

# **THE CURRENT STATE OF THE SOCIAL ECONOMY IN THE SLOVAK SOCIOECONOMIC ENVIRONMENT**

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## **ABSTRACT**

The mixed economy model brings the possibilities of applying the principles of the social economy in a wider dimension. The social economy provides opportunities for special social and economic measures especially for marginalized groups of the population. A brief overview of the development of the social economy in the 20th century presents the initiatives of national states and the European Union in the development of the social economy. In the Slovak socioeconomic environment, the development of the social economy was comprehensively addressed by the new Act on the Social Economy and Social Enterprises. It defines essential terms of the social economy as an integration enterprise, a social housing enterprise or a general registered social enterprise. It offers opportunities to help businesses integrating disadvantaged citizens. The article also presents the current state of registration of social enterprises according to legal forms and types of registered social enterprises.

**Keywords:** integration enterprise, social housing enterprise, general registered social enterprise, social economy, social economy subjects, public interest

## **Introduction**

The economic model of the state with the traditional private capitalist sector and the state public sector of the second half of the 20th century proved to be insufficiently effective in solving the social problems of society. The mixed economy model is the basis of a welfare state that focuses on recognized market failures and the application of economic measures that are effective against market failures, namely income and expenditure redistribution and countercyclical measures. At the beginning of the 21st century, however, it became clear that there are still a large number of marginalized groups of the population in society that require special social and economic measures to improve their status, which are collectively called the social economy.

The social economy is defined as the sum of production, distribution and consumption activities in the public interest in the form of providing a socially beneficial service for society

as a whole or for an unlimited circle of natural persons, disadvantaged persons or vulnerable persons.

First of all, it is necessary to stimulate the growth of the economy through public investments in business entities that currently have unused capacities in practically all sectors of the economy. At the same time, it is necessary to take effective measures in order not to increase the losses of the business sector in the next period.

In the second place, it is necessary to use the possibilities of the social economy through public investments, also by transforming small and medium-sized business entities into the wider space of the social economy. Employment growth reduces the risk of deepening the national debt, which is growing rapidly during this period.

### **1. Modern development of the social economy of the 20th century**

The social economy was often associated with third sector organizations in the literature (Shragge and Fontan, 2000) and similarly, the third sector was also associated with reflections on its development from a legal, economic and other point of view, which is related to the historical development of social economy organizations. The modern view of the social economy is related to a new task, which demonstrated the ability to find solutions to current social problems and the needs of the population when the market and the state fail.

The concept of social economy has not yet been established terminologically, in foreign literature written in English, the term social economy is used, for example, social economy, solidarity-based economy, work integration social economy, market-oriented social economy (Defourny, Favreau and Laville, 2002), respectively. alternative economy, plural economy and intermediate economy, in foreign literature written in French, e.g. économie solidaire, économie plurielle, l'autre économie (Laville and Cattani, 2006, Laville, 2007).

The meaning of the social economy in today's sense began to be mentioned in the second half of the 1970s in France, after the establishment of the association National Liaison Committee for Mutual, Cooperative and Associative Activities (CNLAMCA), which brought together organizations representing cooperatives, mutual societies and associations. European conferences of cooperatives, mutual societies and associations were held in 1977 and 1979 under the auspices of the European Economic and Social Committee, the advisory committee of the European Union (The European Economic and Social Committee - EESC). In 1980, the National Liaison Committee for Mutual, Cooperative and Associational Activities prepared and published the so-called The Social Economy Charter, which defines the social economy as a

set of organizations that do not belong to the public sector, operate democratically with members having equal rights and obligations and apply a special regime of ownership and distribution of profits, with surpluses used to expand the organization and improve its services to its members and society (Monzon, 1987).

From an institutional point of view, the social economy mainly includes cooperatives, mutual societies and associations, as well as foundations. Cooperatives, mutual societies, associations, foundations considered it necessary to establish a permanent dialogue on European policies of common interest. In November 2000, they founded the European Standing Conference of Cooperatives, Mutual Societies, Associations and Foundations (CEP-CMAF) and currently the most publicly accepted definition is given by the Social Economy Charter as follows (CEP-CMAF, 2002):

- superiority of the individual and the social goal over capital,
- voluntary and open membership,
- democratic control by the membership (does not apply to foundations, because they do not have members),
- a combination of interests of members, users or general interest,
- defense and application of the principles of solidarity and responsibility,
- autonomous management and independence from public authorities,
- most surpluses are used to achieve sustainable development goals, services, member interest or general interest.

