

# **Analysis of experiences with the introduction of the social economy in Slovakia**

**for Nová ekonomika**

**author: Peter Sokol**

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### ***Three hundred and thirty-two words by way of introduction***

The aim of this paper is to provide a concise analysis of experiences with the social economy in Slovakia. The information underpinning this paper was acquired from several electronic and printed sources<sup>1</sup> and, in particular, from managed interviews with important figures in the social economy field in Slovakia: Prof. PaedDr. Gabriela Korimová, PhD., from the Faculty of Economics at Matej Bel University in Banská Bystrica, doc. PhD. Gabriela Lubelcová, Csc., assistant dean of the Faculty of Philosophy at Comenius University in Bratislava, and Peter Mészáros from the 3lobit civic association, which helps the social integration of the socially excluded and disadvantaged.

I also telephoned representatives of several social enterprises, randomly selected from the Social Enterprises Register of the Central Office of Labour, Social Affairs and Family, to ask questions. Specifically, information was given to me in short conversations by representatives of the following enterprises: AMH METAL, s.r.o. (Hniezdne) , INTERES, s.r.o. (Bratislava), Mesto Svätý Jur, Pontis n. o. (Bratislava), Holotých víška, s.r.o. (Myjava), Obec Kaluža (Michalovce).

I present the analysis and its outputs as a personal interpretation of the acquired information; this interpretation is therefore not necessarily the same as the opinions of the individuals who agreed to be interviewed for the purposes of the analysis.

It is not an in-depth analysis of the current situation: rather, given its scope it is a concise insight that may serve as a starting point for further research and an inspiration for the Czech social economy, which differs from the Slovak social economy in some aspects.

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<sup>1</sup> As regards reference literature, besides one diploma work I did not come across a single text dealing with the specifics of the social economy in Slovakia and with the experiences with its introduction. The majority of texts I found dealt with the social economy as such – a definition of the social economy, its functions, benefits etc. For the purposes of my analysis I therefore also drew on a number of electronic sources, various presentations, reports and managed interviews.

## **CHAPTER 1 – DEFINITION OF TERMS**

When attempting to define the social economy or social entrepreneurship in Slovakia we come across views and approaches that are fundamentally different from those in the Czech Republic. Through various variations, or broader and narrower understandings, we arrive at a definition like the one used by Gabriela Korimová at the TESSEA conference in September 2010.

*“The social economy is a set of socio-economic goals, instruments and organisational and legal measures designed to bring about an objective reduction in the social differences between individuals, groups of people and regions.*

*The social economy is composed of social enterprises and institutions organisationally independent from public administration, which do the following when producing goods and services: 1) prioritise social goals (labour before capital, public interest before profit, democratic participation regardless of ownership stake); 2) reinvest any profit in social and development objectives; and 3) develop human and social capital – social welfare.”<sup>2</sup>*

If, however, we leave academia – meaning the way the social economy and social enterprise is talked about in academic circles or at various conferences – we arrive in an environment where the view of social enterprise is linked more to the legislative definition or perception by the general public. The situation in Slovakia in this regard is already different from the Czech Republic. That is because social enterprises have been defined by law in Slovakia for many years, unlike the Czech Republic, and the social economy in Slovakia has received broad media coverage in connection with the negative affair of pilot social enterprises.

To describe the experiences with the introduction of the social economy in Slovakia and not the social economy as such I will now focus mainly on the impacts of the legislative definition of the term “social enterprise” and the aforementioned affair. I am aware that this approach will narrow the scope of the analysis (the legislation refers to just one type of social enterprise focusing on employing the long-term unemployed for a limited period<sup>3</sup>) and will overlook a number of activities that certainly fall under the broad concept of the

<sup>2</sup> Quoted from a presentation by Prof. Gabriela Korimová entitled How the Public Perceives Social Entrepreneurship in Slovakia; presented at the TESSEA conference on 17 September 2010, available here: <http://www.socialni-ekonomika.cz/cs/konference-2010/154-dokumenty-z-konference-tessea-2010.html>

<sup>3</sup> From the point of view of the founding organisation and business activity the act allows considerable heterogeneity for social enterprises.

social economy. Here I have in mind protected workshops and enterprise by non-profit organisations and cooperatives. The decision to focus mainly on the concept of the social enterprise in the current Slovak legislation and on the affair of the pilot enterprises is based on a subjective impression that it is these phenomena that are currently important in shaping the social economy in Slovakia.<sup>4</sup>

## Development of the social economy in Slovakia

Before we get to the act itself, let us take a quick look at the development to date of the social economy in Slovakia so that we can understand the relevant contexts. If we overlook the very oldest manifestations of certain features of the social economy which date from the Middle Ages, the 19<sup>th</sup> century, the interwar First Republic, or take the form of cooperatives that integrated the disabled before the overthrow of the communist regime in 1989<sup>5</sup>, it is the beginning of the 1990s that can be regarded as the real turning point for the development of the social economy as such.

In this period the free market was being revived and civic society expanded in Slovakia. The key player in this area is the third sector – i.e. various types of organisations and associations which, as in other European countries, focus on issues not covered by the commercial sector.

There is at present no shortage of challenges for the social economy in Slovakia: above all, these include the high rate of unemployment in certain regions, the large Roma community living in excluded ghettos, the opportunity for renewing traditions, the manufacture of local products, and integration of the disabled.

The experts I interviewed on this subject highlight the wide range of innovations that social entrepreneurship can bring in response to specific regional or entirely local conditions. In an expert paper available on the web sites of certain labour offices Gabriela Lubelcová identifies three areas in which the social economy can work as a public and social service in Slovakia:

- *public services – protection, improvement and cultivation of the environment; maintenance and improvement of the quality of a locality's infrastructure (roads, housing*

<sup>4</sup> To this paragraph I would add the words of Petr Mészáros, who sent me his comments on the first version of the analysis and made me aware of the danger “that the reader fall into the trap of identifying the social enterprise defined in Section 50b of the act with social enterprise as such or with the social economy in Slovakia. The act focused on just one type of active labour market policy, but the set of entities in the social economy is much greater”.

