



A map of social enterprises and their eco-systems in Europe

Country Report: Slovakia

European Commission

This report provides a non-exhaustive overview of the social enterprise landscape in Slovakia based on available information as of August 2014. Although a range of stakeholders were interviewed to verify, update and supplement the information collected from secondary sources, it was not possible to consult all relevant stakeholders within the constraints of the study.

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Headline summary

Definition(s) and concepts

Since 2008 there is a legal definition of social enterprise in Slovakia. It has rather narrow scope, however, as the work reintegration of disadvantaged job seekers is an imperative to receive the status of social enterprise. The label 'social enterprise' has often negative connotation due to misuse of EU funds that were channelled to several social enterprises established through the government led pilot programme back in 2009.

Some incidental research initiatives in the area of social enterprise referred to the definition promoted by the EMES European Research Network.

Policy and legal framework

Unlike in many other Member States, the legal definition of social enterprise exists in Slovakia. However, there have been no specific structures such as Ministry, separate department or delegated team which would deal with social enterprises/social economy specifically.

Public support and initiatives

With the exception to the subsidies covering certain proportion of salaries of personnel hired under reintegration contract in the social enterprises (here as work integration structures), the study team did not identify any other strictly speaking public support schemes targeting social enterprises/social economy organisations.

Networks and mutual support mechanisms

Currently, there is no social enterprise or social economy network in the country.

Marks, labels and certifications

As of July 2014, there was no label or mark of 'social enterprise' in Slovakia. Due to rather negative perception of this label (see more about *pilot social enterprise affair* in the main body of the report), it is unlikely that the mark, label, certification would gain significant popularity.

Social investment

There is no social investment market in Slovakia in the strict sense and there is very limited number of socially oriented investors. The state, tax assignment by individuals and legal person and EU funds has been the major source of financing for social enterprises. In general, grants and subsidies are the most common instruments whilst loans are rarely offered and accessible.

The organisations from the social enterprise spectrum have on average weak business models and struggle to generate stable revenue from their activities.

Spectrum of social enterprises

There is an institutionalised form of social enterprise as defined by Act n° 5/2004 on Employment Services. Yet, within the spectrum there are also other types of organisations among which certain proportion of entities fulfil EU operational criteria of social enterprise. Those include: Non-profit organisations (Associations and foundations) with commercial activities, cooperatives pursuing objectives of general interest and Municipality companies/local public enterprises.

Scale and characteristics

Very limited data does not allow the reliable estimation of the scale of the social enterprise sector. As of 2014, there were 96 organisations using the status of social enterprise as defined by Act n° 5/2004 on Employment Services. However, author's estimates of entities meeting EU criteria suggest that there are circa 900 organisations that could potentially be regarded as social enterprises.

Factors constraining the start-up and development of social enterprises

The chief barriers and challenges to the growth and development of social enterprises in Slovakia can be summarised as follows:

- Low awareness/understanding about the concept of social enterprise;
- Weak business models/low investment readiness of social enterprises;
- Insufficient and inadequate form of funding.

1 Definitions and concepts of social enterprise in Slovakia

In general, Slovakia is one of those Member States where the social enterprise sector is still in the very nascent stage and the term is typically narrowly associated with the work integration structures because of existing law. The term is also sporadically used but when it appears it is often used as a synonym for the third sector non-profit organizations.

Both public and academic research focusing on social economy/social enterprises has been very limited. As put by Strečanský and K. Stoláriková (2012), when compared to other EU Member States, '...Slovakia is one of the countries which is almost invisible in the European map of social economy'¹. The debate about social economy and/ or social enterprises is limited to the small number of stakeholders – mostly academic community, grass root civil society, new venture philanthropists and entrepreneurs, occasionally government and media². Comparatively low/very low awareness about the concept of social economy/social enterprise when benchmarked with other EU Member States was also recently confirmed by the CIREC report³.

The amended Act No. 5/2004 on Employment Services prepared by the Ministry of Labor, Family and Social Affairs and adopted in April 2008 (came into effect in September 1st, 2008) has created the legal possibility of setting up a social enterprise in Slovakia. And this embeddedness of the concept in the law has had critical impact on how the term is perceived today. At the same time, it should be noted that the Act was amended again in May 2013. Box below provides detailed overview of the key elements of the Act and its main outcomes from the subsequent amendment.

Box 1: Social enterprise – legal definition

The definition of a social enterprise was introduced into Slovak legislative in the 1st of September 2008⁴ by an amendment of the Act nr. 5/2004 on employment services. Social enterprise is defined as a physical or legal person, which:

- Employs workers that were disadvantaged jobseekers prior to the employment. At least 30 per cent of his workforce must constitute of disadvantaged jobseekers.
- Supports employed disadvantaged jobseekers in finding employment on free labour market.
- Reinvests at least 30 per cent of financial resources gained from own activities that remain after paying all costs associated with own activities into creation of new job positions or into improving working conditions.
- Is listed in the register of social enterprises.

The physical or legal person must fulfil the conditions a) to c) to be accepted into the register of social enterprises and gain a status of a social enterprise. A social enterprise that does not satisfy these conditions for at least twelve consecutive months will lose its status.

Originally, the Act nr. 5/2004 defined a contribution for social enterprises. A social enterprise could receive a contribution of up to 50 per cent of Slovak average wage for each disadvantaged jobseeker in his first year of employment. If the disadvantaged jobseeker did not find a job on the free labour market during this period, the social

¹ B. Strečanský and K. Stoláriková, 2012. Social Economy and Social Enterprises in Slovakia. Civil Szemle. Available at: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf

² Ibidem

³ CIREC, 2013. *L'Économie Sociale dans l'Union Européenne*. Available at: <http://www.eesc.europa.eu/resources/docs/ge-30-12-790-fr-c.pdf>

⁴ Zakony pre ludi.sk, (2014). Zákon o službách zamestnanosti a o zmene a doplnení niektorých zákonov. Available at: <http://www.zakonypreludi.sk/zz/2004-5/info>

enterprise could receive a contribution of 40 per cent of the average wage in the second year of his employment. After that, no further support was possible.

This contribution targeted specifically social enterprises and could not be combined with any other contribution supporting employment of disadvantaged jobseekers. The government abolished it by another amendment of the Act 45/2004 in May 2013⁵. It has been replaced by a general contribution to employment of disadvantaged jobseekers that is no longer specific to social enterprises.

The general supports employers who create job positions for disadvantaged jobseekers that have been unemployed at least for three months. It amounts to:

- Up to 25 per cent of average Slovak wage in Bratislavsky region;
- Up to 30 per cent of average Slovak wage in other regions with unemployment rate lower or equal to national average; and
- Up to 40 per cent of average Slovak wage in other regions with higher unemployment rate than national average.

The contribution is provided for a maximum of one year. In case of disadvantaged jobseekers that have been unemployed for more than 24 months, the contribution can be extended to up to 2 years. The eligible groups of disadvantaged jobseekers are defined in the Act 5/2004:

- Recent school graduates below the age of 26 without a previous stable job experience;
 - Citizens above 50 years of age;
 - Citizen listed for more than 12 months in the unemployment register;
 - Citizens with lower than upper secondary education;
 - Citizen who did not have a stable employment for 12 months prior to being listed in the unemployment register;
 - Citizen of a third country who received asylum;
 - Adult who lives alone with one or more dependent persons or who takes care of at least one child in obligatory education; and
- Citizens with health disabilities.

And it is important to stress again that when compared with other countries of the EU where the definition of social enterprise are quite broad and not restrictive in terms of the type of social objective, the legislation in Slovakia has narrowed down the understanding of the social enterprise to only one type of organisation (the work reintegration structure) whose main purpose is to prepare disadvantaged persons to enter the labour market.

In reality, as argued by Strecansky and Stolárikova (2012), even before the amendment of the law that defined social enterprises in Slovakia, there were entities acting like social enterprises. For instance some associations and foundations that were engaged in economic activity and pursued social goals at the same time. Importantly, once the law came into force, only few of them registered as social enterprise⁶.

The Act on Employment Services does not impose any limits on the legal form of organizations that would wish become social enterprises, whether it is association, cooperative or corporate entity, all can apply. Also, in terms of social criteria through which social enterprises are defined in many EU countries, Slovak legal framework does not require a participatory character of the social enterprise. Therefore, the governing structure of social enterprises in Slovakia does not need to be based on democratic management, or stakeholders' engagement and participation.

⁵ Ibidem

⁶ B. Strečanský and K. Stoláriková, 2012. Social Economy and Social Enterprises in Slovakia. Civil Szemle. Available at: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf

Interestingly, as cited by Mészáros (2012) the connotation of the word ‘social’ in Slovak context may also imply narrower meaning which can somehow affect the perception of the terms ‘social enterprise’ and ‘social economy’. For details, see Box 2 below.

Box 2: Semantics of ‘social’

*‘...Generally, in the case of social economy and social enterprise, the term **social** is supposed to denote mainly **societal** aspects of specific economic activities. However, in Slovak language and environment, the adjective “social” has a more specific or narrower meaning, and we usually use it in relation to social policy, social services, or social care. This eventually leads to erroneous understanding of social economy activities, or of the social entrepreneurship itself, as those that are primarily oriented on solving social issues and providing social services. Thus, “social entrepreneurship” is not understood correctly as a business activity with a “societally beneficial goal”, one which can, along with solving social problems, also focus on dealing with e.g. environmental issues, or community development. It is exactly because the term “social” (as in “socially beneficial”) evokes associations of socially excluded groups that the majority of society in Slovakia does not identify positively with the concept of social entrepreneurship’*

(P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP)

In addition, media coverage of social enterprises has been rather limited. In fact, Sokol (2010) claims that when social enterprises term appeared in media, it was quite frequently presented as a synonym for the heavily state-subsidized structures, sometimes benefiting the government members and contributing to the unfair competition⁷. This image stemmed partly from the ‘*pilot social enterprise affair*’⁸ dated back to 2009. More specifically, in 2009 Slovak Governance Institute (SGI) reported some concerns that the pilot programme of several social enterprises established by the government in 2008 received abnormally high subsidies⁹ covering up to 95 per cent of the operational costs of these entities (ranging between EUR 300,000 and EUR 2 million per enterprise). In some cases were linked to high profile government members. Due to the high level of subsidies those first social enterprises were also blamed for generating unfair competition for mainstream businesses which can not rely on public support¹⁰. Consequently, since the revelations about the mismanagement of public funds during the pilot phase, the term social enterprise in Slovakia has been often carrying some negative connotation. And as argued by the representatives of the University of Comenius, the support organisation Provida, UNDP and EPIC, the social enterprise label is nowadays often not an attractive label and therefore: ‘...people either do not want to use it or they are simply not aware of the concept’.¹¹ Virtually all interviewees agreed that misuse of public funds during the pilot program in 2009 has had profound and irreversible effect on the way how the term social enterprise is currently perceived in Slovakia.

Occasionally, some academic research (conducted by University of Comenius or UNDP) used much broader definition of social enterprise - mostly based on the EMES European Research Network criteria – than the definition offered by the Slovak legal framework.

As regards the difference between the term social economy and social enterprise, representative of NESsT pointed out that it lies considerably in the importance attached to the entrepreneurial dimension, less critical for social economy term¹². UNDP and EPIC

⁷ P.Sokol, 2010. *Analysis of experiences with the introduction of the social economy in Slovakia*. Nová Ekonomika.

⁸ See for instance: http://m.hnonline.sk/c3-46669310-kw0000_d-tomanovej-socialne-podniky-su-na-prokurature

⁹ Co-financed from European Social Fund.

¹⁰ K. Ragáčová, 2009. V sociálnom podniku nám buchli dverami, Deník SME. Available at: <http://ekonomika.sme.sk/c/4977289/v-socialnom-podniku-nam-buchli-dverami.html>

¹¹ Views expressed by the representatives of the NESsT and University of Comenius

¹² Interview with the representative of the NESsT conducted on 28th April, 2014

representatives asserted that the term social economy has much broader meaning and they also signposted to the resemblance with the EMES approach.

