

INVESTMENT DEPARTMENT

CENTRE FOR ECONOMIC AFFAIRS

EVALUATION OF REGIONAL CONTRIBUTION OF INVESTMENT PROJECTS

MINISTRY OF ECONOMY OF THE SLOVAK REPUBLIC

Taking into account the transitional conditions related to the extraordinary situation caused by the spread of COVID-19

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BASIC PARAMETERS IN THE EVALUATION OF THE REGIONAL CONTRIBUTION OF INVESTMENT PROJECTS

DISTRICT WHERE THE INVESTMENT IS TO BE IMPLEMENTED

Investments intended for districts with a higher rate of registered unemployment get a higher score. Investments in the least developed districts get the maximum score.

NUMBER OF NEW JOBS CREATED

The higher the number of new jobs created is, the higher the investment scores.

AVERAGE GROSS MONTHLY WAGE OF EMPLOYEES IN NEW JOBS

The higher the declared gross wage in investment projects in industrial production is, the higher the investment project scores.

EXPECTED VALUED ADDED OF THE INVESTMENT

Investments with a value added per employee higher than the average value added in the segment get a higher score.

QUALIFICATION OF THE INVESTMENT AMONG PRIORITY AREAS

Investments in priority areas get a bonus score.

CHARACTERISTICS OF THE TERRITORY WHERE THE INVESTMENT IS TO BE IMPLEMENTED

Investment projects implemented in the territory designated for operations that are the subject-matter of evaluated investments get a higher score.

The evaluation of the contribution to regional development should also take into account the compliance of the support with the objectives of regional investment aid. Particularly decisive are the objectives of increasing competitiveness, including the growth in the value added and enhancing the research and development activities. Reducing regional disparities remains the second crucial objective to be met by supporting the creation of new jobs in the least developed districts. If an investment project does not meet these objectives, it cannot be assessed as having a significant contribution to regional development.

INTRODUCTION

THE CONTRIBUTION TO REGIONAL DEVELOPMENT IS INCORPORATED IN THE MECHANISMS FOR THE EVALUATION OF INVESTMENT AID APPLICATIONS. THE CONTRIBUTION IS ASSESSED BASED ON THE PARAMETERS THAT IDENTIFY THE COMPLIANCE OF AN INVESTMENT PROJECT WITH THE INVESTMENT AID PRIORITIES AND OBJECTIVES.

Under §15(1) of Act No. 57/2018 Coll. on regional investment aid and on amendments to certain acts, as amended, the assessment process of an investment aid application may only continue if the investment project has been evaluated as having a significant contribution to regional development. If the significant contribution to regional development is not established, the investment aid application will be rejected.

The evaluation of regional contribution takes into account the meeting of the main objectives of the Slovak investment aid:

- supporting competitiveness of the Slovak economy; and
- reducing regional disparities.

The attainment of the first objective is driven by investments in the industrial production which demonstrably generate a growth in the value added and contribute to the transformation of the industry under the fourth industrial revolution (Industry 4.0).

In the case of technology centres and business service centres, these are the investments that generate highly-qualified jobs and bring in and/or drive the development of operations with a significant value added.

The fulfilment of the second objective, that is, reducing regional disparities, is facilitated by the investments that create new job opportunities in the regions with a high rate of registered unemployment.

In order to assess the contribution to regional development, the Ministry of Economy of the Slovak Republic (hereinafter only referred to as the “Ministry”) uses a mathematical model that precisely evaluates how a particular investment contributes towards meeting the set objectives. The model is based on publicly available and verifiable data and statistical figures and on the data declared by applicants in the investment aid applications.

The evaluation of the regional contribution also considers the compliance of potential support with said objectives.

The aim of this paper is to describe in more details the model for the evaluation of regional contribution in a comprehensible manner. For this reason, some of the terms and definitions used in this paper are simplified, for which we apologise to readers with profound knowledge of this matter.

REGIONAL CONTRIBUTION OF INVESTMENT PROJECTS

THE FOLLOWING PARAMETERS SERVE AS INPUTS FOR THE EVALUATION OF REGIONAL CONTRIBUTION:

- district and region where the investment is to be implemented;
- number of new jobs created;
- average gross monthly wage of employees in new jobs created in the industrial production sectors;
- average nominal gross wage in the Slovak economy in the district where the investment is to be implemented;
- expected valued added of the investment;
- value added registered under a corresponding product division according to a SK NACE Rev. 2 code;
- qualification of the investment among the so-called priority areas;
- characteristics of the territory where the investment is to be implemented.