<sup>5</sup> The tradition of cooperatives is relatively strong in Slovakia and is continued today by protected workshops.

*stock, educational, medical and cultural facilities etc.); care for the natural environment, cultural sites, local monuments etc.);*

- *social services – help for families, help and care for family members (children and minors, old people, the disabled, the disadvantaged etc.); - as a combination of professional and lay (volunteer) work;*
- *development, free-time and cultural activities<sup>6</sup>.*

Some commentators consider the introduction of the act defining social entrepreneurship and enabling its financial support as the key step in the development of the social economy in the independent Slovakia. This was pertinently expressed by, say, Kristína Alexy in her diploma work, written in 2006 under the tutelage of Gabriela Lubelcová: “At present [in 2006, author’s note] the legislation is one of the main obstacles preventing the social economy becoming established in our context. If third-sector organisations which, among other things, produce profit, i.e. organisations of the social economy, are not legally defined, their development is impossible.”<sup>7</sup>

## **Act No. 5/2004, on employment services**

The way to this act was opened by the penultimate Slovak government led by prime minister Robert Fico. This government’s programme declaration from August 2006 already contained references to social enterprise. In Chapter 3.1 Employment Policy, for example, we can find the following passages:

*“The government regards the highest possible rate of employment as one of the fundamental criteria of the success of state economic and social policy. In cooperation with the social partners and local government authorities, the government will implement policies supporting the growth of sustainable employment and a reduction in unemployment and economic inactivity in order deliver sustainable economic growth and strengthen social and territorial cohesion... The government will adopt robust measures to implement a programme-based and project-based approach designed to strengthen social inclusion, prevent exclusion from the labour market and support the work integration of disadvantaged groups, above all school-leavers, the disabled, mothers with children and*

<sup>6</sup> Possibilities and Opportunities for Establishing the Social Economy and Social Entrepreneurship in the Slovak Republic. Available online e.g. at the following web site: [www.upsvarno.sk/data/files/125.doc](http://www.upsvarno.sk/data/files/125.doc)

<sup>7</sup> Alexy, Kristína, The Social Economy in Selected European States and in Slovakia, diploma work, COMENIUS UNIVERSITY IN BRATISLAVA, FACULTY OF PHILOSOPHY, DEPARTMENT OF SOCIOLOGY. Available here: <http://diplomovka.sme.sk/zdroj/3258.pdf>, s. 54.

*persons approaching retirement age. Particular attention will be paid to supporting members of marginalised Roma communities, reducing regional divisions from the point of view of employment, unemployment and work productivity, especially in the less advanced regions with high unemployment... In this regard the scope and financing of programme and projects will also be increased. In areas with high rates of unemployment and poor populations it will adopt projects to support the creation of new jobs and projects and programmes for the acquisition and preservation of work habits, especially for marginalised groups.”<sup>8</sup>*

Two years into its term Robert Fico’s government enshrined a legal definition of social enterprise in an amendment of Act No. 5/2004, on employment services, which took effect on 1 September 2008.

In short, a social enterprise (as a tool of employment policy) is defined by the act as a legal or natural person with a workforce at least 30% of whom were disadvantaged job seekers prior to this employment.

The act establishes the right to a contribution towards creating and maintaining jobs in the social enterprise for employees who were disadvantaged job seekers before being taken on; the contribution can be collected for 12 or 24 months.

This contribution is one of the most important sources of funding for social entrepreneurship in Slovakia<sup>9</sup>. Besides this source of funding, there is also the opportunity to cover part of costs through the Employment and Social Inclusion Operational Programme (2007-2013)<sup>10</sup>, but this is not a claimable part of revenue as in the case of the act in question.

Special calls for proposals directly targeting support for social entrepreneurship have not been announced under operational programmes in Slovakia so far, according to the experts (or at least they know of no such calls for proposals).

As we will come back to the wording of the act on several more occasions, I will now cite the key parts of the relevant articles<sup>11</sup>.

<sup>8</sup> Programme declaration of the government of the Slovak Republic, August 2006. Available here: [www.zbierka.sk/Dokumenty/Download/33/Default.aspx](http://www.zbierka.sk/Dokumenty/Download/33/Default.aspx)

<sup>9</sup> In other words, social enterprise funding according to the said act. Besides this source there is also the possibility of funding for protected workshops etc.

<sup>10</sup> The details of the operational programme can be found here: <http://www.sia.gov.sk/index.php?siteid=44>

<sup>11</sup> The full wording of the act is available online: <http://www.zbierka.sk/zz/predpisy/default.aspx?>



**Social enterprises are defined in Section 50b (Support for the Employment of Disadvantaged Job Seekers in Social Enterprises)**

(1) For the purposes of this act a social enterprise is a legal person or a natural person who

a) employs employees who, before being taken into employment, were disadvantaged job seekers, whereby the number of such employees accounts for at least 30% of the total number of its employees;

b) supports and helps employees who, before being taken into employment, were disadvantaged job seekers, find work on the open labour market;

c) annually uses at least 30% of the finances which it gains in income from its subject of business and remain after paying all the costs of its subject of business for the financial period in question as per its tax return on creating new jobs or on improving working conditions;

d) is entered in the social enterprises register.

...

(4) The status of social enterprise is granted by a decision of the Central Office based on a written application from a legal person or natural person, provided it satisfies the conditions laid down in indents 1 and 3. The status of social enterprise may also be granted to protected workshops or protected workplaces on the conditions laid down in the previous sentence.

**Financial support is defined by Section 50c)**

(1) Contributions supporting the creation and maintenance of jobs in social enterprises (hereinafter "contributions") for employees who, before being taken into employment, were disadvantaged job seekers, are provided to social enterprises by the office in whose territory the social enterprise carries on its business. Provision of the contribution is conditional on the creation of a fixed-term employment relation with a disadvantaged job seeker.