2 The ecosystem for social enterprise in Slovakia

Eco-system is a term used to describe the environment within which social enterprises operate¹³. The following section outlines its main components such as existing legal framework, specific public schemes deployed by the state as well as key network and support organisations and key characteristics in terms of supply and demand for social finance in Slovakia.

2.1 The policy and legal framework for social enterprise

Although unlike in many other Member States the legal definition of social enterprise exists in Slovakia, there have been no specific structures such as Ministry, separate department or delegated team which would deal with social enterprises/social economy specifically.

The persistently high level of unemployment in the country prompted the government to search for the alternative tools and gave rise to a new legislation that was adopted in 2008 and created the framework for social enterprises in Slovakia (already discussed above)¹⁴. The amended of the Act No. 5/2004 on Employment Services introduced the legal definition of social enterprise and its further amendment in May 2013 brought significant changes in its financing (for details please refer to the Box 1).

As already stated, the law on Employment services narrows down a relatively broad concept of social enterprise to a single type of “transitory” enterprise that operates only to prepare disadvantaged people to enter the labour market. Fact that was criticized by some stakeholders¹⁵. There were also some critical remarks that the amendment of the Employment Act was not accompanied by any awareness-raising campaign and professional discussion that would familiarize and sensitize public officials, professional circles, public and media on the principles of social enterprises and their key characteristics¹⁶. Yet, it should be admitted that amended law allows also significant degree of flexibility regarding the legal status of the entity that wish to adapt the status of social enterprise. Legislator allowed practically all types of legal entities including associations, foundations, cooperatives or for profit companies.

As already emphasized, the amendment of the Act in May 2013 led to the reduction of the available level of subsidies. It is likely that this has had an impact on some social enterprises (work integration structures), although at the current stage, no assessment is available.

In Slovakia there is limited volume and scope of contracting to social enterprises¹⁷. In practice though, there are also no specific clauses/provisions that would put social enterprises in the more advantageous position. There is no specific institution, department or governmental body in Slovakia that would be set up with the specific purpose to deal with social enterprises. Ministry which is the closest thematically to the aspects directly shaping the social enterprises or social economy more generally is the Ministry of Labour, Family and Social Affairs. And indeed, as confirmed by the representative of the same Ministry, public procurement system does not envisage any specific treatment (e.g. ‘social clauses’) for social enterprises or social economy organisations.

¹³ European Commission, 2011. Using social business to improve the European economy. Available at: http://europa.eu/rapid/press-release_SPEECH-11-779_en.htm?locale=en

¹⁴ P. Sokol, 2010. *Analysis of experiences with the introduction of the social economy in Slovakia*. Nová Ekonomika.

¹⁵ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

¹⁶ See for instance the list of consultees in cited P. Sokol paper and summary of their views.

¹⁷ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

2.2 Public support schemes targeting social enterprises

Apart from subsidies covering certain proportion of salaries of personnel hired under reintegration contract in the social enterprises (here as work integration structures), the study team did not identify any other strictly speaking public support schemes targeting social enterprises/social economy organisations¹⁸. There are also support no agencies or social banks established by the state (see Table 2.1).

In the past there were several ad hoc projects co-funded from European Social Fund (for instance co-managed by the UNDP Slovakia), but they did not have a continuous character.

Table 2.1 Overview of publicly funded schemes specifically designed for or targeting social enterprises

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ ESF?
Pre-start support (e.g. incubators)	X	X
Awareness raising (e.g. awards)	✓	✓
Social entrepreneurship education (e.g. school for social entrepreneurs)	✓	X
Business support (e.g. business planning, management skills, marketing etc.)	X	X
Training and coaching schemes	X	X
Investment readiness support	X	X
Dedicated financial instruments	✓	X
Physical infrastructure (e.g. shared working space)	X	X
Collaborations and access to markets	X	X
Networking, knowledge sharing, mutual learning initiatives	✓	✓

Note: NESsT has been providing the pre-start support (incubators) as well as investment readiness support. Yet public funding received from ESF was not a principal source of funding.

2.3 Other specialist support and infrastructure available to social enterprises

Non-public infrastructure available to social enterprises in Slovakia is only slightly more developed than public one. There are some incidental initiatives but they do not form any coherent framework and relations between key members/organisations (e.g. academics and support organisations) has not gained any formal form neither.

Although some aspects related to the social entrepreneurship is part of the studying curriculum at University of Comenius (e.g. MA degree in Sociology), the university does not offer standalone degree in social entrepreneurship¹⁹. Similarly to the second academic centre in Slovakia - Matej Bel University. There has been some research conducted by members of the Faculty of Economics of this university or ad hoc courses delivered for professionals, but in general no degree in social entrepreneurship is currently offered.

¹⁸ Absence of any other instruments was also confirmed by the representative of the NESsT Slovakia.

¹⁹ Interview with the representative of the University of Comenius conducted on 28th April, 2014

Two important organisations that were actively supporting the social enterprise sector are UNDP and Provida Foundation²⁰. However, as UNDP has recently announced its withdrawal from the EU countries in order to focus on other regions and consequently its office in Slovakia was shut. In fact, UNDP was a very first organisation conducting the research on the social economy social enterprise sector, implemented one large-scale publically funded project supporting business capacities²¹ of the sector and in parallel it also advocated the interest of the sector with the government. Provida Foundation on the other hand still exists and delivers mainly financial and business support. Its members have been also engaged in some awareness raising campaigns and occasional research initiatives (more about this organisation in section 2.6).

Furthermore, another non-public organisation providing support to social enterprises in Slovakia is NESsT Slovakia which operates in the country since 2004. It has evaluated almost 90 social enterprise ideas so far and provided capacity support to over 72 organizations and entrepreneurs to develop sustainable business plans and to provide them with start-up and incubation support²². Yet, as informed by its representative that NESsT activities in Slovakia (and Croatia) has been recently scaled back. Currently it has no office in the country and support is provided only through ad hoc consultancy delivered by its members who reside in other countries in the region. The closure of the permanent representation in Slovakia was preceded by the internal evaluation that took into account the potential of the social enterprise sectors in the countries of the region (including Slovak one). Evaluation concluded that the relative development of the sector in Slovakia and its potential is fairly low and resources were shifted to other countries. NESsT still organises, however, the Social Enterprise Competition (see Box 3 below).

Box 3: NESsT Social Enterprise Competition

The “NESsT-Citi Social Enterprise Competition” is a part of NESsT’s mission to develop social enterprises in Central Europe.

The programme was supported by NESsT’s partner in Slovakia, Citi Foundation as well as UNDP Regional Centre for Europe and CIS. Its objective is to enhance development of social enterprises in Slovakia. As stated by the one of the organisers from NESsT in 2012: *The majority of these ideas focus on creating fair employment opportunities for the disadvantaged communities in various fields: waste management, agriculture, local tourism, traditional crafts, construction of eco-buildings, textile production, local food production etc. Some of them are start-ups aimed at producing traditional pottery, or woven carpets while employing persons from marginalized communities. Others are social enterprises which are ready for new developments, such as a café which functions in a hospital and employs persons with disabilities.*

In 2012 selected projects receive tailored advisory support provided by NESsT for a period of up to 10 months which included advisory support at the very initial stage as well as further assistance (e.g. related to financial management, implementation of the project) at the development stage²³. In 2013 financial awards were provided with EUR 6,000 as a first price and 1,500 as a second price²⁴.

Programme is part of the national project “Social Economy: Innovative Model of Economic

²⁰ Provida Foundation, 2014. Mission. Available at: <http://www.nadaciaprovida.sk/en/mission/>

²¹ Eventually the project was never completed due to cease of available funding

²² NESsT, 2012. Overview. Available at: <http://www.nesst.org/slovakia/>

²³ NESsT, 2012. Social Enterprise Développement Programme Slovakia 2012. Available at : <http://www.nesst.org/blog/2012/06/20/nesst-social-enterprise-development-programme-slovakia-2012-%E2%80%93-innovation-injects-new-sustainable-economic-development-opportunities/>

²⁴ NESsT, 2013. Social Enterprise Competition in Slovakia, 2013. Available at: <http://www.nesst.org/blog/2013/06/20/nesst-and-citi-present-awards-to-winners-of-the-2012-2013-social-enterprise-competition-in-slovakia/>

and Social Development in Slovakia”, co-financed by the European Social Fund via the Operational Program Employment and Social Inclusion.

2.4 Networks and mutual support mechanisms

Currently, there is no social enterprise or social economy network in the country. There are, however, existing networks that although do not label themselves as social enterprise/social economy networks, may gather some actors of these movements. One example relates to the cooperative movement that possesses several sector specific networks e.g. Slovak Union of Production Cooperatives, Slovak Union of Housing Cooperatives, Union of Agricultural Cooperatives of the Slovak Republic or the Slovak Union of Consumer Cooperatives.

2.5 Marks, labels and certification systems

As of April 2014, there is no label or mark of social enterprise in Slovakia. Although the registry of social enterprises maintained by the Ministry of Labor, Family and Social Affairs exists, the registered entities do not use it as a mean of promotion of their services and/or products.

In general, it should be noted that due to the failure of the social enterprise pilot programme in 2009 and subsequent controversies, the term social enterprise has rather negative connotation in Slovakia. Hence, many organisations would be potentially reluctant to use such common label/mark.

2.6 Social investment markets

This section presents the summary of the findings on the supply of finance for social enterprises/social economy organisations, and the demand for finance from social enterprises/social economy organisations. It maps the existing landscape of institutions and schemes that constitute the source of finance (or attempts to confirm their absence) as well as entities seeking to acquire finance with particular focus on their investment readiness. Finally this section also aims at answering the question whether the gap between demand and supply of finance exists.

2.6.1 The supply of finance

In general, it seems that it is too early to talk about social investment market *per se* in Slovakia. Only sporadically some socially oriented investors can be identified. And this should not be surprising considering the fact that the awareness about the concept of social enterprises/ social economy is still low. The state, tax assignment by individuals and legal person and EU funds have been the major source of financing for social enterprises. In addition, EEA grants provided by the governments of Norway, Iceland and Liechtenstein to support the development and sustainability of non-profit organisations are also available in Slovakia²⁵. In general, grants and subsidies are the most common instruments whilst loans are rarely offered and accessible.

As presented in the Box 1 in the section 1.3, the state covers certain proportion of wages of the employees who have been hired under integration contracts. Available data from 2010 shows that the total public support provided to social enterprise to co-finance the integration workers was circa EUR 4.9 million (68 social enterprises benefited). Amendment of the Employment Act from May 2013 lowered down the maximum threshold from 50 per cent of the total wage to 25 per cent of average Slovak wage in Bratislavsky region, 30 per cent of average Slovak wage in other regions with unemployment rate lower or equal to national

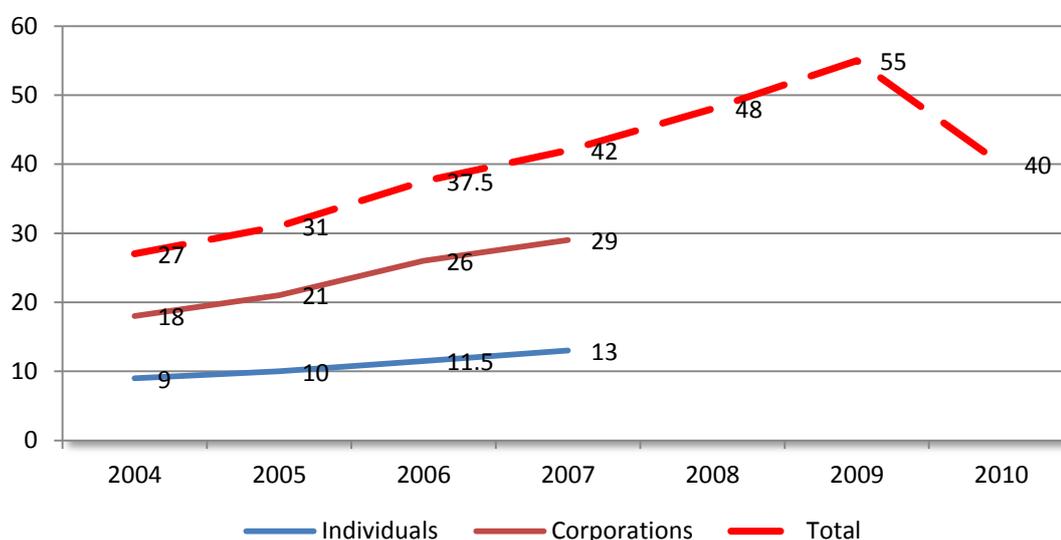
²⁵ EEA Grants, 2014. Available at:

[http://eeagrants.org.ez.07.no/programme/search?country\[\]=slovakia&programme\[\]=pa10%2Cpa38&submit=Search](http://eeagrants.org.ez.07.no/programme/search?country[]=slovakia&programme[]=pa10%2Cpa38&submit=Search)

average and 40 per cent of average Slovak wage in other regions with higher unemployment rate than national average. Yet the eligible group is not limited to the social enterprises as specified by the Employment Act anymore and cover all legal entities. Some state funding for CSOs (and hence possibly some social enterprises) is also provided by Ministry of Finance from the revenue from lottery²⁶.

