Slovakia needs crucial reforms to enhance R&D

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Although the government declares support of research and development, many of the approved measures are not being effective. In the European Union, Slovakia is one of the leaders in formally introducing new reforms; however their quality and particularly their implementation utterly lag behind.

Lack of rules, corruption and questionable allocation of science and research funds, for instance EUR 300 million in 2016 under Minister Plavčan or EUR 33 million under Minister Lubyová – all this characterizes R&D in Slovakia. Slovakia is therefore one of the countries with the lowest support of R&D in the EU. According to Eurostat data, Austria invests 3,16% of GDP into research, while Slovakia with 0,88%, together with Romania (0,5%), Latvia (0,51%), Malta (0,55%) and Cyprus (0,56%), ranks among the last in the EU when R&D support is concerned.

Another issue is the quality and spectrum of investments into research and development. The quoted figures also include the support provided to shady companies that makes the statistic even worse. Although the government declares support of the development of knowledge economy, it is not yet noticeable. Unfortunately, the Slovak executive is able to mobilize only when some trouble is brewing.
For example after the latest discovery that Volkswagen in Bratislava lost its position as the top production facility in the Volkswagen Group. Indeed, the government has long since become accustomed to the position of this economic powerhouse and considered it as something unchangeable. But "Dieselgate" and the shift in VW's strategy have changed the status: the Bratislava plant will not only lose the strategic electric cars production, but it will likely lose complex car production as such. In a few years it may become a second-class spare parts plant. Taking 21 measures to support the automotive industry is an attempt to catch up with a train that has already left the station. It just won't work.

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The Austrian system is based on clusters and transparency
A similar development is natural, especially in case of cars assembly. Therefore, every advanced state seeks to build a strong knowledge-based economy that creates high value-added products and services. This goes hand in hand with a focus on R&D in every sector. Austria is the best example. Although it does not host a single car manufacturer, the automotive sector achieves annual sales of EUR 40 billion, which is more than in Slovakia. The reason — R&D and the resulting value-added production.

Over the past ten years (2007-2017), our neighbor has increased R&D spending from 2.42% to 3.16% of GDP, the highest raise in the EU. The Austrian model is based on the so-called Competence Centers, where joint research projects of universities and scientific centers with the business sector take place. There are over 50 of these centers in Austria, with 3,500 companies and 420,000 employees.

The emergence of these clusters has been facilitated by a highly professional development support organization, run by a state R&D institution, which manages the financing. In Austria, support is assigned on the basis of strict criteria and under the supervision of an independent commission.

Today, the Austrian way of promoting research in Europe is exemplary. The system has contributed fundamentally to allocating funds in a transparent manner, according to clear criteria and fair competition. Investments in R&D have translated into an innovative contribution to the Austrian economy. This is an example from which Slovakia can draw inspiration.

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High R&D tax relief is not enough
Slovakia's Prime Minister Peter Pellegrini has announced an increase of the R&D tax relief from today's 100% to 150, respectively 200 %. This step is not enough. It probably will not bring any substantial change until the related conditions change.

The problem of Slovakia is not the percentage - it is already comparable with the Czech Republic (110%) and Poland (150%) - but the terms. For example, companies must provide a detailed description of the project for which they have applied a tax relief and this information is then published online. As a result, everyone knows exactly what R&D they are working on, and in a highly competitive environment, companies are losing their competitive advantage.

The numbers prove the problem
Companies invested EUR 91.49 million in R&D in 2017, but applied only for 43.8% of these costs. We at Grant Thornton have been providing tax advice in Slovakia for over twenty years. It is clear from our experience that companies make use of every tax advantage if it doesn't represent a bureaucratic burden. Research companies have not applied for more than a half of the possible costs. This suggests a bad system setting.

Solution: transparent rules and support for investment projects
We propose to fundamentally change the approach to R&D support. Tax relief as the only measure is definitely not enough. If R&D investments are to benefit the economy, Slovakia must first and foremost get rid of corruption and introduce a transparent allocation system. It is equally important to focus on specific promotion of investments in R&D.