(2) Contributions are provided by the office on the basis of a concluded written agreement over a period of 12 calendar months; the maximum level of the contribution is 50% of the total labour cost pursuant to Section 49 (4), calculated from the average wage of

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*employees in the economy of the Slovak Republic for the first to the third quarter of the calendar year preceding the calendar year for which the contribution is being provided. Contributions are not provided towards the employment of a disadvantaged job seeker, for whose employment a contribution pursuant to Sections 50, 50a, 51a, 56 and 56a was provided in the same period.*

*(3) Based on the concluded written agreement the office shall provide a contribution even after the elapse of 12 calendar months, provided the employee, in support of whose employment a contribution was provided pursuant to indent 2, did not find employment on the open labour market. The maximum level of the contribution provided shall be 40% of the total labour cost pursuant to Section 49 (4), calculated for the first to the third quarter of the calendar year in which provision of the contribution is being extended, but at most during 12 calendar months.<sup>12</sup>*

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<sup>12</sup> The issue of social enterprises falls under the Central Office of Labour, Social Affairs and Family, employment services section. For details on this issue see: [http://www.upsvar.sk/buxus/generate\\_page.php?page\\_id=12977](http://www.upsvar.sk/buxus/generate_page.php?page_id=12977).



## **CHAPTER 2 – PITFALLS OF THE SLOVAK ACT**

According to some opinions, enshrining the social enterprise in law, which, as has already been suggested, helped establish social enterprises, also brings some pitfalls that shape attitudes towards social entrepreneurship as such. In my analysis I have identified five such pitfalls.

The definition of the social enterprise is too narrow in the legislation and does not cover all the aspects this phenomenon entails. The entrepreneurial dimension is not particularly pronounced in the current conception – social enterprises serve as employment instruments with a social dimension and are more like a social service. The period of time for which support can be drawn and thus for which persons who were long-term unemployed may be employed is limited. It is not clear how the success or failure of a particular social enterprise should be judged. And the general awareness about the social economy is very low – both among the public and among the concerned parties. I will now examine each pitfall in greater detail.

### **1) Narrow definition of a social enterprise**

It is true that the act on employment services does not place any limits on the legal form of organisations that become a social enterprise and both natural persons and legal persons – non-profit organisations, commercial companies and also municipalities and towns – may apply for that status.

However, the relatively broad conception of the substance of social entrepreneurship was narrowed in the act to just one type of “transitional social enterprise”, whose principal goal is to prepare the long-term unemployed for the open labour market. For example, Section 50b (1b) provides that *“An enterprise supports and helps employees who, before being taken into employment, were disadvantaged job seekers, find work on the open labour market.”*

Social entrepreneurship, which was not particularly well known before the amendment, can now merge very easily in the public awareness with another form of requalification employment of the long-term unemployed intended to prepare them for further work. The fact that the term “social enterprise” features in the act can easily give the impression that the act defines this term. If the Czech definition of the social enterprise states that this

“often creates an opportunity for persons disadvantaged on the labour market”, the current Slovak legislative version states that it “always (and primarily) creates a job opportunity for such persons”. The actual understanding of the social economy is much broader among the expert Slovak public – as I have tried to show in the preceding passages.

Gabriela Lubelcová was one of those who expressed a concern in her study mentioned above: *“This is a typical example of the social enterprise as a work integration tool with the function of an interim labour market (temporary employment in a social enterprise is expected to improve the ability to find work on the open labour market)... Even if the work integration social enterprise represents the most common form of social entrepreneurship on an international scale, this legislation presents the risk that the social entrepreneurship space will be confined to this area alone in the awareness of the general and professional public.”*<sup>13</sup>

## 2) Underdeveloped entrepreneurial dimension

Social enterprises can easily be viewed by the lay public as nothing more than a contribution towards refunding part of the wage costs of employ the long-term unemployed. This view is confirmed by some representatives of social enterprises who only founded their firms once the act was in force, after they had been informed by the relevant authorities that it was a way to obtain attractive revenues from public funds. The motivation to expand social entrepreneurship is also deformed in these kinds of conditions.

Social enterprises are thus more social than enterprises. Even the cited expert study by Gabriela Lubelcová, which mentions the entrepreneurial dimension of the social enterprise in connection with financial independence, can do little to change the situation. *“The social enterprise is an entrepreneurial entity that strives for the financial independence of its economic activities through an entrepreneurial spirit and competitiveness. Competitiveness is based on the commercial exploitation of unique local specifics, covering needs which are not provided for on the market or are not viable for traditional businesses, on its ability to produce small series tailor-made for the requirements of customers and, last but not least, on a specific social ethos that imbue the product with the involvement of disadvantaged groups. The product must therefore bring a distinctive value added making it able to compete on the market and respect the marketing principles of product sales. It is this ability to detect an entrepreneurial dimension in traditionally non-*

<sup>13</sup> Possibilities and Opportunities for Establishing the Social Economy and Social Entrepreneurship in the Slovak Republic. Available online e.g. at this web site: [www.upsvarno.sk/data/files/125.doc](http://www.upsvarno.sk/data/files/125.doc)

*profit areas of business that is a source of innovation and injects into the social sphere a new impulse of economic sustainability (which is important in the social services sphere, for example).<sup>14</sup>*

The amendment of the employment services act gives municipalities a specific status. Municipalities currently account for almost half of the founders of social enterprises, and for them too social enterprises can be a means of getting specific types of work done for the municipality (building work, tending green spaces, upkeep of local property) for half the cost. The Manual drawn up for the founding of municipal social enterprises by the Central Office of Labour, Social Affairs and Family also explicitly refers to the “non-entrepreneurial” nature of social enterprises: *“Social enterprises founded with this philosophy are not preferentially focused on creating profits and are not entrepreneurial by nature. They provide work to job seekers and prepare them for the open labour market, thereby fulfilling both social and economic goals... Social enterprises provide them [the long-term disadvantaged on the labour market – author’s note] with a transitional job in which they develop their work skills and prepare for joining the open labour market and working in an ordinary enterprise.”<sup>15</sup>*

Economic requirements are mentioned a few sentences later: *“The social enterprise must be able to exist on the open labour market like an ordinary enterprise, and for that reason it should be economically self-sufficient.”<sup>16</sup>* But the actual implementation of the act does little to corroborate this claim. For example, municipalities setting up social enterprises are often their own customers and use state financial support to pursue activities their ordinary budget left no funds for.