Besides, Slovakia developed quite unique system where not only individuals but also legal person can assign some proportion of its income tax. Tax assignment has been very substantial source of revenue for CSOs and among them also for some social enterprises. The law stipulates that an individual can devote between 2-3 per cent of his/her income tax while legal person can devote up 1.5 per cent. UNDP report from 2012²⁷ indicated that tax assignment from individuals and legal person is the greatest source of revenue for CSOs. Figure 2.1 shows approximate level of resources from tax assignment channelled to non-profit organisations (potentially some social enterprises) between 2004 and 2010.

Figure 2.1 Money channelled to non-profit organisations from the tax assignment [in million EUR]



Source: Strečanský, B. (2011). *Public Funding of CSOs in Slovakia*. Centre for Philanthropy

Note: No data per origin of tax assignment (individuals/corporation) was available for 2008, 2009 and 2010.

Another important source are EU funds. Firstly, the state funding may be ‘bridged’ with funding from the Employment and Social Inclusion Operational Programme (2007-2013)²⁸. Secondly, EU funding was also obtained by private applicants who did not rely on any public support. Yet although certain CSOs (and among them potential social enterprises) relied on the EU grants, there was not specific theme under European Social Fund devoted to social enterprises/social economy organisations. It is likely, however, that this will change in the new programming period (2014-2020). According to the representatives of the University of Comenius and EPIC Centre, EU funding is one of the most promising sources of financing for social enterprises in Slovakia in the context of declining state support.

Furthermore, the participation of conventional banks is almost inexistent so does their attention to the sector as a potential market²⁹. There are some exceptional examples of

²⁶ B. Strečanský, 2011. *Public Funding of CSOs in Slovakia*. Centre for Philanthropy.

²⁷ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

²⁸ Sociálna Implementačná Agentúra, 2014. *Employment and Social Inclusion Operational Programme*. Available at: <http://www.sia.gov.sk/index.php?siteid=44>

²⁹ Opinion expressed by the representative of the Erste Group Bank AG – good.be

growing interest such as Erste Group Bank that invested in one entity (as of December 2013) and has researched the sector. Also, some banks (e.g. Citi Bank) provided limited support within their CSR activities. And yet there are neither specialised products for social enterprises nor for organisations defined as a part of social economy. There are no social banks or business angels supporting social enterprises and there is no sufficient data that would enable to examine the scale of philanthropic investors although some examples exist (see Box 4 with the overview of Provida foundations providing social impact finance).

Box 4: Provida foundation

The logo for Provida, featuring the word "PROVIDA" in white, uppercase, sans-serif font on a dark rectangular background.

The Provida Foundation runs the grant programme which aims at supporting non-profit organisations, for profit firms and individuals whose economic activities seek to deliver social benefits and at the same time strike the financial sustainability of their business models. Provida offers grants up to EUR 12,000 for start-up or early stage projects for selected number of most promising applicants (4 recipients as of 2013). In parallel, it also runs the incubator in order to strengthen capacity of organisations or individual social entrepreneurs who receive consultancy advisory in the form of conceptualisation of business plans or market analysis. The programme is partly financed by the Via and UniCredit Foundations.

Source: Provida, 2014. *Can fish fly?* Available at: <http://www.nadaciaprovida.sk/en/what-we-do/>

As indicated by the representative of the Erste Group Bank AG social economy organisations and social enterprises more specifically are perceived as risky investment. Primarily due to relatively weak business models, lower management standards, lack of sufficient assets as collateral and limited capacity to generate the cash flow from private market. This was also confirmed by the representative of the NESsT and Provida who saw the weak investment readiness of Slovak social enterprises as one of the two principal barriers for the development of the sector³⁰. The representative of the Ministry of Work, Social Affairs and Family also suggested that some negative connotation of social enterprises stemming from the unsuccessful pilot phase in 2009 may still put off some investors.

Finally, the fact that vast majority of available finance has been offered in the form of grant or subsidies and only sporadically in the form of loan raised some concerns. More specifically, it has been argued³¹ that even if more loans would be offered, social entrepreneurs may still act rationally from their point of view and do not apply for loans until the volume of grants/subsidies will be reduced. On the other hand, grants may allow social enterprises to engage in innovative and more risky projects/pilots of new ideas that, if successful, may be further scaled up through the loans.

2.6.2 The demand for finance

In general, social enterprises (work integration structures) and social economy organisations are undercapitalised. This is partly due to low recognition of the concept of social enterprises/social economy and in general, insufficient amount of available capital - an equally pressing issue for classical for profit enterprises in Slovakia. Yet evidences also suggest that at least to some extent it is an offshot of their low attractiveness for potential investors. Euclid Network, organisation gathering experts from civil society sector, indicates for instance the inability of many CSOs, often relying only on one donor, to diversify their funding sources³². Representative of the NESsT added also that dominance of grants

³⁰ Interview with the representative of the NESsT conducted on 28th April, 2014

³¹ Interview with the representative of the Provida conducted on 29th April, 2014

³² Euclid Network, 2014. *Slovakia*. Available at: <http://www.euclidnetwork.eu/programme-areas/geographical-areas-in-which-we-work/civil-society-in-europe-country-profiles/slovakia.html>

(including EU ones) as most available financial instruments, led to the popularisation of the concept of social enterprise on one hand but also some sort of 'passive attitude' reflected by less entrepreneurial attitude of certain beneficiaries³³.

Representative of the Erste Group Bank AG pointed out the lack sufficient cash flow from their commercial activities, limited business acumen of management or lack of sufficient assets that could be used as a collateral.

Up until recently, social enterprises (work integration structures) could rely to significant extent on the public funding in the form of subsidies to the salaries of employees being under the reintegration contracts. However, the amendment of the Employment Act that took place in May 2013 affected the social enterprises (defined as integration structures). To what extent though, it is not possible to establish due to the lack of data. However, by extending the eligibility criteria to other legal forms, it has offered at the same time some financing opportunities to other entities that could not benefit from the state support by May 2013.

2.6.3 Market gaps/ deficiencies

There has been no research that focuses on the estimation of the gap between the demand and supply of social finance in Slovakia. Having said that, it is plausible to assume that such gap exists. Assumption which was confirmed by the representative of the Ministry of Work, Social Affairs and Family of the Slovak Republic, Erste Group Bank AG, NESsT, UNDP and EPIC representatives. At the same time, it should be noted that the classical profit driven organisations in Slovakia also face difficulties in acquiring financing and availability of funding is not typical for social enterprise sector unqiely.

2.7 Overview of the key actors in the social enterprise ecosystem

The number and scope of activities carried out by the organisations that could be seen as a part of the Slovak social enterprise/social economy ecosystem is small. To the knowledge of the study team as well as interviewed stakeholders, there is no network of social enterprises/social economy organisations in Slovakia as of April 2014. There is also no government structure that was set with the specific purpose to support the sector. Table 2.2 provides more detailed overview.

Table 2.2 Key institutions/organisations of the Slovak social enterprise/social economy sector

Type of institution/organisation	Name of institution/organisation
Policy makers - Governmental departments or institutions designing or implementing policy, support instruments and measures for social enterprises and infrastructures	– There are no governmental structures that were set to deal with social enterprises specifically.
Customers – authorities contracting social enterprises	– Central, regional and local authorities
Organisations promoting, certifying and awarding social enterprises labels	– No such label exists in Slovakia
Institutions, civil society initiatives or other social enterprises promoting social entrepreneurship education and training, and presenting role models	– Matej Bel University in Banská Bystrica (Faculty of Economics); – Comenius University in Bratislava (Faculty of Philosophy).
Organisations that have the capacity to act as an observatory and to monitor the development and to assess the needs and opportunities of social entrepreneurs/social	– NESsT

³³ Interview with the representative of the NESsT conducted on 28th April, 2014

Type of institution/organisation	Name of institution/organisation
enterprises	
Providers of social enterprise start up and development support services and facilities (such as incubators)	<ul style="list-style-type: none"> – NESsT; – Provida Foundation.
Business support providers	<ul style="list-style-type: none"> – NESsT; – Provida Foundation
Facilitators of learning and exchange platforms for social enterprises	<ul style="list-style-type: none"> – Occasional ad hoc projects may occur but no permanent platform exists.
Social enterprise (support) networks, associations	<ul style="list-style-type: none"> – No network of social enterprises as such exists in Slovakia.
Key providers of finance	<ul style="list-style-type: none"> – Government subsidies for work integration organisations; – Tax assignation by individuals and legal person; – EU funding; – Erste Group Bank; – Provida Foundation.
Research institutions	<ul style="list-style-type: none"> – Matej Bel University in Banská Bystrica (Faculty of Economics); – Comenius University in Bratislava (Faculty of Philosophy).

3 Mapping social enterprise activity in Slovakia

This section maps the scale and characteristics of social enterprises in Slovakia. It describes the role of social enterprises in addressing societal problems and the key enabling factors and constraints influencing their development.

3.1 The spectrum of social enterprises in Slovakia

There is not much debate about the specific definition of the social enterprise or social economy in Slovakia. Some possible reasons may include low awareness about those concepts and also the existence of the legal definition of social enterprise that somehow grounded the way how social enterprise is understood. Typically, there is quite common perception that there is an equality sign between the social enterprises label and work integration structures.

Below are presented organisations that are often seen as a part of social economy sector and which have been a subject of closer analysis in order to distinguish those forms that would potentially meet the operational criteria to the largest extent.

- **Social enterprises** (as defined by Employment Law) – These are the work integration structures which operate with the objective to (re)introduce disadvantage³⁴ people into the labour market. Social enterprise can operate under any type of legal form (e.g. cooperative, civic association, limited liability company).
- **Sheltered workshops/sheltered workplace** – They also focus on the work integration. Yet unlike social enterprises (as defined by the Employment Act), the targeted group are largely individuals with disabilities. Sheltered workshop can operate under any type of legal form (e.g. cooperative, civic association, limited liability company).
- **Cooperatives** – Are autonomous voluntary associations of persons with an objective to perform joint economic, social and cultural efforts and meet the needs through the democratically owned and managed enterprise. The self-identification of the cooperative movement with the concept of social economy and social enterprising in Slovakia is very low, though³⁵.
- **Non-profit organisations with the revenue generating activities** – There are 4 main legal forms of NGOs in Slovakia: Non-profit Organizations providing Public Benefit Services (NOPBS), Foundations, Non-investment Funds and Civic Associations. The latter are most numerous.
- **Local public enterprises/municipality companies** – These are entities established and run by the self-regional governments or municipalities. A municipality operates either under its own name and own account, or it establishes a company that is connected to its assets by means of a budgetary organization of the municipality, or acts through a separate legal entity.
- **Private business organisations** – These are companies as a legal entity established for the purpose of business, or in case of individuals they are conducting business on the basis of a trade license. According to Slovak Commercial code these are continued activities performed independently by an entrepreneur under his/her own name and on his own responsibility, with the goal of generating profit.

