

# WORKING PAPER

*Social Economy, Its Perception  
and Possibilities of Its Development  
in Conditions of the Slovak Republic*

Lenka PČOLINSKÁ

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***Social Economy, Its Perception and Possibilities of Its Development  
in Conditions of the Slovak Republic\****

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## **Abstract**

*The given article reflects the situation of Slovak social economy. It takes into account and presents the evolution of social economy and its present perception in Slovakia. Within the Central European countries, Slovakia was the first country to define social economy in terms of legislative measures. However, it is important to analyze its operation in terms of legislative definition which determines its possibilities and limits of development and, consequently, the possibilities and limits of development of the national economy as a whole - to which social economy can significantly help.*

**Keywords:** social economy, social enterprise, social entrepreneurship, legislative, employment.

**JEL-Codes:** A13, J64, K31, N84, Z13.

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## **Introduction**

Social economy and business represent a link between private and non-profit sectors, as for individual subjects profit generation is expected; however, its creation is not for the redistribution among managers but it is reinvested for the purposes of business social aims and it serves to the good and the needs of individuals and society.

Furthermore, social economy represents a space in order to create conditions for involvement of marginal groups into the labor process, mainly those who find themselves on the margins of the society whether due to the loss of their jobs leading to long-term unemployed or due to a handicap that disables them from standard work placement. The concept of social economy tries to involve these people into full-valued life leading to the benefit of the community and local community in a particular region.

### **1. Definition of social economy and its perception in Slovakia in the context of historical development and political changes**

Social economy was implemented in the area of Slovak economy at the beginnings of 90s of the 20<sup>th</sup> century when the restoration of free market and development of the civil society occurs. As it was at European level, the term of the social economy began to be used in the mid-1990s, especially through the works of the EMES European Research (Defourny-Nyssens, 2008).

Forming the social economy in Slovakia was similar as in the other European countries. The beginnings of activities that could be marked as social-economic, date back to the Middle Ages. At this time, there were established associations, institutions, convents, which were focused on the improving the social conditions of the population. The activity, where the social economy has its roots, comes out in many cases from activities of church institutions. These created assumptions of the solidarity, subsidiarity and justice values by their charity work and caring for the poor people. At present, these values are the main principles of the social economy.

Guilds, groups and other business associations and other self-help groups led by church and convents were created. Expansion of the association in the 19<sup>th</sup> century put the base for the creation of the third sector in the territory of Slovakia. Many organizations, that weren't dependent on the state and weren't primarily active at the free market also arised during the 1<sup>st</sup> Czechoslovak republic in the territory of Slovakia. These organizations were mostly free-time associations dedicated to sport and various hobbies, charity and non-profit organizations, or organizations as cooperatives or mutual-type organizations. Development of this sector was interrupted by World War II, subsequently by the onset of socialism. Although cooperatives became the part of the socialistic republic policy, their fundamental pillar – voluntarism – was disturbed. New development possibilities began to appear after 1989, when the third sector

gradually grew, civic activism appeared as the fundamental pillar of the social economy. New business opportunities also arised and free market, that is the necessity of the social economy, opened (Alexy, 2007).

Social economy in the context of entrepreneurship needed the time for its development. Within the 20 years of the democracy, many civic initiatives, with the help to people on the margins of the society, came into being.

At first, non-profit sector fulfilled this function, often on a voluntary basis in the created civic associations, foundations and other non-profit subjects. These subjects have done much of the work that had to be implemented within the groups of people in need and prepared the platform for the social economy development.

The third sector is involved in the regulation of economic life when, for example, associations or social co-cooperatives are the partners of public authorities in the task of helping back into work poorly qualified unemployed people, who are at risk of permanent exclusion from the labor market (Borzaga-Defourny, 2001).

Operation of the non-profit subjects within the social economy activation had its positive contributions, but we can also talk about negative impact, mainly from the view of the implementation of social economy. In terms of benefits, at first, these initiatives shaped and shape altruism and philanthropy in society and emphasize the importance of the care for those who cannot help themselves. Non-profit subjects of the third sector shaped civic society and after the 40 years of civic activities marasmus, their revival and independent co-participation in society mainly in the social and educational fields, creates the conditions for establishment of social economy.