It is true that the applications filed upon registration contain a marketing plan that should state the following: *“Who are the typical customers for individual products of the SE? Who will buy the SE’s products (citizens, small and medium-sized entrepreneurs, public administration etc.)? As far as service provision is concerned, what is its objective? Who is it designed for? What does the customer expect from the SE’s products? What customer requirements is the SE prepared to meet for individual products of the SE?”<sup>17</sup>*. In

<sup>14</sup> Possibilities and Opportunities for Establishing the Social Economy and Social Entrepreneurship in the Slovak Republic. Available online e.g. at this web site: [www.upsvarno.sk/data/files/125.doc](http://www.upsvarno.sk/data/files/125.doc)

<sup>15</sup> SOCIAL ENTERPRISES in the conditions of a municipality, self-governing regions, associations of municipalities and self-governing regions and in the conditions of legal persons founded or established by a municipality or self-governing region. Available here: [http://www.upsvar.sk/buxus/generate\\_page.php?page\\_id=12977](http://www.upsvar.sk/buxus/generate_page.php?page_id=12977)

<sup>16</sup> Ibid.

<sup>17</sup> SOCIAL ENTERPRISES in the conditions of a municipality, self-governing regions, associations of municipalities and self-governing regions and in the conditions of legal persons founded or established by a municipality or self-governing region. Available here: [http://www.upsvar.sk/buxus/generate\\_page.php?page\\_id=12977](http://www.upsvar.sk/buxus/generate_page.php?page_id=12977)

reality, however, this part can be described merely in very formal terms, as follows, say: *“The town... has created neither its own enterprise nor a fixed organisational component that would take overall charge of the area of care for the cleanliness of the town, the environment, waste disposal. In accordance with the act on municipalities the fundamental obligations stemming from this area are taken care of by contractors on a contractual basis or the town’s organisational structure has 5 jobs in the technical section of the administrative division which fulfil the said duties in this area. Up to 31.12.2008 the town had contracted cemetery services... The termination of this contract gives rise to the obligation to provide cemetery services and keep records of grave lots, which gives rise to the possibility of this work being covered by the work of a Social Enterprise.”*<sup>18</sup>

This concept of the social enterprise is confirmed by critical voices that claim that the people who engage in social entrepreneurship in Slovakia often underestimate its economic dimension and lack entrepreneurial spirit. Kristína Alexy is one of those who point this out in her diploma work: *“One problem with Slovak activists who are active in social entrepreneurship is their lack of knowledge of, or their underestimation of the economic dimension of social enterprises. Although they are for the most part socially engaged and hard-working individuals, their work has no economic foundation, as if social enterprises were not “enterprises” in the real sense of the word. There is an orientation towards social objectives, but it is not underpinned by sufficient knowledge of economics and its principles. This underestimation of the enterprises’ economic dimension leads to failure on the market and the inability to achieve one the principal objectives of social entrepreneurship, which is the ability for an enterprise to be self-funding.”*<sup>19</sup>

### ▪ 3) Limited support period

The maximum length of time that social enterprises have for placing the long-term unemployed on the open labour market is 24 months – this is the period in which enterprises can claim a state contribution towards wage costs. Gabriela Korimová points out that a large percentage of the long-term unemployed in Slovakia has lost its working and social habits to such an extent that two years is not enough time to regain them; she recommended the period should be increased by one year, with the understanding that

<sup>18</sup> SVATÝ JUR TOWN SOCIAL ENTERPRISE BUSINESS PLAN; made available to me after personal communication with the municipal authority.

<sup>19</sup> Alexy, Kristína, The Social Economy in Selected European States and in Slovakia, diploma work, COMENIUS UNIVERSITY IN BRATISLAVA, FACULTY OF PHILOSOPHY, DEPARTMENT OF SOCIOLOGY. Available here: <http://diplomovka.sme.sk/zdroj/3258.pdf>, s. 55.

this would not increase total financial support, which would instead be spread over a longer period of time.

There can also be a problem with the employment of persons whose success on the open labour market is limited even if they gain the necessary habits in a social enterprise. This is mainly a question of physically or mentally disabled people, but older people who lost their job shortly before retirement age can also come up against limitations. Protected workshops<sup>20</sup> operate for the physically and mentally disabled in Slovakia, but the options for older people are considerably limited.

#### ▪ **4) Unclear assessment of outcomes**

As mentioned above, if a firm, municipality or other organisation meets the conditions laid down by the relevant legislation it may establish a social enterprise and thus become entitled to a state contribution towards the wage costs of the long-term disadvantaged on the labour market. It will automatically receive this contribution – no monitoring and assessment system has been created to monitor, for example, exactly how many people have successfully returned to the open labour market and how long they remain on it. Nor is it clear from the available information what proportion of persons placed on the labour market would be regarded as making the current activities a success.

The surveyed representatives of social enterprises said that they had managed to place several employees on the open labour market during the first 12 months but were continuing to draw financial contributions towards the majority in the second year – even though this contribution is 10% lower.