Section 3.2 discusses the characteristics of above mentioned organisations attempting to establish to what extent those meet the operational criteria selected and approved during the initial stage of this project.

³⁴ Category encapsulating long-term unemployed, ex-prisoners, persons with drug and alcohol abuse.

³⁵ B. Strečanský and K. Stoláriková, 2012. Social Economy and Social Enterprises in Slovakia. Civil Szemle. Available at: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf

3.2 Application of operational definition: determining the boundaries

The following section discusses the extent to which operational criteria reflect the common approach in terms of defining the social enterprise sector in Slovakia as well as degree to which these criteria are met by specific entities that were scoped for further analysis.

The representative of the NESsT asserted that the operational criteria fit well the Slovak context. One exception, in the view of the organisation, is the governance dimension which seems to have secondary importance as long as social mission and entrepreneurial dimension are present³⁶. At the same time, this representative emphasised two aspects. Firstly, the confusion between social economy term and social enterprise term exists. Secondly, the social enterprise term is often associated with work integration structures.

The representative of the Provida³⁷ stated that criteria of the operational definition reflect well the approach favored by its organisation and in general, many other informed stakeholders. Yet again, representative reckoned that the label of social enterprise was somehow *hijacked* and the term is frequently and narrowly associated with the work integration structures as per the amendment of Employment Act. It was also said that sometimes it may have negative connotation due to the fiasco of the pilot programme initiated in 2009. Finally Provida representative stressed that the criterion related to the governance and independence may have secondary importance in the Slovak concept, also for pragmatic reason – it is very difficult to evaluate them.

Furthermore, representative of UNDP agreed that operational criteria reflect accurately the common approach in Slovakia. View supported also by the representative of the EPIC Service Centre. All, however, emphasised very low feasibility of the thorough evaluation of the sector due to the fragmentation and scarcity of the reliable data on number and characteristics of relevant entities.

Subsections below present more detailed discussion on the extent to which specific entities may meet each of the key operational criterion.

3.2.1 Social dimension

In terms of **social enterprises** defined by the Employment Act, social goal is explicit. Raison d'être of those type of organisations (work integration structures) is to support disadvantaged people in their effort to (re)enter the labour market. Minimum threshold as regards to the proportion of employees being under reintegration contract as a total number of employees in the organisation has been 30 per cent. Importantly, social enterprise as defined by the Employment Law may operate under any type of legal status including municipalities/municipality established organisations, limited liability companies, civic associations, Non-profit Organizations Providing Public Benefit Services or even individuals.

A priori, a very significant number of **non-profit organisations** operate to achieve mutually or socially beneficial goals and do not distribute profit among their members or founders. For instance, the law³⁸ defines specifically the areas of activity³⁹ for the Non-profit Organizations

³⁶ Interview with the representative of the NESsT conducted on 28th April, 2014

³⁷ Interview with the representative of the Provida conducted on 29th April, 2014

³⁸ Act. No. 213/1997 Coll. on non-profit organizations providing public benefit services

³⁹ These include: (i) provision of healthcare, (ii) provision of social assistance, (iii) design, development, protection, restoration and presentation of spiritual and cultural values, (iv) protection of human rights and fundamental freedoms, (v) education, training and development of physical culture, (vi) research and development, scientific and technical services and information services, (vii) the creation and protection of the

providing Public Benefit Services (NOPBS) and these are potentially fertile territory for any socially beneficial activity. There may be also considerable number of civic associations (most numerous NGOs) which have explicit social objectives. In principle, it is therefore plausible to assume most of non-profit organisations would have considerably strong social orientation.

Much more ambiguous is the situation with **Slovak cooperatives**⁴⁰. Primary purpose of the cooperatives is the fulfilment of the collective interest of its members. Yet, this does not automatically imply the social externalities. For instance, farmer cooperatives which operate as a platform for distribution of its members' agricultural products, may not differ significantly from for profit companies operating in the food industry, with the exception to the different organisational structure. Here, it is plausible to assume that only small number of cooperatives would have sufficiently strong social dimension although it is not unusual that some cooperatives employ disabled people.

Sheltered workshops, by definition, deliver social benefits supporting the disabled people in providing them employment opportunities. In fact, many see sheltered workshops as an explicit public policy tool to support people with disabilities who often constitute more than 50 per cent of the total headcount. The social dimension is therefore very clear and not contested.

The municipality company itself could be regarded as a not-for-profit social enterprise: its members are citizens (who took part in the funding community through taxes and fees), it has democratic decision-making, it manages its property, participates on the market and, in accordance with the act on municipalities, it earns resources for its core activities. They do this for the purpose of achieving the goals typical for a social enterprise such as employment of long-term unemployed, service delivery to vulnerable groups or communal service provision⁴¹. There are several examples of municipality companies which explicitly seek to recruit the members from Roma community to provide them training and improve their chances on the labor market.

3.2.2 Independence/ governance dimension

In terms of **social enterprises** (work integration structures) defined by the Employment Law, important distinction shall be made. Firstly those can have different legal forms and can be created either by private person/entities, legal persons or by municipalities/self governing regions. In both cases, they often heavily depend on the public subsidies, or at least depended until the recent novelisation of the law which significantly reduces the maximum level of subsidies. However, although social enterprises (understood as work integration) may depend on public subsidies, when the services provided are in the interest of public authorities, they are normally not managed, directly or indirectly, by these public authorities or other organizations (federations, private firms etc.). It should be also noted that law does require democratic ownership and structures of the social enterprise as a precondition for eligibility for social policies/subsidies.

There are limited formal requirements regarding the governance mode in **sheltered workshop**. De facto, these are small entities so collegial decision making process is not unlikely. Sheltered workshop typically depended heavily on the public subsidies but this has not seemed to affect their governance process.

As regards to **the cooperative movement**, the criterion of independence/ governance dimension does not raise any controversies. These are voluntary and open membership organisations with democratic management. They often apply 'one member - one vote'

environment and the protection of health of population, (viii) services to promote regional development and employment, (ix) provision of housing, management, maintenance and renewal of housing stock.

⁴⁰ There is no legal status of cooperative in Slovakia though as it exists in other countries

⁴¹ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

principle and hence power is not exercised according to the number of capital shares one has. The state does not hold any stakes.

As regards to **the non-profit organisations**, the independence is not problematic. Yet participatory governance is rather limited. For instance, in case of civic associations staff mostly does not participate. The decision making process is based on the statute and this typically indicates the General Assembly as a main decision making body. In case of Non-profit Organizations providing Public Benefit Services (NOPBS), the staff participation is limited. It is usually director who holds the vast majority of decision making powers.

As regards to **local public enterprises/municipalities companies**, independence from the authorities seems to be limited. Those are established by state or municipalities. In addition, their income and expenditure are linked to the state/municipality budget as a vital source of revenue⁴². And even though no law does stipulate that those are directly governed by the founder, there is substantial probability that state or municipalities will have certain degree of leverage over these type of organisations.

3.2.3 Entrepreneurial dimension

Social enterprises (as defined by Employment Law) are engaged in the economic activity and their members are part of the labour market. For instance, together with the application that must be submitted by individuals who wish to establish social enterprise and gain such status, an applicant contains also a business plan, including the calculation of expected revenues, expenses and profit before distribution. The applicant can consult the business plan with the regional Office of Labour, Social Affairs and Family relevant to the place of business of a social enterprise which gives out a written statement on the application. The decision granting the status is partly dependent on the assessment of the viability of the business plan⁴³. In general, it can be safely assumed that entrepreneurial criterion is largely fulfilled.

In terms of **non-profit organisations**, it is likely that this criterion may turn out to be the most problematic one. Civic associations and NOPBSs are not established in order to do business activities, however they are not forbidden to run the business as a “side” activity in order to obtain the resources to finance their main purposes they were established for.⁴⁴ In general, those which are engaged in economic activity would still have weak business models. Interestingly, civil association are also allowed to establish limited liability company or joint stock company without any restriction as the sole shareholder (founder) and conduct the commercial activities through this special purpose vehicle⁴⁵. It is, however, unknown how frequently they benefit from this opportunity due to the lack of available data.

There is no precise data on the extent to which **sheltered workshops** developed the activities allowing to generate revenue from the market. Nevertheless, it was emphasised by the representative of the UNDP and EPIC that in general, their business models are weak and ‘...only a few may have viable strategies and stable revenue stream from the market’. Sheltered workshops have been typically heavily dependent on the state subsidies, although this has also change after recent amendment of law which lowered down the maximum threshold of subsidies. To qualify for the label of the sheltered workshop, a given entity must employ at least 50 % of disadvantaged workers.

⁴² Finačná správa – Slovenská republika, 2014. Rozpocetové organizácie. Available at:

<https://www.financnasprava.sk/sk/podnikatelia/dane/dan-z-prijmov/pravnicke-osoby/rozpocetove-organizacie>

⁴³ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

⁴⁴ No. 213/1997 Coll. on non-profit organizations providing public benefit services as amended

⁴⁵ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

Local public enterprises/municipality companies have clear entrepreneurial dimension. It should be mentioned, however, that their clients are predominately municipalities and hence the exposure to the private sector clients may be often very limited.

Slovak **cooperatives** in theory and in practice have clear entrepreneurial dimension. Most of them operate in the agricultural sector.

3.3 Measurement of social enterprises

In 2011 the research financed partly from the government and EU funds aiming at mapping of the social enterprises was initiated by UNDP. However, the research ceased due to the drastic reduction of its budget and comprehensive mapping of the Slovak social enterprises has eventually never materialised. In general, very little research has been done so far in Slovakia to estimate the population of social enterprises in the country. As of April 2014 there was no research initiative being undertaken/envisaged which would address this gap. And any comprehensive data, especially quantitative, is notoriously missing.

The holder of the granted social enterprise status is listed in the Register of Social Enterprises and has the right to request the Local Office of Labour, Social Affairs and Family a contribution to support the creation and retention of jobs in social enterprise. Most of them operate under the status of private limited company or municipality companies⁴⁶. As of March 2014, the register contained the name of 94 enterprises⁴⁷. Since the novelisation of the Employment Law leading to the reduction of the subsidies, there was no new social enterprise added to the register. It is also unknown how many work integration structures fall out of registry due to the fact that they have not applied for the status of social enterprise (as defined by the Employment Act).

As of December 2010, the total number of registered NGOs in Slovakia was 37,409. Civic associations accounted for 90 per cent of all NGOs (33,914), followed by public utility organisations representing 4 per cent (1,408), and foundations accounting for approximately 1 per cent (404) of all NGOs in Slovakia. Nonetheless, UNDP estimated that as of 2012 only 10,689 out of 37,409 NGOs were active based on the number of NGOs that registered in the system which makes them eligible for 2 per cent income tax assignment⁴⁸. In addition, while considering the high number of civic associations, one should use a certain level of caution, since significant proportion of them are sports' clubs, associations of parents and friends of schools, or recreation associations⁴⁹.

As of 2011, there were 1,573 active cooperatives among which roughly 50 per cent had between 1-9 employees⁵⁰. The most numerous ones are agricultural cooperatives accounting for circa 47 per cent of all cooperatives and employing over 30,000 people. Besides, housing and consumer cooperatives are also common⁵¹. Nonetheless, it is plausible to assume that very significant number of cooperatives would not meet the operational criterion related to social dimension.

Regarding the sheltered workshops, at the end of 2011 there were 5,876 registered sheltered workshops employing 10,783 people with disabilities⁵².