The European Standing Conference of Cooperatives, Mutual Societies, Associations and Foundations was founded in 2000, in 2008 it changed its name to The Social Economy Europe. Social Economy Europe works in areas of common interest to its members and acts in accordance with the principle of subsidiarity and ensures the added value of the organization's measures. It holds the following values: the supremacy of the individual and the social goal over capital, democratic control by the membership, the combination of the interests of members, users and the general interest (society), the defense and application of the principle of solidarity and responsibility, the reinvestment of surplus to realize the goals of sustainable development, services in the interest of members or in the general interest, voluntary and open

membership and autonomous management and independence from public authorities (CEP – CMAF, 2008).

The importance of the social economy is also confirmed by several member states of the European Union, in which laws on the social economy are included in the legal system, e.g. Belgium, Spain, Greece, Portugal, France, Romania, but also the Slovak Republic.

In 1989, the European Commission published a Communication entitled "Businesses in the "Economie Sociale" sector: Europe's frontier-free market", in which it stated the social and economic importance of social economy (CIRIEC, 2012).

In 1989, 1990, 1992, 1993 and 1995, the European Commission participated in the organization of pan-European conferences on the social economy in France (Paris), Italy (Rome), Portugal (Lisbon), Belgium (Brussels) and Spain (Seville). In 1997, at the extraordinary European Council meeting in Luxembourg, known as the Extraordinary European Council meeting in Luxembourg - the Luxembourg jobs summit, the social economy was recognized for its role in local development and job creation.

Since 1996, the European research network, named after the first research project The Emergence of Social Enterprises in Europe in French (L'EMergence de l'Entreprise Sociale en Europe - EMES), has become an important carrier of research activities on the social economy, whose main research topics are social enterprises, social economy, solidarity economy and social entrepreneurship. It brings together 14 research institutions, 330 individual members and a network of partners who support the mission of EMES around the world.

Furthermore, the Council of the European Union approved a resolution on the promotion of the social economy as a key driver of economic and social development in Europe (a Resolution on The promotion of the social economy as a key driver of economic and social development in Europe) in 2006 (Council, 2015) .

The Parliamentary Social Economy Intergroup of European Parliament has been operating in the European Parliament since 1990. The Parliamentary Intergroup for the Social Economy also asked the European Commission to implement the Action Plan for the Social Economy in 2017.

In 2013, the European Parliament adopted the Report on the contribution of cooperatives to overcoming the crisis (Report on the contribution of cooperatives to overcoming the crisis), the creation of the document was led by Patrizia Toia, in which the social economy was recognized as a social partner and as a key entity in fulfilling the goals of the Lisbon Strategy and on the

contribution of cooperatives to overcoming the financial and economic crisis (European Parliament, 2009).

The European Economic and Social Committee, an advisory committee of the European Union, has continuously published numerous publications, reports and opinions on the contribution of the social economy to the achievement of various public policy goals. The European Commission has very recently adopted two important initiatives regarding social enterprises, a group of companies that form an integral part of the social economy: The Social Business Initiative of the European Commission (SBI) and the Regulation on European Social Business Funds ( Regulation on European social entrepreneurship funds).

## **2. Act on social economy and social enterprises in the Slovak Republic**

It was only after 2000 that the issue of social economy began to be mentioned more often in the professional literature in the Slovak socioeconomic environment. According to the law no. 4/2004 Coll. on employment services, in which the conditions for obtaining the status of a social enterprise were established, in 2018 the National Council of the Slovak Republic approved Act No. 112/2018 Coll. on social economy and social enterprises.

The Act on Social Economy and Social Enterprises (for the consistency of the name, the name of the law in the singular is recommended as the Act on Social Economy and Social Enterprise) establishes the characteristics of social economy subjects, further characterizes the nature of social enterprises and organizations of the social economy sector. It also regulates the provision of support for businesses in the broader concept of the social economy and defines the social economy sector and state administration within it.

Despite the well-known initiatives documented more than 40 years ago about the social economy, in the Slovak socio-economic environment, the social area was significantly mentioned in several legal regulations up to this period, which referred to various groups of people dependent on the redistribution of social resources outside the labor market.

