of society are very extensive these days, while financial resources are limited. Thus, it is very difficult to plan the activities which shall be done by local, regional and national government bodies. According to our findings from stakeholder meetings, local and regional governments, as well as civil society organizations, are interested in cooperation within the small scale projects, like e.g. renovation of playground or cultural events.

We believe, that until 2022, there will be first examples of such regional development projects, partially funded by government and the society.

Vision #3: Online crowdfunding hub by 2022

As in the rest of PP countries, also in Slovakia, information about crowdfunding is mainly available on the websites of CF platforms, which aim at attracting new campaigners. Persons and companies looking for finance sources often don't have enough independent information on the risks and are indecisive, which platform will correspond to their project in the best way, what is the barrier for using CF etc.

University - as an independent authority, in cooperation with Creative Industry Forum Bratislava, business support organizations, University Star-Up Center and Slovak Chamber of Commerce and Industry, plans to develop online information hub, aggregating all relevant information and providing the opportunity for CF users, to share their experience and rate CF platforms and providers of CF-related services.

4. Proposed actions to address the regional challenges

Action #1: New legislative framework proposed by Financial Innovations Working Group operating under leadership of Ministry of Finance of the Slovak Republic

As one of identified potential barriers to CF development and popularization was current legislative framework for CF, there is highly needed to change that situation, provide operators and their customers environment with clear rules for operating on the market, reflecting actual needs and requirements, motivate people to use this type of AF.

The new proposal based on the quadruple helix dialogue (government, industry, academia and civil society) is being formed under the initiative of Ministry of Finance of Slovak Republic, which is the main facilitator of regular sessions for Financial Innovations Working Group. The meeting of the stakeholders started to be organized since 2018 on the regular basis, also as thanks to the initiative of project Crowd-Fund-Port and CrowdStream, where new ideas and needed requirements are discussed and later analysed and transformed to appropriate form to be transformed into legislative framework.

Following the previous findings of the working group additional aspects of the processes are needed to be discussed and there will be defined the best regulatory framework reflecting the needs and requirements of CF platform operators, customers and regulatory authorities – Ministry of Finance of Slovak Republic and National Bank of Slovakia.

Action #2: Raising the knowledge about CF

Today, despite the educational activities of project CrowdStream and Crowd-Fund-Port, only minority of population in Slovakia has the knowledge about CF and even less has practical experience. Despite the opportunities provided by financial sector, Slovak entrepreneurs and investors are still conservative, not taking the chance to profit from benefits of CF. Some platforms have taken the matter into their own hands, delivering training and awareness videos for investors which admittedly have obtained limited impact.

As very needed we identified the development of continuous education system, while the first step was development of online platform aggregating theoretical knowledge, as well as case studies, presented also via innovative form of short documentary movies where authors of the CF projects described their experience, pros and cons of selected methods and various problematic aspects which can significantly affect the success of the campaign. The first inputs for this training platform was based on the materials created

as CrowdStream project activity and provide participants guideline of the all steps of CF processes, with special focus on the promotion which has been identified as very critical aspect of CF campaigns.

In the following periods, very needed will be to discuss this task with all relevant stakeholders, especially representatives of CF platforms and regulatory authorities and develop the system creating motivational factors especially for CF investors and project authors, to share their experience for the peers and the whole public to increase the knowledge.

The idea of one-stop shop in order to provide support services for CF which was strongly supported by various stakeholders during our activities in Slovakia, as well as identified as very demanded by EC in 2017 in their survey, lead to the establishment of the CF HUBs in Slovakia – in Bratislava and in Kosice. Our vision is to provide not only an informative role, guiding fundraisers on CF for R&I, CF specific platforms and CF support services providers, but also should distribute the aforementioned grants and facilitate further funding for fundraisers. As both HUBs are operated actually thanks to sources of project co-funded by Interreg Programme our main task for the near future will be to find new sources to maintain the centers.

Action #3: Trust building

As beside lack of knowledge was identified as one of the main barrier also lack of trust, very important factor affecting wide-spreading of CF will be also constant support of educational activities by National Bank of Slovakia, as the main regulatory authority, concrete elements communicated towards highlighting existing information standards, formal requirements, the right of withdrawal and risk warnings. According to the findings presented in “Assessing the potential for crowdfunding and other forms of alternative finance to support research and innovation” (EC, 2017) amongst the concepts that were welcomed by most of the stakeholders were public co-investments supporting investments as measures to increase the trust in projects by investors and to stimulate the uptake of the crowdfunding for research and innovation. Such a cooperation shall be start on the local and regional level. Till today, there have been several small initiatives to use crowdfunding as the cooperative tool between local/regional government and inhabitants, solving the question of selection process. Moreover, the method of CF can help to identify initiatives which majority would regard as the most urgent and needed to be done. And according to the previous experience, we could expect also the potential of strengthening cross-border or even international cooperation helping to find the best solution to actual socio-economic challenges.

5. Further recommendations to improve regional and cross-regional framework conditions

Absence of clear legislative regulation in some countries as well as the coexistence of too different rules constitute legal major barriers for the spreading of cross-border crowdfunding. This is the problem especially for clients from small countries, like Slovakia, where potential according to the country population is rather small. Moreover, it discourages the CF service providers to enter markets in these countries because of unclear conditions which could be change and negatively affects their position sooner or later. National rules about crowdfunding shall be harmonized, especially within EU, to enable raising the level of transnational cooperation leading to the raising of competitiveness and innovation potential of the union. As the next step, common European regulation should be created, to help countries with no CF regulation and enable transnational cooperation.

As very needed occurred also the requirement for increased transparency in the operations of CF platforms to increase the amount of funding raised via CF by stakeholders. According to the findings of EC (2017) the transparency of connections between donors and fundraisers is necessary to enhance and achieve higher levels of reliability and confidence within the entire operational setting. Following that, supporting the transparency and common conditions, we propose to set the standardization of public data – their form and content, which shall be published on the CF platforms as well as on the national/international register to decrease information asymmetry and enable comparison. Such a step could help to remove fear of fraud and raise CF attractiveness. Moreover, transparency on the international level could lead to higher rate of international investment, thanks to clear and easily accessible data about investment opportunities.