Nowadays, there are approximately 2700 municipalities varring in size from the largest ones in Bratislava to those counting less than 100 citizens in the country side. It is impossible for

⁴⁶ B. Strečanský and K. Stoláriková, 2012. Social Economy and Social Enterprises in Slovakia. Civil Szemle. Available at: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf

⁴⁷ However, some may not be active.

⁴⁸ Rozhodni, 2014. Dane. Available at: www.rozhodni.sk

⁴⁹ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

⁵⁰ National Statistical Office in Slovakia, 2014. Available at: <http://portal.statistics.sk/showdoc.do?docid=41870>

⁵¹ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

⁵² P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

the moment to gauge how many of them established the local public enterprise/municipality companies⁵³.

Table 3.1 Estimated scale of social enterprise in Slovakia (2014)

	Registered (2014)	Estimated proportion meeting EU definition of social enterprise	Estimated number of social enterprises
Social Enterprise (Law 5/2004 amended in 2013)	96	100%	96
Sheltered workshop/sheltered workplace (Law 5/2004 amended in 2013) – form of WISE	7,508	Not possible to estimate	N/A
Third Sector Organisations (TSOs)*	37,600	3%	750
Municipality companies/local public enterprises	41	60%	24
Cooperatives	1,556	1%	16
Total	~47,000		~900

Note: the data should be treated as indicative range estimates only. They are based on indicative (and often subjective) assessment of the share of social enterprises among particular groups of entities and other assumptions. The reference periods for which data are available differ and are not available on a regular basis as time series. 2014 has been selected as a reference year given that exist data for various types or organisations either for 2014 or a close period

Table 3.2 Employment as of 2010, unless stated otherwise

Type of organisation	Number of organisations	Paid employees	Volunteers
Social enterprises (as defined by Employment Law)	~90* (as of 2014)	n/a	n/a
Cooperatives	1,573 (as of 2011)	~30,000	n/a
Foundations	404	1,444	3,323
Sheltered workshops	~6,000 (as of 2011)	10,783	n/a
Civic associations	~9,620**	17,622	3,658

Source: Statistical Office of Slovak Republic

* As per the data available in the Social Enterprise Register. It is impossible, however, to gauge how many of them ceased activity since the reduction in subsidies in 2013.

** Number based on the assumption that 90 per cent of the active CSOs are civic association.

3.4 Characteristics of social enterprises

3.4.1 Legal forms

Apart from the legal status of social enterprise as defined in the Employment Law and already discussed in this report, there are also other types of legal entities that, to various extents, can meet the operational criteria. Table lists the most relevant legal vehicles and the legal basis for each. It is also important to note that sheltered workshops and social

⁵³ Confirmed also by the representatives of the University of Comenius and Provida Foundation

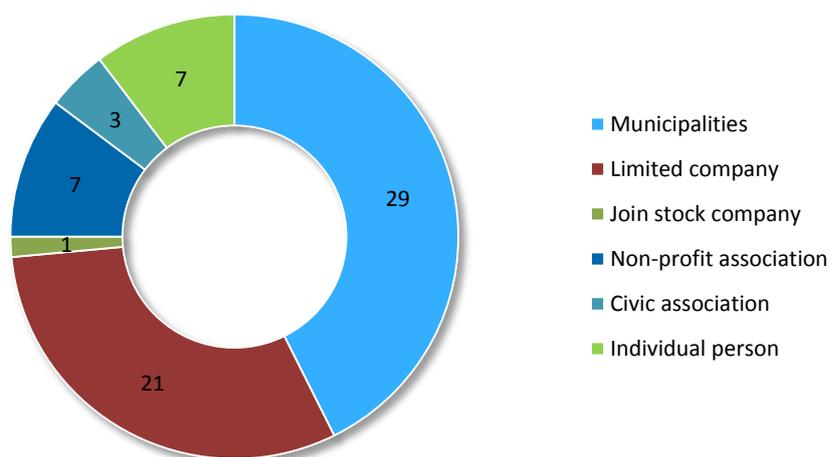
enterprises as defined by Employment Law may in fact operate under different legal forms including civic associations, NOPBS or private limited company.

Table 3.3 Legal forms that can be adapted by social enterprises

Type	Legal act
Social enterprises	– Act nr. 5/2004 on employment services There are no restrictions regarding the legal form the social enterprise can adapt
Civic association	– Civic code (Act. No. 40/1964 Coll.) – Act on association of citizens (Act. No. 83/1990 Coll.)
Non-profit Organizations providing Public Benefit Services (“NOPBS”)	– Legal base: Act. No. 213/1997 Coll. on non-profit organizations providing public benefit services as amended
Foundations and endowments	– Act No. 83/1990 on association of the citizens, as amended (known also as “Act on foundations” or “Foundations Act”)
Private limited company	– Act. No. 513/1991 Commercial Code
Cooperatives	– Act. No. 513/1991 Commercial Code

The data collected by Matej Bel University on the social enterprises (as defined in the Employment Act) shows that the most frequent legal form under which social enterprises operated in 2010 are municipalities (29) and private limited company (21).

Figure 3.1 Legal forms used by social enterprises, as of 2010



Source: Data collected by Matej Bel University

3.4.2 Business models

Sources of income

In general, existing business models of discussed entities are often poorly developed. Revenue generated from the market activities is often negligible and the public support is frequently vital. Either through subsidies or through contracting of certain services.

Social enterprises (as defined in the Employment Act) have been heavily relying on the subsidies (co-financing of the salaries for the employees being under the reintegration contracts). Up until 2013, subsidies could cover in some cases even up to 50 per cent of total revenue. Interestingly, however, since the novelisation of the law and reduction of available subsidies, no new entities registered as social enterprise. A clear evidence showing how essential are subsidies. It is therefore very likely that some work integration structures will face substantial difficulties to stay on the market.

Likewise, **sheltered workshops** relied also to very significant extent on the public subsidies. Since the revision of law in 2013 when the subsidies level has been substantially reduced, this critical source has also considerably shrunk. As a consequence, according to the representative of the Provida, many sheltered workshops may not be able to find themselves in the new and harsher reality and will cease the activity as they are not able to compensate the lower subsidies with increased revenue from the market activities. As indicated by the representative of the EPIC Centre, they have typically very weak business models and limited capacity to compete.

In general, in his paper from 2007 Kristina Alexy from University of Bratislava argued that in many cases of publicly supported structures (e.g. work integration structure) the orientation toward social objectives largely overshadows principles of economic sustainability: '*... There is an orientation toward social objectives but it is not underpinned by sufficient business acumen. This underestimation of the enterprises' economic dimension leads to failure on the market and the inability to create self-sustainable enterprises*'⁵⁴.

In addition, the level of funds channelled to non-profit organisations among which some could be categorised as social enterprises, has depended on the generosity of individuals and corporations (tax assignment). And this may be volatile over the time, e.g. due to worsening of macroeconomic environment. As of 2009, 34 per cent of individuals who are subject to income tax declared that they would be happy to assign 2 per cent of their income tax to the non-profit NGO. However, due to cuts in public spending, the government decided to gradually reduce the percentage of assignable income tax to 1.5 per cent; applicable for years 2011, 2012 and 2013. As of 2014, the percentage is further reduced to 1 per cent, and from 2016 to 0.5 per cent. This represents a gradual elimination of tax assignment available for non-profit NGOs which has represented an important source of NGO funding. It must be noted, however, that if a company decides to cover the remaining half per cent (1,5+0,5) from its net profit, the state will contribute another 0.5 per cent. Consequently, organisations can receive up to 2.5 per cent instead of the initial 2 per cent.⁵⁵

Municipal companies/local public enterprises, in principle, generate the bulk of their revenue stream from the municipalities which are their main clients. Those which hire disadvantaged employees may also receive the co-financing of certain proportion of their salaries. It is unknown to what extent those entities benefit from the EU funds and how many of them generate revenue from private market.

Regarding the **cooperatives**, vast majority generates the revenue from the market, e.g. from sales of agricultural products.

⁵⁴ K. Alexy, 2007. *The Social Economy in selected European Countries and Slovakia*. Available at: <http://diplomovka.sme.sk/zdroj/3258.pdf>

⁵⁵ P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

Social impact

It is plausible that some social enterprises, sheltered workshops or municipal companies collect the data on its social impact and for instance track down its previous employees to see how many of them gained employment outside the social economy sector. However, as of 2010, there was no central monitoring system or systematic data collection process that would enable to assess how many people have successfully returned to the open labour market⁵⁶. And the recent series of interview confirmed that not much has changed in this respect. In general, however, both types of impact, through social services and work integration are present in Slovakia.

Use of paid workers

There is little data that would allow estimating in a precise way the number of paid workers in the organisations which have been a subject of the closer analysis in this report. Although, there is some partial data (see table 3.1), it is not possible to obtain the whole picture. Also, as regards to the proportion of paid workers to volunteers.

3.4.3 Fields of activity

There was an overwhelming consensus among interviewees that work integration is essential area of activity for many organisations that could be classified as social enterprises in line with the operational definition. To pin point, however, in which sectors specifically those among sheltered workshops, social enterprises, municipality companies, third sector organisations or cooperatives which would broadly comply with the operational criteria operate, has been difficult.

In terms of **sheltered workshops**, there is no sufficient data which would allow the mapping of sectors in which they are most present. What is certain though, according to Provida representative, is that many of them provide social services facilities for socially/mentally disabled clients as well as the healthcare services e.g. therapy/rehabilitation.

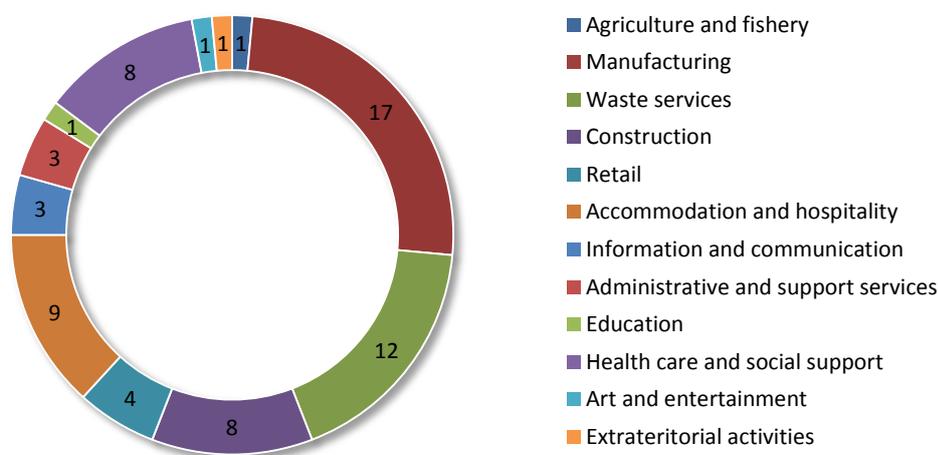
Likewise regarding **municipality companies**, there is no aggregate data that would allow to estimate in which sectors they operate. Yet, the practice shows that municipal companies often operate in the field of public space maintenance, cleaning, gardening as well as construction. Several interviewees⁵⁷ have seen the municipal companies as a quite successful concept and have been (cautiously) optimistic regarding their prospects.

As regards to the **social enterprises** (as defined in the Employment Act), data from 2010 suggests that majority operated in the waste management sector as well as goods production. Figure 3.2 provides more details.

⁵⁶ P.Sokol, 2010. *Analysis of experiences with the introduction of the social economy in Slovakia*. Nová Ekonomika.

⁵⁷ Representatives of Comenius University, EPIC and UNDP

Figure 3.2 Sectors of activity of social enterprise as of 2010 (as defined by the Employment Act)



Source: Data collected by Matej Bej University

Most Slovak **cooperatives** operate in the agricultural sector.

Finally, as regards to **third sector organisations** (predominantly civic associations), they operate in the wide range of sectors starting from education, social care up to fair trade. No precise data on sectorial breakdown is currently available though.