From the previous period before 1989, the transformation of society from a centrally planned to a market economy began in the Slovak Republic. The result of the transformation was a change in ownership relations in the Slovak economy and the creation of a private business sector. During this period, the National Council approved several legal regulations that enabled the transformation of state property into private property (e.g. the National Property Fund Act), as well as legal regulations enabling private business and the free use of profits. Furthermore, already existing laws were supplemented, in which the possibility of entrepreneurial activity

was regulated even for those entities for which this was unthinkable before 1989 (eg the law on universities).

The extent of changes in legislation from social ownership to private ownership and the redistribution of capital in Slovak society began to require changes in legislation in the late 1990s, which would create greater protection for residents against the negative effects of the market economy. This concerns, for example, the legal protection of the employee in connection with the employment relationship, and various types of social benefits, since the historical memory of the population more or less did not record unemployment and its consequences on the lives of individuals and families. It has become a public interest for the state to protect citizens from the negative consequences of the market economy.

### **3. Public interest in the Slovak social economy**

The Act on Social Economy and Social Enterprises has a significant societal effect and fulfills the public interest or community interest as part of the public interest of a certain group of persons.

This law defines (italicized quotation or paraphrase) public interest as the provision of a socially beneficial service for society as a whole or for an unlimited circle of natural persons, the provision of a socially beneficial service to disadvantaged (natural) persons or vulnerable persons.

According to this law, the public interest and its fulfillment is a socially important area, which in the next period is becoming more and more important, namely the creation and protection of the environment and the protection of the health of the population. Furthermore, the provision of housing, management, maintenance and renovation of the housing stock is also considered to fulfill the public interest. This is a reaction to the current situation in the area of housing for the population in the Slovak Republic, when, in addition to a relatively large number of apartments, these are financially unaffordable for young people. This legal arrangement created the conditions for the support of the so-called cheap, or rental housing and the construction of apartments of adequate size and equipment. A large number of apartments in the company's housing stock still require maintenance, and a large part of them also require fundamental renovation. This law created the prerequisites for solving this situation in the housing fund in society. According to this law, the provision of funds to social economy entities for the performance of a socially beneficial service is also considered to be the fulfillment of the public interest. In this way, the conditions for the real realization of the public interest according to

the Act on Social Economy and Social Enterprises were fulfilled. Any declaration of public interest, even in the form of provisions of a legal regulation, does not allow the fulfillment of the declaratory provisions without specific financial security, in this case from the means of the state budget or generally from public sources).

#### **4. Subjects of the social economy in the Slovak socioeconomic environment**

The social economy is oriented towards the realization of production, distribution and consumption activities, with the fact that in this case the goal is not profit maximization. Natural persons and legal entities participating in the development of the social economy focus on the specific social benefit of their activity, and thus the priority is the provision of a socially beneficial service. For this reason, among these natural persons and legal entities there are specifically created organizations oriented towards achieving profit, but also organizations that are primarily established to supplement social services in those areas where the state does not function.

According to the Act on Social Economy and Social Enterprises, the subject of the social economy is a civil association, foundation, non-investment fund, non-profit organization, special-purpose church facility, trading company, cooperative or a natural person - an entrepreneur who is an employer, who

a) they are not mostly managed by a state body, the state body does not finance them for the most part, does not appoint or elect the statutory body or more than half of its members, and does not appoint or elect more than half of the members of the management body or the supervisory body,

b) perform economic activity or non-economic activity within the framework of social economy activities,

c) if they undertake or perform other gainful activities according to special regulations, they do not perform them exclusively for the purpose of making a profit or use the profit from them in a manner according to this law.

A social enterprise according to the Act on Social Economy and Social Enterprises is a subject of the social economy - civil association, foundation, non-investment fund, non-profit organization, special-purpose church facility, trading company, cooperative or natural person - an entrepreneur who is an employer who carries out consistently, independently, economic

activity in its own name and on its own responsibility, and its main goal is to achieve a measurable positive social impact.

An enterprise with a social impact according to the Act on Social Economy and Social Enterprises is a civil association, foundation, non-profit organization, special-purpose church facility, trading company, cooperative or natural person - an entrepreneur who continuously, independently, in his own name and on his own responsibility conducts economic activity, the main goal of at least one of their economic activities is achieving a positive social impact and they meet at least two of the following conditions:

- a) the goods or services they produce, supply, provide or distribute contribute to achieving a positive social impact, or the method of their production or provision contributes to it,
- b) they will use more than 50% of the profit after tax from the economic activity, the main goal of which is to achieve a positive social impact, to achieve this main goal,
- c) involve interested persons in the management of economic activity, the goal of which is to achieve a positive social impact.

