## INTERVIEW

# We need to allow innovation to flourish

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**Slovakia's innovative potential has been hotly debated for the past few years. Bratislava was even included in the cluster of Central European cities dubbed "The Danube Valley". Although several examples of successful innovative companies or promising startups can be cited, the feeling prevails that much of this potential still remains unfulfilled. Adela Zábražná, Executive Manager of The Slovak Alliance for Innovation Economy (SAPIE) shares her thoughts on some of these issues.**

**It's been over four years since SAPIE was established. How has the situation in Slovakia changed over this period from your perspective?**
The Slovak startup scene has matured over that period. The projects made in Slovakia are truly world-class and have a great global potential. More importantly, many of the Slovak innovative companies experience rocket growth and contribute to the Slovak economy not only in job and value creation, but also in training skilled labor force. Talent density is becoming a defining feature of Bratislava region, alongside with a strong presence of digital innovation.

The growing quality of projects is also enhanced by the quality of the supporting ecosystem. Coworking spaces such as 0100Campus or HubHub provide a number of events and acceleration programs besides a regular shared workspace. And even though it might seem that the ecosystem is rather Bratislava-centric, there is a vibrant ecosystem in Košice led by Košice IT Valley or Eastcubator and in other cities around Slovakia.

**How do you perceive the role of SAPIE in this process and what are its biggest advocacy achievements?**
We aim to be the voice of digital and innovative companies in Slovakia. This translates into consultations of legislative drafts concerning digital economy, explaining positions of SAPIE and our members and communicating practical effects the laws have on innovative economy.

In particular, I would like to pinpoint one of the biggest achievements — the introduction of a simple joint-stock company in Slovakia that was facilitated by SAPIE. The simple joint-stock company is a very attractive investment vehicle for venture capital deals, thanks to the freedom it offers in setting internal relations between shareholders and business owners. It also introduced employee shares, a quick and easy way to motivate and reward employees of a startup, used as a common practice in the startup ecosystem. We have yet to examine whether and how are companies benefiting from it, but from the publicly available data it is clear that newly established startups that intend to attract external investors choose this business form.

Now we have another step to take — to nurture an ecosystem that will be able to pioneer mature startups and scaleups on their way to global success.

**Where do you see the biggest space for improvement when it comes to fulfilling Slovakia's innovation potential?**
The innovation potential in Slovakia can be boosted through various streams; I will focus on two — the investment stream and the public policy stream.

In the investment stream, Slovakia is still waiting for its first major exit. The importance of exits for the ecosystem is crucial. It not only provides a positive PR for the company and the country, it is a proof of the maturity of the ecosystem. It also creates a good base for further investment into the startup ecosystem. It is a common practice that founders reinvest capital from exits and become either serial entrepreneurs or investors themselves.

In the public policy stream, Slovakia lacks a clear political commitment to innovation promotion and support. Not only in words and statements, but in concrete actions. This applies to e-government, innovation promotion and an innovation-friendly legislative framework.

**Can you name some examples of how the government can foster innovation?**
We do not have to go far for inspiration. When we look around Europe, we see vibrant ecosystems in big economies such as the UK or France, but also in small peripheral economies of Estonia or Portugal.

Portugal is an unlikely, yet very inspiring example of how to overcome crisis with the right kind of investment. Despite the creditors' mantra of austerity, Portugal decided to restore confidence and boost recovery through a series of tax credits, subsidies and investments into innovation not only in hi-tech industries, but also in traditional industries, including textiles or agriculture, and small and medium companies. The strategy bears fruit also in attract-

### BIOGRAPHY

Adela Zábražná currently serves as Executive Manager of The Slovak Alliance for Innovation Economy (SAPIE), the largest innovative alliance in Slovakia with 60+ members. She joined SAPIE in 2017 as a project manager for international cooperation. Prior to returning to Slovakia, she worked as a consultant for public sector projects at KPMG Czech Republic. She also worked as analyst and a head of the working group on economy in the Prague-based think tank European Values. She completed her MSc. studies at Advanced Master of European Politics and Policies at KU Leuven and her Master studies at the University of Economics in Prague and University of Edinburgh. Her academic interests include digital economy, diversity and innovation in CEE.

ing global players such as Bosch, Google or Mercedes Benz, all of whom have recently opened offices and research centers in Portugal.

France is also actively reaching out to the technological sector and startups. They are trying to use the momentum of Brexit and become the place to be for Europe's tech rising stars. In one of the first speeches as a president, Emmanuel Macron called for building a 'startup nation'. The statement was not a blind call. French government has reacted on many levels. They started by assigning one of the top mathematicians and experts on AI, Cedric Villani, to prepare a long-term AI strategy for France. France has also created a 10 million EUR public fund to support startups and 1.85 billion EUR will be allocated to artificial intelligence R&D in the following years.