3.4.4 Target groups

Work integration structures are most common examples of entities approaching the operational definition. Hence, the disadvantaged people including long term unemployed, ex-prisoners as well as people with disabilities (in particular in case of sheltered workshops) are most common target groups.

3.5 Summary of mapping results

The Table 3.4 below provides the summary of headline observations and conclusions from the exercise in which various existing forms were ‘screened’ in order to identify to what extent they meet the operational criteria used in this study.

In general, the social enterprises (as defined in the Employment Act) meet three key eligibility criteria to the largest extent. Yet, as regards to all other cases, substantial exceptions exist. For instance, while there are no doubts that sheltered workshops have strong social orientation, it is likely that many of them is engaged in economic activity only to very limited extent. Likewise, third sector organisations (predominantly civic associations) have often very clear social dimension but significant proportion may not conduct any commercial activities.

Concerns also exist when it comes to municipal companies/local public enterprises. They are engaged in the economic activities and they often have explicit social goals. Yet their independence from local authorities may be argued. Furthermore, in case of cooperatives the social dimension seems very often doubtful as collective interest of their members (e.g. local farmers selling their products) is not a synonym with the social dimension.

Finally, the Table 3.4 does not include any references to the classical companies, for instance an equivalent to limited liability company in the UK or société à responsabilité limitée. There may be some cases of organisations that would broadly meet all criteria, but their identification from the plethora of existing for companies would be very resource consuming exercise and goes beyond the scope of this study.

Table 3.4 Mapping the ‘universe of social enterprises in Slovakia

		Social Enterprise (Law 5/2004 amended in 2013)	Sheltered workshop/sheltered workplace (Law 5/2004 amended in 2013) – form of WISE	Third Sector Organisations (TSOs)	Municipality companies/local public enterprises	Cooperatives
Eligibility criteria						
Entrepreneurial dimension	Engagement in economic activity	Yes	Yes, but to limited extent	Some	Yes, by definition. Municipalities are their most frequent and vital clients and source of revenue.	Yes
Social dimension	Social aim (public benefit)	Yes	Yes	Often	Often	Very rarely
Independence and governance	Distribution of profits and/or assets according to defined rules and procedures	Yes - at least 30% of the funds derived from income from business activities, which remain after payment of all expenses of business activity for the taxable period pursuant to the tax declaration, must be used annually to create new jobs or to improve working conditions	Yes - in order to achieve a status of a social enterprise the same requirements as for social enterprises apply	Yes - law on association of citizens does not preclude the implementation of complementary business, and if the purpose of the association, for which the physical case of legal persons brought together, remains fully intact. In case of public benefit organisations - they can use profits only in line with its mission and to support their charitable activities. Income cannot be used for the benefit of its founders, members of the board or employees.	Yes – municipality, autonomous region, municipality association, an association of self-governing regions can apply for the status of a social enterprise. In order to achieve a status of a social enterprise the same requirements as for social enterprises apply. In general, entities that have been entrusted with management of property of municipalities are obliged to manage it for the benefit of community development, its citizens, and protection of environment. Yet, due to the very close link between an entity set up by the municipality and	Yes - at its establishment a cooperative is required to establish an indivisible fund at the level of 10% subscription of the capital and to supplement this fund at the level of at least 10% of annual net profit until it reaches half of the subscription of the capital. The statutes may provide a higher creation of indivisible fund or creating other hedge funds.

		Social Enterprise (Law 5/2004 amended in 2013)	Sheltered workshop/sheltered workplace (Law 5/2004 amended in 2013) – form of WISE	Third Sector Organisations (TSOs)	Municipality companies/local public enterprises	Cooperatives
					the municipality, there is still a risk that independence may not be complete in some cases.	
	Profit cap - existence of profit cap/ limited profit distribution	See above	Yes – as in the case of social enterprise	Profit generating activities is limited in case of foundations in terms of eligible activities (only rent and organisation of social and cultural activities) Otherwise for TSOs, generating of profits through business subsidiary is unlimited, but profits are fully taxable.	See – same conditions as for social enterprise apply	See above
	Asset lock - existence of asset lock	Not defined	Not defined	Not defined	Not defined	See above
	Autonomy - organisational autonomy	Not explicitly defined, but de facto	Not explicitly defined, but de facto	Autonomous	Fully-owned by municipality	Autonomous
	Stakeholder participation - interests of relevant stake-holders are duly represented in decision-making processes	No requirement/not mentioned in the Law	No requirement/not mentioned in the Law	Encouraged, but not a requirement	Not a requirement	Yes, limited to members
Number of organisations		96 (2014)	7508 (2014)	Associations = 37,000 (2014) Foundations = 600 (2014)	41 (2013)	1556 (2014)
Estimated proportion meeting EU definition of social enterprise		100%	Not possible to estimate	3%	60%	1%
Estimated number of social enterprises		96	N/A	750	24	16

		Social Enterprise (Law 5/2004 amended in 2013)	Sheltered workshop/sheltered workplace (Law 5/2004 amended in 2013) – form of WISE	Third Sector Organisations (TSOs)	Municipality companies/local public enterprises	Cooperatives
Sectors of activity		waste services, manufacturing or construction sectors	Social work activities, manufacturing sectors, repair of goods	Employment activities, creative and art activities, social work activities	public space maintenance, cleaning, gardening as well as construction	Manufacturing sector, wholesale and retail trade, housing, repair of goods
Use of paid workers		N/A	N/A	N/A	N/A	N/A

3.6 Opportunities and barriers

It seems that at the current (nascent) stage of the development of the sector, barriers for its development are still markedly more accentuated than potential opportunities and it will take considerable time to see a dynamic flourishing of social enterprises on the one hand, and supporting ecosystem on the other. As a result of the desk research and series of conducted interviews, following list of barriers and opportunities have been identified:

- **Low awareness/understanding** – The vibrant social economy sector requires high level of social capital which, despite tremendous changes since the transformation, is still not sufficient in Slovakia⁵⁸. And this is also reflected in the low awareness and understanding of the concept of the social economy. Stakeholders are a few and fragmented. There is very little research on social enterprises/social economy and no specific degree in the higher education curricula. Any awareness raising campaign are very rare. Moreover, the importance attached to the sector by the authorities seems to be rather limited and the state, an actor that has capacities to galvanize the sector, is still passive. Most likely also due to the limited awareness/understanding. And on the top of that, controversies and negative connotation of the term ‘social enterprise’, a result of the misuse of public funds during the implementation of the pilot stage of social enterprises, are still resonating. An impact also experienced by some current social enterprises⁵⁹.
- **Low investment readiness** – NESsT and Provida Foundation see the weaknesses of the business plans and limited business/management skills of most of the social entrepreneurs as a serious problem hampering the growth and the development of the sector.
- **Insufficient amount and form finance** – Although the state is present and has been financing the work integration structures, there have been voices that it should go much beyond it. There are practically no loans adapted to the need of social enterprises. And grants (also from the EU), although instrumental in the first stage, may turn out to be inadequate to stimulate the development of more entrepreneurial dimension and more rigorous approach to the social business. In this respect, lowering of the level of the maximum co-financing of the wages for employees being under the work integration contracts may be differently interpreted. On the one hand, it can result in the closure of some of the organisations that will not be able to identify the substitute for the public support. On the other, it constitutes a stimulus for the development of more viable business models by social entrepreneurs.

Meanwhile, the list of potential opportunities for the sector included:

- **Emergence of the new economically viable social enterprises:** Although slowly and in a small scale, there has been number of emerging grass-root initiatives, examples of socially oriented and yet sustainable business models. And the development of dynamic structures which combine the strong entrepreneurial dimension and the social objectives may have stimulating and refreshing effect on the whole sector.
- **Growing demand for social services:** Growing demand for social services has been seen as one of the opportunities for the sector.⁶⁰ And indeed, with the ageing of the population, still persistently high unemployment in many regions of the country or unmet needs of significant Roma community in Slovakia, the demand for social services will remain high.

⁵⁸ B. Strečanský and K. Stoláriková, 2012. Social Economy and Social Enterprises in Slovakia. Civil Szemle. Available at: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf

⁵⁹ Interview with the representative of the Strom Zivota social enterprise

⁶⁰ B. Strečanský and K. Stoláriková, 2012. Social Economy and Social Enterprises in Slovakia. Civil Szemle. Available at: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf

3.7 Reflections and concluding remarks

The emergence of the ecosystem for social enterprises sensu stricto and the dynamic growth in number of social enterprises is still yet to come in Slovakia. Although unlike in many other Member States of the European Union, there is a legal definition of the 'social enterprise'. However, it has very narrow scope (work integration structure). Moreover, awareness and the understanding of this term is quite limited. In addition, due to the failure of the state managed pilot programme in 2009, there is also considerable negative connotation of this term. To the extent that some socially oriented structures see it as a pejorative label and are not willing to adapt it.

There is also limited infrastructure that supports social enterprises. There is neither national network of social enterprises nor specific labels that would be used to promote the concept. Specific financial schemes designated to support social enterprises are very rare. The government has not created any specific body that would explicitly focus on design and implementation of policies related to social enterprises. And yet, public funding (co-financing of the wages, EU funds) has played important role in the development of many socially oriented organisations (work integration structures, sheltered workshops, municipality companies).

At the moment, many organisations that seem to meet the operational criteria set in this study still possess weak business models, an overriding characteristic of the sector. There is, however, sluggish but consistent emergence of new organisations that match traditionally strong focus on social objectives with sound business plans.

Annex 1 Comparative overview of the legislative framework for Civic Associations, Limited Liability Companies and Non-profit organisations providing Public Benefit Services

Legal form	Non-profit Organizations providing Public Benefit Services	Civic Associations	Limited Liability Company
1	<p>Non-profit Organizations providing Public Benefit Services (“NOPBS”) - are one of 4 main legal forms of NGOs in Slovakia (the rest are Civic Associations, Foundations and Non-investment Funds). NOPBSs are established to provide public benefit services (social care, health care, education).</p> <p>NOPBSs may obtain the legal status of ‘Social Enterprise’ if they meet the following requirements of the Act on Employment Services:</p> <p>at least 30% of employees of the organisation were considered as disadvantaged job seekers before the entering into the employment relationship;</p> <p>the organisation provides support and help to the employees, who were considered as disadvantaged job seekers before the entering into the employment relationship regarding finding of job at open labour market;</p> <p>at least 30 % of financial funds obtained from the income of activities remaining after payment of all tax and expenses is used to create new jobs or to improve working</p>	<p>A civic association is an organisation made up of a group of at least three persons, who have decided to come together for a particular purpose.</p> <p>Civic associations may obtain the legal status of ‘Social Enterprise’ if they meet the following requirements of the Act on Employment Services:</p> <p>a) at least 30% of employees of the organisation were considered as disadvantaged job seekers before the entering into the employment relationship;</p> <p>b) the organisation provides support and help to the employees, who were considered as disadvantaged job seekers before the entering into the employment relationship regarding finding of job at open labour market;</p> <p>c) at least 30 % of financial funds obtained from the income of activities remaining after payment of all tax and expenses is used to create new jobs or to improve working conditions,</p> <p>d) the organisation is registered in the Register of Social Enterprises.</p>	<p>Limited Liability Company (LLC) is the most commonly used legal form of for-profit entities in Slovakia. Limited liability company is typically established with commercial aims, to distribute profits to its members. A company established with solely commercial aims would not be considered a social enterprise. The shareholders are the owners of the company.</p> <p>LLCs may obtain the legal status of ‘Social Enterprise’ if they meet the following requirements of the Act on Employment Services:</p> <p>a) at least 30% of employees of the organisation were considered as disadvantaged job seekers before the entering into the employment relationship;</p> <p>b) the organisation provides support and help to the employees, who were considered as disadvantaged job seekers before the entering into the employment relationship regarding finding of job at open labour market;</p> <p>c) at least 30 % of financial funds obtained from the income of activities remaining after payment of all tax and expenses is used to create new jobs or to improve working conditions,</p>