The negative effect of the non-profit subjects operation that try to meet the conditions of social economy is the perception of social economy as the activity of the third sector. Despite of the implementation the social entrepreneurship as the main term and concept of social economy into the Slovak legislation and despite of many informational initiatives of the civic sector, social economy remains undeveloped in its full meaning. On the one hand, we see the problem that society takes the social economy as the part of the third sector that is mainly dependent on the help from the state, or European Union and harms the competition at the market. Subsequently, there is not the interest in this innovative social entrepreneurship. On the other hand, beginnings of the social enterprises operation didn't create the space for positive effects from this entrepreneurship. Many people see it as the tool for using money, not as the subjects that are here for creating values or being helpful for marginal groups of people.

The strategy for integration the long-term unemployed and social disadvantaged groups into the labor relation was supported from the side of European Union by the initiative EQUAL. European Social Fund supported various projects also in Slovakia within this initiative. These projects were

led for the development of social economy in the right sense (Alexy, 2007). Conditions for social support within this initiative EQUAL were created in 2004-2006.

In 2008, the amendment of Law no. 5/2004 Coll. on employment services, that defined social entrepreneurship, was approved. Time period between 2004 and 2006 was the preparation time of the research of the Slovak market – to see the importance of social economy within the program EQUAL and its activities.

After the implementation social entrepreneurship into the legislation and the determination of the basic concept of social economy in Slovakia, social enterprises began to establish. The first pilot projects, as it was mentioned before, brought the wave of distrust to the social entrepreneurship, because of their leadership. This beginning of the social entrepreneurship has had bad hand for the development of social economy in Slovakia till present. Because of it, it's important to reinforce the information campaigns in the public about the advantages and contribution that social economy can bring to the local economy. The one way is to show and present examples of good practice that have their roots in the subjects of the third sector. Although the legislative determination present the social economy in the narrow-band, principles of social economy do not fulfil only the subjects that have this identification according law and are registered at the Central Office of Labour, Social Affairs and Family, but also many other subjects, mostly from the third sector, that try to fulfil the aims of social economy. We can find also subjects of private sector, fulfilling their mission with the social welfare.

## **2. Legislative definition of social economy, social enterprise and entrepreneurship**

Although social economy has a long tradition, the clear theoretical and content definition hasn't been defined yet. In theory at the macro level, social economy can be seen as a set of the socio-economic objectives, tools and organizational and legal measures which aim to the objective mitigating the social differences between individuals, groups of people and between regions within a single national economy, or within the socio-economic group of several countries (eg the EU). At the micro level, the fundamental priority is the practical implementation of social inclusion of various disadvantaged people into the mainstream way of life of the society and creating the conditions for a regular income, especially by the creation of new jobs (Korimová et al., 2008).

The term social economy is also used to describe actions which have both economic and social benefits. Social economy creates a vital space for the development of corporate systems, volunteer actions and social enterprises, which are positioned between the traditional private and public sector (Parlalis, 2011). Other authors are talking about the economy serving people (Díaz-Fonca-Marcuello, 2012). According CWES, the social economy includes economic activities carried out by co-operatives and related enterprises, mutual

societies and associations whose ethical stance is represented by the following principles:

- the aim of serving members or the community, rather than generating profit,
- an independent management,
- a democratic decision making process,
- the primacy of people and labor over capital in the redistribution of income, (Borzaga-Defourny, 2001)

As we mentioned, principles of social economy came also in to the Slovakia after 1989. Within the social policy, Slovakia as the first country from the central European countries implemented the determination of the social enterprise into the legislation, by amendment of Law no. 5/2004 Coll. on employment services.

Social enterprise is in the most of European countries well-known as the employer organization, whose activity is primarily oriented on the social goals, on the job creation for disadvantaged groups of people and on the maintain their employment, in preference of the people socially excluded. Social exclusion is almost entirely the matter of the unemployment and primarily of the unemployment of the handicap, marginalized groups of people at the labor market (Demek, 2010).

Social enterprises identify and support in various ways individuals launching new activities dedicated to a social mission while behaving as true entrepreneurs in terms of dynamism, personal involvement and innovative practices. Social entrepreneur brings about new ways of responding to social problems (Defourny-Nyssens, 2008).

Each social enterprise has a basic economic criteria:

1. it is the business pursuit based on the production and sale of the goods and services (entrepreneurship)

Social enterprises, contrary to traditional non-profit organizations that may be with their activities aimed on the defense of groups interests and financed on the base of redistributinal mechanisms, realize their production of the goods and services offer on sale, as its business pursuit and continual activity.