Estonia was coined the most advanced digital society in the world. In Estonia, anyone can establish a company online in 15 minutes and complete a tax declaration in three minutes. In addition to that, Estonia is experimenting with e-citizenship for non-Estonians. Holders of e-residency receive a government-issued digital ID and full access to Estonia's public e-services. Which also gives them the opportunity to set up a business in a blink of an eye. According to OECD, less than half of Slovaks use online services to communicate with public authorities, whereas in Estonia this number reaches 77%. The difference is striking.

**Slovakia has dropped to the 55th place in the latest World Competitiveness Yearbook, ranking lowest among the V4 countries. To what extent does this represent a threat to the further development of the local business environment?**
Slovakia prides itself for being a world leader in number of cars produced per capita. This, however, does not translate into automotive-driven innovation. The vast majority of venture capital investment still flows into ICT, more than in neighboring countries. If we want to keep pace with innovation leaders and move away from being an 'assembly hall' of Europe, we need to allow innovation to flourish by not throwing hurdles in its way.

This being said, Slovakia has been dropping in the most acclaimed competitiveness rankings for the past decade. This is not the case for the rest of V4, let alone Estonia. World Bank's Doing Business Ranking also shows worrisome evidence. Slovakia scores low in the ease of starting business, dealing with construction permits or enforcing contracts. This sends a clear message to the local business environment that the Slovak government does little to foster entrepreneurial activity. Other indicators also show low levels of innovation in small and medium-sized enterprises, well below EU and OECD averages. This fact should not be overlooked as small and medium-sized enterprises are the backbone of Slovak economy.

**What do you perceive as Slovakia's greatest strength and greatest weakness compared to other European countries when it comes to digital and innovative economy?**
We have a lot to build upon. Slovakia is a healthy economy in the heart of Europe with high talent density in the Bratislava region. It is also home to one of world's top cybersecurity companies, it has developed strong e-commerce, gaming and SAAS (software as a service) sectors. Innovation in ICT is not capital-heavy, thus significant returns can be achieved with relatively low investments. Slovakia can leverage its key assets — skilled workforce, high foreign investment in traditional industries and strong ICT-driven innovation — to move away from traditional economy specialized on automotive towards a more diverse knowledge-based economy.

Slovakia's greatest weakness is low commitment of public authorities to digital economy as a whole and to digitally accessible public services. Functioning and user friendly e-government services can boost entrepreneurship, quality of life and improve public sector efficiency. Digital data collected about the citizens can be used in decision making, especially for creating effective and innovation-friendly data-driven policies.

**What topics are currently shaping the digital agenda at the European level?**
The topics are closely related to the Digital Single Market Strategy (DSM) that was announced in May 2015 as one of the flagship initiatives of Juncker's Commission. As the mandate of the European Parliament and Juncker's Commission comes to an end in May 2019, there is a clear will to finish what the Commission has set out to achieve at the very beginning. This is particularly true for digital agenda. With Austria taking over the EU presidency in the second half of 2018, half of the 25 proposed files remain open. These include such complex files as platform regulation, e-Privacy and copyright or tackling illegal content online.

In addition to that, there is a vivid discussion about how and where to tax digital companies. This is of course a very sensitive issue as some European countries were able to attract leading digital players by offering them friendly tax rules in exchange for know-how, investment in innovation and job creation. Now EU officials want unified rules to apply across Europe. However, some countries, such as Spain, decided to introduce temporary tax rules, which again leads only to legal uncertainty.

**How do you evaluate DSM so far and what are the major changes it is expected to bring in the near future?**
With DSM, Europe has set itself a very ambitious goal — to create a digital-friendly legal framework that would simultaneously protect customers. While achieving world's highest standards of customer protection with GDPR or earning politically-easy-to-sell wins by banning roaming charges or providing free wi-fi, the main benefit of the DSM for digital innovation remains unfinished. Regulatory frameworks remain fragmented and there is a lot of resistance from the incumbents to protect the status quo of old-economy business models. This translates into regulatory uncertainty for digital businesses in Europe.

Data protection is a perfect example of such ill-designed process. Data protection will be regulated by two laws — GDPR and e-Privacy, with the former focusing on protecting personal data and the latter on a person's private life. Initially, the files of GDPR and e-Privacy were designed as complementary and were to enter into force simultaneously. However, work on e-Privacy proceeds slowly, with GDPR entering into force earlier this year and e-Privacy remaining in the negotiation phase as we speak. Moreover, draft versions show that some of the new rules will be stricter than GDPR, forcing companies to review and redesign their privacy standards again. This is a typical example of regulation putting additional burden on businesses and creating legal uncertainty.

It is also important to note that despite these rules being targeted on large digital corporations such as Google or Amazon, small European digital startups and businesses will be hit hard by the burden of ever-changing laws.

With new rules on data protection, digital taxation and platform economy, a powerful discourse is forming on how to approach digital companies and how to regulate them effectively. It is in highest interest of Europe to work constructively towards smart regulation that responds to market failures, not the other way around. In order to compete with world's leading tech powerhouses, we need to allow innovation to be tested easily and fail fast.