Legal form	Non-profit Organizations providing Public Benefit Services	Civic Associations	Limited Liability Company
	<p>conditions,</p> <p>the organisation is registered in the Register of Social Enterprises.</p>		<p>d) the organisation is registered in the Register of Social Enterprises.</p>
2	<p>Act. No. 213/1997 Coll. on non-profit organizations providing public benefit services as amended</p>	<p>Civic code (Act. No. 40/1964 Coll.)</p> <p>Act on association of citizens (Act. No. 83/1990 Coll.)</p>	<p>Commercial Code (Act. N. 513/1991 Coll.)</p> <p>Trade Act (Act. N. 455/1991 Coll.)</p>
3	<p>Not exclusive for social enterprise.</p> <p>NOPBSs can have one or more purposes from:</p> <p>a) the provision of health care,</p> <p>b) provision of social assistance and humanitarian care,</p> <p>c) design, development, protection, restoration and presentation of spiritual and cultural values,</p> <p>d) protection of human rights and fundamental freedoms,</p> <p>e) education, training and development of physical culture,</p> <p>f) research and development, scientific and technical services and information services;</p> <p>g) the creation and protection of the</p>	<p>Not exclusive for social enterprise.</p> <p>Civic associations can have any purposes they choose, unless unlawful.</p>	<p>Not exclusive for social enterprise.</p> <p>A limited liability company can carry out any business purpose. The main aim of the company is to carry out systematic activities, which are independently conducted for the purpose of making a profit by an entrepreneur in his own name and at his own responsibility.</p>

Legal form	Non-profit Organizations providing Public Benefit Services	Civic Associations	Limited Liability Company
	<p>environment and the protection of health of population,</p> <p>h) services to promote regional development and employment,</p> <p>i) provision of housing, management, maintenance and renewal of housing stock.</p>		
4	<p>A NOPBS is founded by an establishment charter signed by all the founders. The authenticity of signatures of all founders must be officially certified. The Founder(s) then issue the Statute, which includes the details of the organizational structure, operations and management of NOPBS. The NOPBS comes into existence registration with the District Office.</p>	<p>To establish a civic association (CA), at least three people must prepare the application for registration of C.A. and a Statute of C.A. in 2 copies and send them together with the registration fee to the Ministry of Internal Affairs.</p>	<p>A company is established by a memorandum of association executed by every founder. The signature of the founders must be officially authenticated.</p> <p>Where the establishment of company is done by one founder only, the memorandum of association shall be replaced by an establishment deed. The establishment deed must include the same essentials as the memorandum of association or the founders' deed.</p> <p>The company is incorporated on the date of its registration in the Companies Register. The request of registration in the Companies Register must be filed not later than 90 days after the company's establishment or after the receipt of a proof of existence of a trading license or a similar authorisation.</p>
5	<p>There is no set minimum required, but the "source" capital is required.</p>	<p>There is no minimum required.</p>	<p>The minimum amount of the company's registered capital shall be €5,000.</p>
6	<p>A NOPBS needs to establish:</p>	<p>Civic associations can establish its own boards -</p>	<p>The company is required to have a board of at least</p>

Legal form	Non-profit Organizations providing Public Benefit Services Civic Associations	Limited Liability Company
<p>a) Administrative Board (Governing Board/Body)</p> <p>b), Director</p> <p>c) Supervisory Board (Inspector),</p> <p>d) other authorities, if declared in the Statute.</p> <p>The Administrative Board is the supreme body of NOPBS the required minimum is 3 members, no limitation on maximum number.</p> <p>First members of the Boards are appointed by founder(s). The next members are appointed/removed from their office by the Governing Body if the Statute does not provide otherwise.</p> <p>The Governing Body has ultimate control of the NOPBS. It:</p> <p>a) approves the budget of NOPBS ,</p> <p>b) approves the annual balance sheet report and the annual report on the activities and management (the " Annual Report") ,</p> <p>c) decides on the use of profits and cover of loss, including the intended settlement no later than the end of the next accounting period ,</p> <p>d) decides on the dissolution, merger or division of NOPBS,</p> <p>e) makes suggestions for changes in the Statute (to Register Office),</p> <p>f) appoints/removes the Director from his office and determines his remuneration,</p> <p>g) elects and removes members of the Administrative Board from their office, unless</p>	<p>although in practice they usually establish The General Assembly, the Administrative Board and the Board of Supervisors/Auditor.</p> <p>The law sets no minimum number of board members. Members are appointed and removed following the provisions in the Civic Association's statutes.</p>	<p>one executive director.</p> <p>The executive directors are responsible for the administration and management of the company and they must not engage in competitive conduct.</p> <p>Executive directors shall be appointed from among the company members or other individuals by the general meeting.</p> <p>A supervisory board shall only be established if the memorandum of association provides so.</p>

Legal form	Non-profit Organizations providing Public Benefit Services	Civic Associations	Limited Liability Company
	<p>the Statute provides otherwise, and elects and removes members of the Supervisory Board (Inspector) from their office ,</p> <p>h) approves legal acts relating to immovable property,</p> <p>i) decides on Statute changes with the exception of those reserved for a founder (written in the Establishment charter),</p> <p>j) decides on the restriction of the director´s right to act on behalf of NOPBS</p> <p>The Directors manage the activities of NOPBS and acts on its behalf.</p>		
7	This legal form has no members	<p>The legal form has at least 3 members (the founders).</p> <p>The General Assembly of all members is usually the highest body of Civic Associations and therefore has the ultimate control of the civic association. The members have the right to participate and vote in the General Assembly, appoint and remove the board members and amend the Statute.</p>	<p>The legal form has members (in LLCs these are called associates, partners or stakeholders)</p> <p>Ultimate control of the LLC rests with the members because of their rights to attend, speak and vote at general meetings. They can approve and change the Articles of Association and can appoint and remove directors</p>
8	Not applicable for legal form.	Members are represented according to the specific C.A. ´s Statute – usually there is a meeting of The General Assembly at least once in a year (annual meeting) – but it can be more or less often.	The general meeting (of all members) shall be the supreme body of the company. Unless the law, the memorandum of association, or the articles of association determine a shorter period, general meetings shall be convened by executive directors at least once a year.
9	Legal form does not have shares.	Legal form does not have shares.	Legal form does have shares/stakes. The member's voting right is proportional to the number of shares



Legal form	Non-profit Organizations providing Public Benefit Services	Civic Associations	Limited Liability Company
			they own.
10	Not applicable to the legal forms.	Not applicable to the legal forms.	Dividends are distributed according to the stake a holder has in LLC. Dividends are paid from profit after taxes and reserve fund contribution.
11	No legal provisions regarding reserves.	No legal provisions regarding reserves.	<p>The use of the reserve fund shall be decided by the executive directors, in compliance with the provisions of Commercial Act.</p> <p>The fund may only be used to cover the company's losses, unless a special act provides otherwise.</p>
12	No requirement to allocate surpluses to compulsory legal reserve funds.	No requirement to allocate surpluses to compulsory legal reserve funds.	<p>The company shall establish a reserve fund at the time and for the amount specified in the memorandum of association. Unless the reserve fund is established upon incorporation of the company, the company shall establish the same using net profit reported in the ordinary financial statements for the year, in which the first profit is booked. The reserve fund shall achieve not less than 5% of the net profit, however not more than 10% of the registered capital.</p>
13	Refunds not applicable to legal form.	Refunds not applicable to legal form.	Refunds not applicable to legal form.
14	<p>NOPBSs are not established to carry out business activities, but they are allowed to do so if they consider that it is a "more effective" use of their own assets.</p> <p>Such for-profit activities must be only minor to</p>	<p>Civic associations are not established in order carry out business activities; however they are able to do so as a "side" activity in order to finance their main purposes. For this part of its economic activity, the C.A. is considered and treated (i.e. taxed) the same way as for-profit companies.</p>	There are no such limits.

Legal form	Non-profit Organizations providing Public Benefit Services	Civic Associations	Limited Liability Company
	the primary activities of NOPBS.		
15	A NOPBS can seek donations or loans from its founders and it can issue bonds to its founders.	One of the most important sources of civic associations revenues are membership fees. A civic association can also seek donations or loans from its members and it can issue bonds to its members.	The members (shareholders) of the company can invest in the company in various ways, e.g. by giving loans to the company (also in the form of loans substituting equity) or by payment of supplementary contributions to the company's capital.
16	A NOPBS cannot raise funds by way of equity investment. However, a NOPBS can obtain loans from banks or other financiers or it can issue bonds. It can also seek grants and donations.	A civic association can obtain loans from banks or other financiers or it can issue bonds. It can also seek grants and donations.	In general, different forms of external investment are possible, in particular by subscribing to member units / increasing the statutory capital. Investments can be structured in different ways. Typically, an investor will either be a creditor and/or a member.
17	<p>A NOPBS is required to prepare and send an annual report to the Registration Office.</p> <p>A tax return must be filed with the tax authority.</p> <p>The annual accounts must be audited if</p> <p>a) a subsidy from the state budget, from the State fund and the municipal budget that year exceeded €33,193;</p> <p>b) all income of the non-profit organisation exceeds €165,969; or</p> <p>c) the NOPBS has received more than €331,93.92 from the 2% assignation of taxes.</p>	<p>Civic associations are required to prepare tax returns and annual accounts.</p> <p>An external audit is only required depending on the size of turnover of the C.A or if the C.A received more than €331,93.92 from the 2% assignation of taxes.</p>	<p>A LLC is required to file its accounts in its Collection of documents at the Commercial register.</p> <p>Publication of accounts in the official Commercial bulletin only applies to LLCs, which are required to have audited financial statements.</p> <p>An audit will be required where a LLC meets at least 2 of the following conditions:</p> <ol style="list-style-type: none"> 1. its total assets exceed one million euros; 2. its net turnover exceeds two million euros, 3. its average number of employees during the accounting period exceeded 30. <p>A tax return must be filed with the tax authorities.</p>

Legal form	Non-profit Organizations providing Public Benefit Services	Civic Associations	Limited Liability Company
18	Employees (other than the director) cannot participate in decision making. Staff cannot take a share of the profits.	Decision making procedures are provided for in the C.A.'s Statute. In Slovak practice, most C.A.s are small with "mixed" roles of staff and members – they are often the same people. Staff cannot take a share of the profits.	Staff usually cannot participate in decision making unless they are members. Employees can receive a portion of profit in case it is agreed in employment contract or collective agreement.
19	<p>The Administrative Board can decide on the wind up a NOPBS whether it is solvent or insolvent.</p> <p>A NOPBS can be wound up:</p> <ul style="list-style-type: none"> a) upon expiration of the term, for which it was established; b) on decision of the members; c) on decision of the court; d) after bankruptcy proceedings, <p>The main rescue procedures are:</p> <ul style="list-style-type: none"> 1. Increasing of the registered capital; 2. Use of reserve fund; and 3. Restructuring. 	<p>The C.A can be wound up through 2 ways:</p> <ul style="list-style-type: none"> voluntary dissolution or merger with another association; or final decision of the Ministry of Internal Affairs on its dissolution (in case of breaking a specific Act) 	<p>A company can be wound up:</p> <ul style="list-style-type: none"> a) upon expiration of the term, for which it was established; b) on decision of the members; c) on decision of the court; d) after bankruptcy proceedings, <p>The main rescue procedures are:</p> <ul style="list-style-type: none"> 1. Increasing of the registered capital; 2. Use of reserve fund; and 3. Restructuring.
20	The remaining assets are required to be transferred to another non-profit organisation or foundation.	<p>The surplus should be used as determined by the highest body of C.A or its Statute.</p> <p>Where the other legal forms of NGOs have clear</p>	Assets can be distributed amongst the members in accordance with their shareholding.