DISTRICT WHERE THE INVESTMENT IS TO BE IMPLEMENTED

With respect to the objective of reducing regional disparities, the region where the investment is to be implemented is one of the key parameters in the evaluation of its regional contribution. The following is compared:

- registered unemployment rate (hereinafter only referred to as “RUR”) in the district where the investment is to be implemented; and
- weighted average of RUR in the district where the investment is to be implemented and its neighbouring districts. (*The weight consists of the number of economically active population¹ in a respective district for the calendar year preceding the year in which the application is submitted to the Ministry.*)

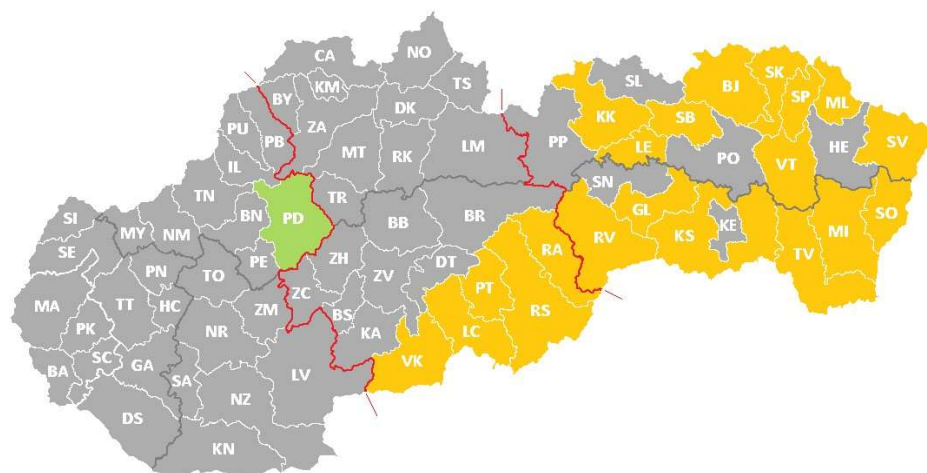
The higher of the two values is then used in the evaluation.

¹ Central Office of Labour, Social Affairs and Family; Unemployment – monthly statistics

If eligible costs exceed EUR 50 million, the RUR in the region where the investment is to be implemented is subject to evaluation.

In order to score points, the RUR at the district/region level for the calendar year preceding the year when the application is submitted to the Ministry must be higher than an average value of this indicator for the whole of Slovakia for the same period. If the investment is to be implemented in a district/region with a higher RUR, this parameter scores a higher number of points.

If the district is included on the list of the least developed districts² at the date of the submission of the application to the Ministry, the parameter scores a maximum number of points.



The least developed districts at 1 January 2021 (for the purposes of meeting the conditions for the granting of investment aid, Prievidza will remain included among the least developed districts until 31 December 2023)

NUMBER OF NEW JOBS CREATED

Regional disparities may also be reduced by creating new jobs in regions with a higher rate of registered unemployment. The number of new jobs created is one of the parameters that are considered when evaluating the regional contribution.

Investments aimed at the least developed districts and investments to be implemented by micro, small and medium-sized enterprises are supported by being given less stringent conditions for the granting of investment aid³ compared to other regions. These differences are accounted for in the evaluation.

²Central Office of Labour, Social Affairs and Family; List of the Least Developed Districts

³ Regulation No. 195/2018 Coll. of the government of the Slovak Republic.

The evaluation compares the number of new jobs created under the proposed investment project against an average number of new jobs created by the investment projects that were supported in the past. The type of an investment project, location of the investment, and the size of an investment aid applicant are taken into consideration.

AVERAGE GROSS MONTHLY WAGE OF EMPLOYEES IN NEW JOBS

A growth in wages in the Slovak economy and an increase in the value added and productivity – which should directly be reflect in the level of wages – are also among the priorities of the Slovak government.

The evaluation is based on comparing the current value of declared average gross monthly wage of employees in new jobs created by investment projects in the industrial production against the average nominal gross monthly wage of an employee in the Slovak economy⁴ in the district where the investment is to be implemented.

The average weighted discounted gross monthly wage is calculated as a weighted average of discounted values of the average gross monthly wage declared by the applicant in a given calendar year. The weight consists of a cumulative number of new jobs created in a given year.

In order to score points for this parameter, the offered wages for newly hired employees must be higher than the average wage in a relevant district.

EXPECTED VALUED ADDED

In line with the priority to support a growth in the value added, the value added expected to be generated by the investment is considered for each application for investment aid.

The evaluation is based on a comparison (ratio) of the expected value added of the investment generated per new job against the current value added registered under a corresponding product division according to a SK NACE Rev. 2 code, determined on the basis of the indicators of the Statistical Office of the Slovak Republic⁵.

In order to achieve a relevant comparison, all jobs, including the transferred ones, are factored into this parameter.

⁴ Statistical Office of the Slovak Republic; Average nominal monthly wage of an employee (euros), indicator [np3110rr]. For the current calendar year, the indicator is calculated using a growth coefficient set in the Evaluation Framework for Public Investment Projects in the Slovak Republic.

⁵ Statistical Office of the Slovak Republic; Gross value added by economic activity, indicator [nu1054rs], and Employment by economic activity, indicator [nu1057rs]. For the current calendar year, the indicator is calculated using a growth coefficient set in the Evaluation Framework for Public Investment Projects in the Slovak Republic.