The fact that the principal goal of social enterprises should be placing disadvantaged persons on the open labour market is not necessarily evident even from the official business plans. For example, the plan of the social enterprise established by the town of Svatý Jur declares the following:

*“The town of Svatý Jur has approved investment expenditure of SKK 15 million (EUR 498,000) in its capital budget for 2008-2011, approved by Resolution of the Town*

<sup>20</sup> Protected workshops and protected workplaces, which are another important active labour market policy instrument, can also become a social enterprise or part of a social enterprise. Protected workshops and protected workplaces are founded to employ the physically and mentally disabled. At least half of the workforce in a protected workshop or workplace must be disabled. Invalids' production cooperatives are also treated as protected workshops in Slovakia.



*Assembly I-2/4 of 15.1.2008, for the repair and reconstruction of pavements and historical fortifications. The core objective is to implement the investment plan through building activity that will be provided by a social enterprise and thus to attain considerable economic savings or the more efficient use of funds for achieving at least an equal objective. This will furthermore make it possible to create the new temporary jobs necessary for achieving the goal in the given area.*<sup>21</sup>

Nor do the other parts of the business plan speak in detail about how many people being put in work will be an indicator of success.

In the case of social enterprises established by municipalities, a self-governing region, an association of municipalities or an association of self-governing regions, in the period from April 2009 to December 2010 it is made possible for three of the four conditions for establishing a social enterprise to be automatically deemed to be satisfied, so these do not have to be reported. The three conditions are:

*a) the Social Enterprise employs employees who, before being taken into employment, were job seekers within the meaning of the act on employment services and that such employees account for at least 30% of the total number of its employees;*

*b) it provides support and assistance to employees who were job seekers before being taken into employment to find work on the open labour market;*

*c) it uses at least 30% of the finances gained in income from its subject of business and remaining after paying all the costs of its subject of business for the financial period in question as per its tax return on creating new jobs or on improving working conditions.*<sup>22</sup>

The condition municipalities and self-governing territories currently have to meet is being entered in the register of social enterprises and subsequently monitoring all the necessary indicators. In February 2009 the daily newspaper SME described this possibility as preferential treatment that could influence the fundamental essence of social entrepreneurship. *“Not even one disadvantaged job seeker now has to be employed in a state-subsidised social enterprise that may be established in any district. If it is founded by a municipality or a local government authority, it can employ basically any unemployed person from the labour office. This is one of the changes the government agreed on on Monday. It still has to be endorsed by parliament. According to former labour minister*

<sup>21</sup> SVATÝ JUR TOWN SOCIAL ENTERPRISE BUSINESS PLAN; made available to me after personal communication with the municipal authority.

<sup>22</sup> SOCIAL ENTERPRISES in the conditions of a municipality, self-governing regions, associations of municipalities and self-governing regions and in the conditions of legal persons founded or established by a municipality or self-governing region. Available here: [http://www.upsvar.sk/buxus/generate\\_page.php?page\\_id=12977](http://www.upsvar.sk/buxus/generate_page.php?page_id=12977)

*Ludovít Kaník the changes will mean that completely standard enterprises can be formed under the guise of a “social enterprise” and receive a substantial state subsidy.”<sup>23</sup>*

## ▪ 5) Insufficient awareness

The introduction of the act was not heralded by any major campaign to acquaint the public and stakeholders with the principal and aims of social entrepreneurship in any detail. There has therefore been little stimulation of the space in which social entrepreneurship could develop. That is criticised by the surveyed experts, who point out, for example, that the innovation that social entrepreneurship entails is fundamentally constrained by an inordinate emphasis on the formal legal aspect of the matter. Under these circumstances the “moral” dimension of social entrepreneurship can easily be forgotten by the public. Social enterprises’ activities can be viewed merely as a way of obtaining financing for a firm’s operations or improving a municipality’s budget, overlooking those social enterprises whose primary motive is to address a selected social problem.

That could have been prevented by, for example, a systematic awareness campaign targeting future social entrepreneurs, by drawing on experiences from abroad, by supporting networking at local levels etc. Nothing of the sort took place at state level, however, despite the fact that experienced experts in the social economy have years of experience with education, for example – a key role here is played by the Faculty of Economics of Matej Bel University, which runs a Social Enterprise Management course. Slovak experts also drew attention to the danger of insufficient awareness, among them Gabriela Lubelcová, who pointed out in her oft-mentioned study that the following steps were necessary to establish and expand social entrepreneurship in Slovak conditions:

- **Formulate a national strategy of support for social enterprise** – clarify the understanding of the concept, point out the opportunities in the public policies system, encourage a public debate, mobilise the key actors – creating space for social entrepreneurship at macro level.
- **Disseminate the strategy** – promote the concept of the social economy, educational and training activities for the key actors (regional and local public administration, the third sector, labour and social affairs offices, social services).
- **In each area of public policies identify the opportunities and restrictive legal**

<sup>23</sup> Marianna Onuferová, Preferential Treatment for Social Enterprises, daily newspaper SME, 4 February 2009. Available online at: <http://ekonomika.sme.sk/c/4292789/socialne-podniky-zvyhodnia.html>



*and economic conditions – propose the necessary legal and economic instruments to stimulate the creation of social enterprises especially in the area of community development, employment policy (active labour market instruments) and social inclusion policies (particularly in the social services; the act on social services being prepared could create space for this).*<sup>24</sup>

The Slovak media also do little to contribute to greater awareness: they do not provide space for expert debate and mainly refer to social entrepreneurship in connection with the case of eight pilot social enterprises that have little in common with standard social enterprises.