Legal form	Non-profit Organizations providing Public Benefit Services	Civic Associations	Limited Liability Company
		rules, what to do with surplus, C.A. are not limited on this.	
21	This legal form cannot convert.	This legal form cannot convert.	A company may change its corporate form and reorganize into another form of partnership, company or co-operative, unless the law provides otherwise. The partnership or the company shall not cease to exist as a legal entity due to change of its corporate form. The assets are not treated differently.

Annex 2 Origins and development pathways

A2.1 Origins

The development of social economy in Slovakia reflects the trajectory typical for the post-communist countries in the region. The transition to a market economy in 1989 stimulated the development of the social economy sector and opened new avenues for entrepreneurial activities in a young free market economy. It also prompted more active involvement of the citizens in various spheres of social affairs. Yet, the term 'social enterprise' and organizations that started to be labeled as such emerged only in 2000s, largely as a consequence of the new legal definition.

Historically, the cooperative movement has been the strongest actor in the field of social economy in terms of its organizational capacity and economic importance. The first cooperative was established in 1845. In the second half of 19th century the cooperative societies started to play central role in stimulating rural self-governance and constituted an alternative model to existing companies⁶¹. At the turn of the 19th and 20 century, and then in particular after World War I, not only increasing number of consumer, manufacturing, agricultural, processing, purchasing and marketing cooperatives was seen, but also an emergence of credit unions, cultural and housing cooperatives. Though, the development of cooperatives was interrupted first by the II World War and then frontal nationalization of existing cooperatives that began in 1948. Despite the preservation of some elements of democratic self-government, cooperatives were incorporated in the state-controlled planned economy system⁶².

In countries of Central and Eastern Europe where economy was calibrated by central planning and the state was Omni-present, there was very little space for the social economy. The employment of disabled people in cooperatives during 1980's was significant, for instance Slovak Union of Producer Cooperatives united at that time 17 cooperative societies and employed more than 7000 disabled persons.⁶³ However, without real implementation of principles such as democratic governance or voluntary and open membership, their immanent characteristics were taken away⁶⁴.

Once the communist system collapsed, cooperative movement needed to transform but also opportunities for new actors emerged. And indeed, beginning of 1990s can be regarded as a real turning point for the development of social economy⁶⁵. 1990's saw the strong growth and development of the civil society organizations also known as Civil Society Organizations (CSOs), a group which included predominantly foundations, self-help organizations and associations, and received substantial funding from the international donors⁶⁶.

The first social enterprises started to emerge when the international donors have started to withdraw their funding. In this context, it is important to mention that although Slovakia has a vibrant and vocal civil society sector with more than 33,000 CSOs registered (2010)⁶⁷, financial viability is the weakest aspect of the Slovak non-profit sector.⁶⁸ Therefore, a generous support coming from international donors has left some CSOs heavily dependent

⁶¹ G. Korimova, 2007. *Social entrepreneurship*. Banská Bystrica

⁶² P. Mészáros, 2012. *Social Economy: Innovative model of economic and social development in Slovakia*. UNDP

⁶³ Cooperatives of Slovak Republic, 2011. *History of cooperative movement in Slovakia*. Available at: http://www.dusr.sk/historia/160rokov_en.pdf

⁶⁴ B. Strečanský and K. Stoláriková, 2012. Social Economy and Social Enterprises in Slovakia. Civil Szemle. Available at: http://www.cpf.sk/files/files/Pages%20from%20CivSzle_2012_4_web.pdf

⁶⁵ P. Sokol, 2010. *Analysis of experiences with the introduction of the social economy in Slovakia*. Nová Ekonomika.

⁶⁶ G. Lubelcová. 2012. Sociálna ekonomika: koncepty, príležitosti, riziká. Sociologia 44.

⁶⁷ Ministry of Interior, 2014. *Registre, evidencie, zoznamy*. Available at: <http://www.minv.sk/?registre-evidencie-zoznamy-informacie-o-registracii>

⁶⁸ According to the USAID 2012 NGO Sustainability Index

on one source of financing, usually grants. The cuts in foreign aid have forced some of them to search for new sources of revenue pushing toward the diversification of their revenue. And indeed, CSOs have turned increasingly towards other alternatives such as state and local government funding, EU funds or engagement in mission-based entrepreneurial activities to acquire self-generated revenue. Most CSOs provided services, but there were also some which were engaged in production related activities. Nowadays, the sector of CSO includes various non-profit organizations that run schools, social housing, and day-care centers for disadvantaged, sheltered workshops, educational organizations in the non-formal education or cultural associations. They are mostly micro/small size organizations, with limited assets and liquidity but with strong emphasis on social goals. The social dimension often dominates the entrepreneurial one, if the latter exists at all.

The appearance of the term 'social enterprise' and emergence of the organizations that started to be explicitly labeled in this way can be only tracked down to 2008 when the amendment of the Act No. 5/2004 on Employment Services was adopted in April 2008 (and came into force in September 2008)⁶⁹ and legal possibility to set up the social enterprise in Slovakia became a fact. The legal definition of social enterprise in Slovakian context has rather narrow scope though and emphasises at first place the work reintegration of disadvantaged job seekers as a *sine qua non* condition to receive the status of social enterprise. Therefore, some argued that this reduced social enterprises to the role of employment policy tool⁷⁰. To some degree a consequence of structural problem of Slovak economy characterised by still relatively high unemployment level⁷¹.

A2.2 Development pathways and the evolving landscape

The contemporary challenges in Slovakia are associated with the process of social and economic transformation and impact of economic crisis resulting in high level of unemployment, increased need for welfare services and social exclusion of vulnerable groups of population. These challenges coupled with fast aging population and need for environmental protection have triggered new forms of activities and innovative solutions by variety of organizational structures, operating mostly on the local levels (CSOs and local governments).

Although with mixed results, the overall landscape of social enterprises in Slovakia has been largely influenced by state policy. The biggest driver for the emergence of social enterprises has been legal institutionalization which has taken place in two different phases.

Firstly, this happened in the sphere of social services with the transformation from traditional institutional care model to a system of community-based care services. Social service reform was associated with moving competencies and responsibilities to local governments, so called decentralization (both in terms of powers and in terms of funding), with the intended goal to bring decision-making closer to the citizens. This process also introduced non-state actors such as CSOs into the provision of social services. Over the years the role of CSOs as welfare providers has been increasingly formalized through contractual relations and partnerships with local and regional public authorities.

It must be however stressed, that the institutionalization of CSOs as social service providers in Slovakia has not been completely smooth. The Act No. 448/2008 on social services brought new competencies and new types of social services to local and regional governments, however some CSOs voiced an unequal access to funding when compared to public authorities (e.g. some calls open exclusively for public authorities). Yet after an

⁶⁹ Zakony pre ludi.sk, (2014). Zákon o službách zamestnanosti a o zmene a doplnení niektorých zákonov. Available at: <http://www.zakonypreludi.sk/zz/2004-5/info>

⁷⁰ Interview with the representatives of the Provida Foundation and NESsT

⁷¹ Slovakia has had one of the high unemployment rate (14 per cent) and the share of long-term unemployment is also the highest among the OECD countries. Available at: http://www.oecd-ilibrary.org/employment/unemployment-rate_20752342-table1

amendment of the Act was adopted in March 2011 that enshrines a free access of choosing a provider by a user and an equal access to public finance for all providers of services.⁷²

Secondly, the process of development of social enterprises has taken place through the introduction of general legal framework – legal form of social enterprise. The persistent high level of unemployment in the country prompted the government to search for the alternative tools and gave rise to a new legislation that was adopted in 2008 and created the framework for social enterprises in Slovakia. The law has narrowed down a relatively broad concept of social enterprise and ‘social enterprises’ has been thus largely associated with the work reintegration structures, benefiting from the substantial public funding. And yet, the rules concerning the financial support were changed in 2013 reducing the maximum level of available funding and in addition, the reform of the mechanism allowing assignation of income tax by individuals and corporation to CSOs may also lead to decline in funding (more in the further part of the report). This may have significant implications for the development of the sector. On the one hand, some structures may be forced or will voluntarily cease activities. On the other, lower level of subsidies may result in higher importance attached to the viability of the business models.

The emergence of social enterprises was, however, also triggered outside the legislative framework. The first social enterprises started to emerge especially at the turn of this century, when the international donors have started to withdraw their funding to CSOs. The CSOs that were heavily dependent on one source of funding were forced to turn to other sources of funding and diversify their revenue base such as state and local government funding, EU funds or engagement in mission-based entrepreneurial activities to acquire self-generated revenue. The approaches used by CSOs to enhance the entrepreneurial behavior range from the management of commercial activities not directly related to the social activity (restaurant and disability workshop), to the direct organisation of social services in an entrepreneurial way (elderly care, community services for Roma). These activities are carried out by relying on different models, including the establishment of corporate partnerships by for-profit and non-profit organisations, the direct involvement of the community and citizens (via donations or local foundations), and the co-operation between CSOs and local municipalities (social service facilities, crises centers for families, day care centers for elderly, mother-centers). The latter is not uncommon although there is still very limited number of cases where municipalities are purchasing services from these organizations.

Report on situation of Social Entrepreneurship in Slovakia prepared by CECILY⁷³ states that: ‘...local social capital – both organized and informal – has been overlooked by donors as an agent of change’. As in other transition countries, Slovak society is characterised by relative atomisation of society, limited trust of citizens in political institutions and fairly low levels of participation in democratic processes. The tradition of mutuality and self-help has been in decline over recent years and the maintenance of traditional types of social capital and the lack of generalized trust and solidarity prevent the development of certain forms of social enterprises. However, recently new grassroots actions initiated by citizens have been emerging with the view to improve the quality of life in local communities, often relying on the voluntary work and local partnerships. And this trend may play an important role contributing to the higher awareness as well as more material initiatives in Slovakia

⁷² Social Service System in Slovakia, Michaela Sopova, Bratislava Self – governing region, Slovakia, March 2013

⁷³ CECILY – Community Empowerment for Social Inclusion and Local Employment, Focus Report, Social entrepreneurship, Analysis of the situation in Slovakia, the city of Banská Bystrica, Slovakia

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Note to researcher: *Please reference all documents in the Harvard style*

A3.2 List of consultees

Name of the person interviewed	Organisation/ Role	Stakeholder category
Drahusa Kalmanova	Ministry of Work, Social Affairs and Family of the Slovak Republic	Public administration
Johann Heep	Erste Group Bank	Finance supplier
Roxana Damaschin-Tecu	NESsT	Support organisation
Gabriela Lubelcova	University of Comenius	Academia
Gabriela Korimova	Matej Bel University	Academia
Peter Meszaros	Provida	Finance supplier/support organisation
Zuzana Polackova	EPIC and formerly Ministry of Social Affairs	Non-profit organisation
Michela Lednova	UNDP (former employee)	Support organisation
Allan Bussard *	Integra Foundation	Social enterprise
Vladimir Ledecký	Hrhovske Sluzby	Social enterprise
Matúš Čupka	Strom Zivota	Social enterprise

**Provided written response*

Note to researcher: *Please document the list of non-respondents/ those who declined.*

A3.3 List of non-respondents

Name of the person	Organisation/ Role	Stakeholder category
Marek Hojsik	Roma Institute	Association
Ivana Chmelová	COOP Slovakia	Network organisation
Mr. Marek Hojsik	Roma Institute	Social Institute
Barbora Kohutikova	Wild poppies	Social enterprise
Bohumir Adamek	STUDNICA	Social enterprise
Martina Tvrdonova	WellGiving	Social enterprise
Juraj Zamkovský	Friends of Earth	Social enterprise
Anna Klimackova	National Centre for Equal	Social enterprise

Name of the person	Organisation/ Role	Stakeholder category
	Rights	
Renáta Pastorová	SOSNA	Social enterprise
Slavomír Kutaš	ETP Slovakia	Social enterprise
Peter Kulifaj	People in Peril Slovakia	Social enterprise