Where no new jobs are created, the evaluation is based on a comparison of the expected value added of the investment generated per transferred employee against the current value added registered under a corresponding product division according to a SK NACE Rev. 2 code.

In order to score points for this parameter, the value added per new job must be higher than the value added in a relevant segment.

QUALIFICATION OF THE INVESTMENT AMONG PRIORITY AREAS

The introduction of the so-called priority areas in the investment aid legislation reflects the objective of supporting competitiveness of the Slovak economy.

Investment projects proposed to be implemented in selected segments, especially in the smart industry sectors, have great prospects to contribute towards meeting said objectives.

Priority areas in industrial production and technology centres:

SK NACE sectors relevant to determining the priority areas
C10 Manufacture of food products
C20 Manufacture of chemicals and chemical products
C21 Manufacture of basic pharmaceutical products and pharmaceutical preparations
C26 Manufacture of computer, electronic and optical products
C27 Manufacture of electrical equipment
C28 Manufacture of machinery and equipment n.e.c.
C29 Manufacture of motor vehicles, trailers and semi-trailers
C30 Manufacture of other transport equipment

Technologies relevant to determining the priority areas
Autonomous and cooperating industrial robots and artificial intelligence <i>mainly autonomous cooperating robots, integrated sensors, cameras, virtual reality systems</i>
Industrial Internet of Things <i>mainly network of machines and products, multidirectional communication between networked objects</i>
Simulation <i>mainly the use of real-time data and mirroring the physical world in a virtual model</i>
Augmented reality with real-time information <i>mainly augmented reality for maintenance and logistics, effective display of supportive information</i>
Additive manufacturing <i>mainly 3D printing for spare parts and prototypes</i>
Big data and analytics <i>mainly full evaluation of available data, real-time decision-making support and optimisation</i>
Cloud and cybersecurity <i>mainly management of huge data volumes in open systems and security systems</i>

The priority areas in the business service centres include mainly:

- knowledge-based jobs in the management, development and education/training of human resources;

- jobs that are characterised by creative activities, activities aimed at creating new, or improving the existing business processes;
- activities that require application of expertise in decision-making and planning.

If a proposed investment project meets the criteria to be qualified among the priority areas under §4 through §6 of the government regulation⁶, it will receive an extra bonus score in the evaluation of its contribution to regional development.

CHARACTERISTICS OF THE TERRITORY WHERE THE INVESTMENT IS TO BE IMPLEMENTED

The site where the investment project is proposed to be implemented also affects, from the environmental perspective, the evaluation of its regional contribution, that is, the positive impact of the investment project implementation on the region.

Investment projects in industrial parks (zones) and/or in sites that are designated for the operations to be carried out by an establishment to which the investment project applies are preferred.

An investment project whose main place of operation is located in an industrial park and/or a site that is designated for the operations to be carried out by an establishment to which the evaluated investment project applies will score more points.

REGIONAL CONTRIBUTION OF PROJECTS OVER EUR 100 MILLION

If the eligible costs of an investment project exceed EUR 100 million, the investment is assumed to bring benefits extending beyond the region of its implementation.

Investments with eligible costs exceeding EUR 100 million are automatically considered to have a significant regional contribution.

If an investment project is not located in a district included among the least developed districts and the average gross monthly wage declared by the investor under the “Average gross monthly wage of employees in new jobs” parameter is below the value of an average nominal gross monthly wage of an employee in the district where the investment project is to be implemented, that project cannot be evaluated as having a significant contribution to regional development even if its eligible costs exceed EUR 100 million.

⁶ Regulation No. 195/2018 Coll. of the government of the Slovak Republic.

ASSESSING COMPLIANCE OF THE SUPPORT WITH THE INVESTMENT AID OBJECTIVES AND STRATEGY

Even if an investment project scores the necessary number of points in the evaluation, its compliance with the investment aid objectives must be assessed.

If the investment project does not create new jobs in the least developed districts, or if the investment does not comply with the strategy to support the growth in the value added, transformation to smart industry, or research and development activities, it cannot be considered to have a regional contribution.

FINAL EVALUATION AND VERDICT

The outcome of the evaluation of the regional contribution of the investment has a form of a positive or negative verdict, based on the final evaluation of its contribution to regional development, expressed in the form of a percentage score and verbal assessment.

The final score is calculated as the sum of the points scored for individual evaluation parameters divided by the sum of a maximum number of points that may be achieved according to the type of the investment project. The value is then converted into a percentage score that indicates the investment project's contribution to regional development.

Where necessary, an evaluator provides a verbal assessment summarising any facts he/she has identified during the regional contribution evaluation which may affect the implementation of the investment project if they cannot be quantified using quantitative data.

The evaluation also includes assessment of the compliance of the proposed investment project with the investment aid objectives.

An investment project that complies with the investment aid objectives, scores better than 50% and its evaluation contains no facts that could prevent it from receiving a positive verdict is considered to have an economically significant regional contribution and will receive a positive final verdict.



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