The key actors in the Slovak social economy are the Faculty of Economics of Matej Bel University in Banská Bystrica and the Faculty of Philosophy of Comenius University in Bratislava. The representatives of protected workshops and, at state level, the Central Office of Labour, Social Affairs and Family also have an important voice. Be that as it may, according to the available information there is no centralised platform or non-profit organisation in Slovakia that has for long cultivated the topic of the social economy or brought together social entrepreneurs. There are also still no campaigns like “social entrepreneur of the year”, no uniform brand of “social enterprise” or any figure publicly giving support to this kind of entrepreneurship. All these factors have an impact on the way the law is perceived.<sup>25</sup>

The potential impact of enshrining social enterprises in law could have been much bigger if more attention had been paid to preparation. The current government is not expected to amend the act in the near future. The reason for that is the aforementioned negative campaign that has made social enterprises a synonym for state-supported unfair business practices. Consequently, before greater use is made of social entrepreneurship the concept itself will have to be rehabilitated, by convincing all participating parties that social entrepreneurship is effective, that social enterprises have been successfully established and that it is mainly the problems associated with pilot enterprises – i.e. just a minor part of

<sup>24</sup> Possibilities and Opportunities for Establishing the Social Economy and Social Entrepreneurship in the Slovak Republic. Available online e.g. at this web site: [www.upsvarno.sk/data/files/125.doc](http://www.upsvarno.sk/data/files/125.doc)

<sup>25</sup> When gathering materials I came across the web site [www.socialnepodnikanie.sk](http://www.socialnepodnikanie.sk) – this is a portal founded as part of the project “A System for the Training (Practical Education) of Managers of the Protected Workshops of the Employers of Disabled Persons in the Slovak Republic”, which is operated by the Association of Employers of Disabled Persons. The aim of the project and thus also the portal is: “to educate employees, employers, managers and traders in the Bratislava region in various areas of enterprise, with the emphasis on the specific employment of disabled persons”. This is therefore a single specific segment and not social entrepreneurship as a whole.

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implementation – that cause the negative perception.

○ **CHAPTER 3 – THE PILOT SOCIAL ENTERPRISES AFFAIR**

The most attention the phenomenon of social entrepreneurship has received in the Slovak media is associated with the “pilot social enterprises affair”. This affair dates back to the middle of 2009, when the Slovak Governance Institute reported its suspicion that the social enterprises that had been established by Robert Fico’s government in 2008 were operating in total contravention of the European state support rules, because these enterprises operated on the open market, received a generous subsidy (approx. SKK 100,000,000 per enterprise) and competed against other companies that did not receive any aid. This key aspect of the affair was accompanied by several other suspicions, including the following:

- the subsidised enterprises are linked to people close to the governing parties of the time;
- training tenders that took in the individual enterprises were effectively unfair competition;
- people involved in the project paid themselves disproportionate amounts for their work.

It is up to the appropriate control authorities<sup>26</sup> to discover whether the law has been broken and whether the suspicions are grounded in truth. I make no judgement on the case one way or the other. The only objectively confirmed information is that a standard audit of funding conducted by the Ministry of Labour, Social Affairs and Family put an end to four of these pilot enterprises on the grounds of their failure to satisfy the fundamental conditions for economic and accounting activities (one of the enterprises closed because of the floods). Another indisputable fact is that the affair has considerably coloured the public’s attitude towards social entrepreneurship per se. In the following part of the text I would like to focus on this particular aspect.

When I contacted the representatives of social enterprises registered with the Central Office of Labour, Social Affairs and Family – i.e. social enterprises that are sometimes

<sup>26</sup> The latest information gained during the writing of this paper indicated that the Slovak prosecutor’s office will deal with the affair – see e.g. an article in Hospodárske noviny online “Tomanová’s social enterprises are on the public prosecutor’s desk”, dated 30 September 2010 and available online at: [http://m.hnonline.sk/c3-46669310-kw0000\\_d-tomanovej-socialne-podniky-su-na-prokurature](http://m.hnonline.sk/c3-46669310-kw0000_d-tomanovej-socialne-podniky-su-na-prokurature)

described as “standard” in the media (as opposed to the pilot “non-standard” ones) – the representatives’ first reaction was in many cases to give assurances that they operate in compliance with the law and are not involved in anything unfair.

That speaks volumes about the impact of the affair. Equally devastating evidence is that if you enter the Slovak term for “social enterprises” in Google, the vast majority of hits generated for the past year are devoted to the affair of the eight pilot social enterprises. From this perspective social entrepreneurship is thus conflated with terms like asset stripping, overpriced state contracts, clientelism and corruption. A number of articles deal with the question of whether money from European funds will have to be returned and the cost of entire project covered by Slovak tax payers.

In this context the following claims (implying public attitudes to the issue) can be found in various media articles:

- *“Ordinary people in the regions know full well that social enterprises are nothing more than a way of channelling EU finances into the right hands. Viera Tomanová [former labour minister in prime minister Robert Fico’s government of Slovakia] and co. have disqualified the idea of social enterprises for many years to come.”<sup>27</sup>*
- *“Official figures... indicate that the eight enterprises employ 340 people and provided training to a further 860. For their work they received EUR 5.7 million and training cost EUR 9,800 per employee. So much for the figures. The question is whether that is a lot or a little. It has hard to give an objective answer... A subjective view provides a relatively simple answer: **very poor value for money.**”<sup>28</sup>*
- *“Rightly, the question emerges of **who do social enterprises actually benefit.** Whether it is mainly the unemployed, or rather the people who own and run the enterprises, including those who provide services to them.”<sup>29</sup>*
- *“After a year and a half since the launch of this senseless “social” squandering we now have 364 jobs created in this way, 87 of which are by agreement. If social*

<sup>27</sup> Seven Sins of Viera Tomanová or the myth of social enterprises; blog by Paľo Sibyla dated 25 January 2010, available online: <http://blog.etrend.sk/pavel-sibyla/2010/01/25/sedem-hriechov-viery-tomanovej/>

<sup>28</sup> Lukáš Pardubský, Social Enterprise or Fraud, Hospodárske noviny dated 7 August 2009, available online: <http://www.governance.sk/index.php?id=1314>

<sup>29</sup> Ibid.