For the purposes of this law, a social enterprise and an enterprise with a social impact are enterprises in the wider area of the social economy, which also includes investment, compensation and aid to support demand.

The types of registered social enterprises according to the Act on Social Economy and Social Enterprises are:

- a) according to the division of the community of people living in a certain space (society, community)
  - aa) public benefit,
  - and b) community benefit,
- b) according to the focus of the activity
  - ba) integration enterprises,
  - bb) social housing enterprises,
  - bc) general registered social enterprises.

According to the point of view of the division of the community of people living in a certain space (society, community), registered social enterprises are public benefit and community benefit. Public benefit registered social enterprises relate their activities to the public benefit, or of general benefit related to the public benefit, community-beneficial registered social enterprises relate to the community - a community of people in a certain social, cultural, or spiritual space, togetherness in the sense of people living together.

From the point of view of the focus of activity, a registered social enterprise can be an integration enterprise, a social housing enterprise and a general registered social enterprise.

According to the point of view of the division of the community of people living in a certain space, the integration enterprise is a public benefit enterprise. Its positive social impact is the promotion of employment through the employment of disadvantaged or vulnerable persons.

A social housing enterprise is a public or community-beneficial social enterprise whose positive social impact is the provision of socially beneficial rental housing.

Despite the fact that the Act on Social Economy and Social Enterprises does not provide details on the organization and activities of a community benefit social enterprise, it can be assumed that the relevant provisions of the Act on Social Economy and Social Enterprises applicable to a public benefit social enterprise will also apply to a community benefit enterprise on the basis of a legal analogy social enterprise. This is mainly a characteristic of socially beneficial rental housing, where we see no legal reason why the relevant provisions cannot also apply to the community - a community of people living in a certain geographically, ethnically, interest-bounded social space.

## **5. Current status in the issue of social enterprises**

The register of the social economy as of August 1, 2024 contains three entries in the register, two of which are organizations of the social economy sector with valid recognition of the status of umbrella organization of the social economy sector.

This includes the Alliance for Social Economy in Slovakia with 13 members and the Association of Social Economy Subjects with 19 members. The Alliance for the Social Economy in Slovakia, whose status was terminated in 2024 by the return of its status.  
23.07.2020 - 15.04.2024

The register of social enterprises contains 686 record items, including social enterprises with discontinued operations. (Register, 2024)

The historical overview of the registration of social enterprises points to a slight downward trend in the registration of social enterprises in the last three years. The number of registered social enterprises in 2024 is for the first half of the calendar year.

2024	2023	2022	2021	2020	2019	2018
36	34	95	238	229	45	7

We register the following legal forms in the register of social enterprises:

Limited Liability Company	Association	Non-profit organization	Person	Cooperative
622	31	17	9	7

The association is represented by the following legal entities: union, association, company, club).

We register the following types of registered social enterprises in the register of social enterprises:

Type	Number	Extinction		
		By returning the status	Sanction	Upon expiry of the statute
Integration company	642	59	13	1
General registered social enterprise	41	23		
Social housing enterprise	3	3		

The current state of registration of social enterprises points to a certain stagnation in the number of newly registered enterprises. In future research, it will be necessary to focus on researching the reasons for the low number of registered social enterprises and also the reasons for the higher number of returns to the status of a registered social enterprise.

### **Conclusion.**

The principles of the social economy represent the classic principle of social solidarity represented by the state, but also by citizens. The social economy builds on the traditions that have existed in the Slovak socio-economic environment for more than a hundred years in various forms of cooperatives, the essence of which was to help citizens acquire benefits in areas that were beyond their financial means (apartment) or e.g. folk art activity, where artistic creation is basically not self-financing.

For the purpose of developing the social economy on July 1, 2024, Act No. 102/2024 Coll., amending Act no. 222/2004 Coll. on value-added tax, as amended, and which amends some laws, including the part that concerns the reduced rate of value-added tax for registered social enterprises. According to § 27 of the Tax Rate, the basic rate of tax on goods and services is

20% of the tax base. According to this law, a reduced tax rate of 10% of the tax base is applied to goods and services supplied as part of social economy activities by a registered social enterprise that uses 100% of its after-tax profit to achieve its main objective.

This measure should contribute to the further interest of the private sector in the Slovak socio-economic environment in the registration of social enterprises. An approved reduction in the tax rate can significantly contribute to the economic prosperity of social service enterprises in society.

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