*entrepreneurship was meant to be one of the main measures against unemployment, which is growing in Slovakia faster than anywhere else in Central Europe, it is completely evident that **another myth about helping the unemployed has been dispelled.***<sup>30</sup>

- *“Another problem (of the Fico government, author’s note) was the pilot social enterprises because of which the **Slovak Republic has to return EUR 2.75 million to the Union.**”*<sup>31</sup>

The Slovak Governance Institute (SGI) has monitored the affair closely, setting up a section under the same name on its website, where it gathers written and video materials relating to pilot social enterprises.<sup>32</sup>

If we are to summarise these observations and opinions, three widespread opinions on social entrepreneurship in Slovakia can be identified. These opinions can be found both in the media and among the lay public. Their objectivity is decidedly disputable and arguments can certainly be found against all the opinions – unfortunately, however, this is an area where impressions play the most important role.

- **1) Social entrepreneurship is only possible with state support.** The pilot enterprises received up to 95% funding, for which they could buy equipment, cover wages and arrange training for employees. The economic or entrepreneurial dimension is lost from this perspective. Without state funding social enterprises have no chance of survival. This is also linked to the view of social entrepreneurship as a service that will again have to be paid for by tax payers (if, for example, the EU does not pay for the pilot projects).

This feeling was poignantly expressed by a note to an article in SME daily newspaper: *“The pilot social enterprises for EUR 26 million do not have to try very hard. As much as 95% of their total costs is covered by the European Union and the state budget.”*<sup>33</sup>

- Peter Meszaros from civic association 3lobit commented on this topic in the same newspaper. In his aptly titled article “This is not how social entrepreneurship is

<sup>30</sup> Blog by Ivan Štefanec entitled “What is social enterprise”, published on 18 February 2009 at Hospodárske noviny online. Available online at: <http://moje.hnonline.sk/node/1418>

<sup>31</sup> Hospodárske noviny online dated 15 October 2010. Available online at <http://hnonline.sk/ekonomika/c1-47116500-za-chyby-ficovej-vlady-vratime-bruselu-13-milionov-eur>

<sup>32</sup> Podrobnosti viz: <http://www.governance.sk/index.php?id=1528>

<sup>33</sup> Katarína Ragáčová, V sociálnom podniku nám buchli dverami, Deník SME ze dne 17. srpna 2009. Dostupné online na <http://ekonomika.sme.sk/c/4977289/v-socialnom-podniku-nam-buchli-dverami.html>

done” he describes the principle of social entrepreneurship and shows how the pilot enterprises did not follow this principle. He concludes his article with the following words: *By giving preferential treatment to social enterprises the government divests them of their fundamental attributes and puts them on the same level as a standard commercial company, what is more in a manner that may pave the way for unfair competition. The degree of ignorance and misunderstanding of the fundamental definitions and standards of social entrepreneurship the government today displays in its attempt to “help” social enterprises is astonishing. I would go as far as to say that today we are witnessing the establishment and emergence of enterprises with a qualifying adjective that has lost its meaning.*<sup>34</sup>

- **2) The goals of social entrepreneurship cannot be measured.** Although people know that this is a project targeting the long-term unemployed, that these enterprises should provide them with training and help them find work on the open labour market, it is not at all clear what kind of outcome can be viewed as a success: how many people should be training for the investment to pay off, how many should find a job, how long they should last in their new employment etc. You will find no answers to these questions.

This view is found in the aforementioned SME daily newspaper article: *“Labour minister Tomanová earmarked EUR 26 million (SKK 800 million) for eight pilot social enterprises. The enterprises gave training to just over 800 unemployed people; how many of them found work, however, is unclear, as the labour ministry does not possess any statistics. The figures the social enterprises give are negligible. The Revúcky social enterprise found work for just 15 trainees, for example.*<sup>35</sup>

- **3) Social enterprises can get subsidies for anything and everything – even the price of their services and projects** (i.e. not just compensation for more difficult conditions when employing the long-term disadvantaged on the labour market).

Several people unfamiliar with the field of social entrepreneurship in Slovakia and whose information is gained solely from the media mentioned one example to me of a social enterprise that began to operate in the wood processing industry in a municipality where one equivalent company (that was neither a social enterprise nor subsidised) already existed. Apparently, the generous subsidies enabled the social enterprise to obliterate its

<sup>34</sup> Peter Mészáros, “This is not how social entrepreneurship is done“. Available online at: <http://komentare.sme.sk/c/4303013/takto-sa-socialne-podnikanie-nerobi.html>

<sup>35</sup> Ibid.



rival. I did not investigate to see if this example is grounded in fact – it serves as an illustration of the public perception.

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According to the contacted experts, the spread of these opinions – or myths, if you will – about social entrepreneurship could have been prevented. They point to the following main reasons why this situation was allowed to develop:

- there was practically no expert, political or media support in the run-up to the launch of the pilot projects;
- detailed mapping of the market was not performed and clear priorities for social enterprises were not defined;
- the business environment was not prepared for this kind of entrepreneurship and very rapidly began to view it negatively as state-subsidised competition;
- the capital investment in the pilot projects was too big;
- the management of the social enterprises were not professionally trained for such a complicated task.

As the text above shows, the Slovak public's view is not particularly positive; awareness is low and limited by the aforementioned affair. This limitation precludes any discussion and the road to rehabilitating the concept will evidently not be easy.

Besides the pilot projects, there are almost seventy companies registered as social enterprises operating in Slovakia today. It will be possible to assess how they have benefited employment policy in the next few weeks and months, when they will have existed for two years<sup>36</sup>. It is already evident, however, that Slovakia will have to wait for a clearer enterprise dimension and indirect support from the state and local governments (in the form of responsible awarding of public contracts, for example). Instead, today's situation seems to corroborate the idea of a social enterprise as an institution that fulfils a social service with support from the state (or the ESF). It will be interesting to see how the situation develops.

<sup>36</sup> Detailed charts showing the proportions of the individual forms of registered social enterprises and the areas they deal with can be found, for example, in the presentation by Prof. Gabriela Korimová entitled How the Public Perceives Social Entrepreneurship in Slovakia; presented at the TESSEA conference on 17 September 2010. Available here: <http://www.socialni-ekonomika.cz/cs/konference-2010/154-dokumenty-z-konference-tessea-2010.html>



○ ***The introduction of the social economy in Slovakia in 1,063 words***

The general conception of the social economy in Slovakia is not much different from the Czech Republic. In both countries this term is understood as the set of economic activities characterised by a combination of economic and social objectives. Furthermore, the relatively long shared history gives the two countries similar experiences with social entrepreneurship, which only began to develop properly in both countries after 1989. Be that as it may, the current experience with the introduction of the social economy in Slovakia differs from the Czech experience in two aspects. The first is the definition of social enterprises in Slovak legislation; the second is the negative affair of the financing of eight pilot social enterprises that has influenced the perception of social entrepreneurship in the eyes of the general public in the past two years.

The legislative definition of social enterprises, which according to a number of sources was necessary to establish social entrepreneurship in Slovakia, came from Robert Fico's government (2006-2010), which had stated its support for social economy in its programme declaration. (*The government will adopt robust measures to apply a programme-based and project-based approach designed to strengthen social inclusion, prevent exclusion from the labour market and support the work integration of disadvantaged groups... The government will seek to create the right conditions for the development of social entrepreneurship in the area of the social services based on the non-profit principle.*)

The necessary legislation took the form of an amendment of Act No. 5/2004, on employment services, which entered into effect in September 2008. The fact that social enterprises are associated with the act on employment services shows clearly how the concept of the social economy entered the legislation (a social enterprise is a legal or natural person at least 30% whose workforce were long-term unemployed before they were taken on into employment) and gives a foretaste of some of the problems the Slovak legislation established for social entrepreneurship.

In my analysis I have focused mainly on the fact that the definition of social enterprises in the act is too narrow, concentrating only on one area of social economy (even though to some degree it affects to be a general definition) and does not cover all this phenomenon's

potential. I also draw attention to the fact that the entrepreneurial dimension of the social economy is insufficiently pronounced in the conditions laid down by the act. I have also looked at the legally defined period in which social enterprises may collect support for individual employees (at most 24 months) and touched on the fact that the legislative changes were not preceded by a large-scale information and education campaign to prepare all the concerned parties for this phenomenon.

Overall, then, these problems have helped ensure that only a small part of the wide range of possibilities and space for innovation that social entrepreneurship in general offers is currently supported. Social entrepreneurship can thus easily appear to be focusing solely on social benefit without heeding the attainment of profit.

Such a narrow definition of a social enterprise and lack of information campaign came about in Slovakia despite the fact that social economy experts had drawn the relevant authorities' attention to the potential pitfalls and risks and had offered solutions. The outcome merely confirmed that there was again a disconnect between theory and application.

If the degree of evolution of social entrepreneurship in a particular country were measured by the frequency with which the terms "social enterprise" and "social entrepreneurship" occur in the media, Slovakia would have probably been a world leader in the last four years. In 2006 the phenomenon of social entrepreneurship won political support, but in reality this turned out to be a disservice to the social economy, it coming about at a time when the affair of the pilot social enterprises became public knowledge, an affair which still has a profound impact on the broader perception of social economy.

At the heart of the affair is the generous government support to eight "pilot social enterprises" (sometimes also referred to as "non-standard social enterprises"), each of which received a start-up injection of approx. SKK 100 million. Very soon after, this support began in Slovakia to be spoken of in the same breath as corrupt behaviour, non-transparent tenders and links between business and politics. The actual facts must be proven by the criminal justice authorities, but from the point of view of the perception of social economy several general views can be identified as ensuing from this affair.

Given the high level of subsidy, opinions quickly became widespread in Slovakia that social entrepreneurship is only possible with state support, that the objectives of social entrepreneurship cannot be measured and also that the state may subsidise everything and anything in a social enterprise – not merely contributing to compensate for the more

difficult conditions when employing long-term disadvantaged persons on the labour market. All this – like the legislative definition – again this associates social enterprises with the social services sector instead enterprises activities with value added that are worth directly or indirectly supporting.

The experts I interviewed for the purposes of this analysis often spoke of the innovative nature of social entrepreneurial activities, mentioning western European countries with developed social economy networks and support such as Great Britain, Sweden, Belgium or Italy as foreign examples worth following. It is hard to estimate how big the gap between Slovakia and these countries is, nevertheless Slovakia (like the Czech Republic) still has some catching up to do. The social economy is not based merely on acts, regulations and state support. It is also influenced by the degree of development of a country and its civic engagement and social cohesion as such.

Slovakia has stumbled a couple of times, but that certainly does not mean that it has abandoned the path to the effective implementation of social economy. The coming days and weeks will show how well the seventy or so “non-pilot” social enterprises are doing. We are coming up to the two-year mark since the inception of these seventy enterprises, i.e. the amount of time they should require to get long-term unemployed persons back on the open labour market. Whatever the results, a more detailed analysis of them will no doubt be an interesting opportunity for preserving or modifying the existing conditions and for establishing the social economy more effectively in Slovakia.

○ **APPENDICES**

The analysis is accompanied by four appendices that comprise authentic documents from the social entrepreneurship environment and may serve to illustrate the current state of affairs:

- Appendix 1 – Manual for Establishing Municipal Social Enterprises, drawn up by the Central Office for Labour, Social Affairs and Family. This text describes in detail how municipalities should proceed when establishing social enterprises, what activities to focus on and how to perform proper reporting.
- Appendix 2 – Report on the Results of the Activity of a Social Enterprise. Form drawn up by the Central Office for Labour, Social Affairs and Family, which social enterprises must complete after every year of activity.
- Appendix 3 – Svatý Jur municipality press release on the occasion of the launch of the project entitled “Support for the Creation and Preservation of Jobs in a Social Enterprise”.
- Appendix 4 – Relevant sections of Act No. 5/2004, on employment services (full wording)