2. high level of the autonomy

Social enterprises are generally created by group of people on the base of the autonomous business plan and are managed by these people. They can be partially supported from the public and private sources, but their position, management and decision-making is independent from public and private sector.



### 3. bearing the economy risk

Also social enterprises, as the business subjects are at risk of the competitiveness at the market with goods and services they produce. Although these are activities partially supported by public funds, the financial sustainability of the social enterprise depends on the performance of members and staff and their efforts to ensure adequate resources.

### 4. minimum share of the paid work

Social enterprises may combine financial and non-financial resources, volunteer and paid staff. Activities produced by social enterprises require minimum level of the paid work (Lubelcová, 1).

## 2.1. The Law on Employment Services

Social entrepreneurship in Slovakia determines the Law no. 5/2004 Coll. on employment services. In 2008, its amendment, that determined social entrepreneurship, legitimate applicants for the status of social enterprise and conditions of their operation at the market, entered into force. The law was amended in 2013 again. According the amendment effective by the 1th may 2013, social enterprise is determined as the legal entity and natural person, that:

- a) employs staff, who were disadvantaged (handicap) job applicants before the work engagement in the sense of the law on employment services in the number of minimum 30% from all number of its staff.
- b) gives the support and help to the staff, who were disadvantaged (handicap) job applicants, in searching for the job at the labor market before the work engagement,
- c) minimum 30% of financial resources gained from the revenue of the enterprise activity, that remains after the covering all expenses on the enterprise activity in appropriate tax term according tax declaration, annually will be used on the creation of new job places or on the improvement the work conditions,
- d) is registered in the register of social enterprises.

For the purpose of providing support and assistance to the staff to find a job in the open labor market, social enterprise cooperates with authorities, legal entities or natural persons who perform or promote the integration of disadvantaged job seekers in the labor market (Amendment of Law no. 5/2004 Coll. on employment services, §50b, 2013).

#### 2.1.1. *Who can be the applicant?*

Legal entity or natural person, municipality, autonomous region, municipality association, association of self-governing regions under a special regulation, budget organization or contributory organization, whose founder is the municipality or autonomous region. The status of social enterprise may be

granted also to a sheltered workshop or a sheltered workplace under the specified conditions.

To the legal person who is the municipality, autonomous region, municipality associations, an association of self-governing regions under a special regulation, budgetary organization or contributory organization whose founder is the municipality or autonomous region after the recognition of the social enterprise with obligation to prove for the first time after the 12- months the employment min. 30% of the total number of staff employees who were disadvantaged jobseekers before the work engagement, are counted to this amount also those employees who were jobseekers – but they do not have to be disadvantaged.

*Budget organization* is a legal entity of the village, whose income and expenses are connected to the municipal budget. It is managed separately according to the approved budget with sources founder determines founder within his budget. *Contributory organization* is a legal entity of the village, where less than 50% of production costs are covered by sales and which is connected to the municipal budget by contribution (The Central Office of Labour, Social Affairs and Family).

#### *2.1.2. An application for the recognition the status of social enterprise*

An application for the recognition as a social enterprise (The Application form for recognition as a social enterprise) should be submitted by the applicant to address of the Central Office of the Labour, Social Affairs and Family. The application states the identifying information - name, address, identification number of the legal entity or name, social security number and permanent address of natural persons, the activities performed by the statistical classification of the economic activities, the date on which is the request for recognition as a social enterprise.

#### *2.1.3. Conditions for the recognition the status of social enterprise*

1. The applicant demonstrates integrity by extract from the Criminal Register, not older than three months. The legal entity must satisfy the condition of the integrity by a person acting on behalf of the legal entity (eg, managing director, mayor of the village, mayor of the town or his authorized person who is provable in employment or similar relationship with legal person).
2. The applicant shall submit to an application for recognition as a social enterprise a business plan for social enterprise activities, including the calculation of expected revenues, expenses and profit before the distribution. The applicant shall consult the business plan with the territorially competent Office of Labour, Social Affairs and Family according the place of the business of the social enterprise. The office gives to the enterprise a written opinion.
3. The applicant for the status of a social enterprise shall submit to the request the original or certified copy of a document confirming a legal personality that is not older than 3 months; Certificate of incorporation, incorporation documents such: Social contract, articles of incorporation, status, appointment letter of

Statutory, organizational rules, proof of ID assignment or other document authorizing him to do a business and to carry out the objects of social enterprise.

4. The application shall submit original or certified copies of documents of ownership the space or lease for rental the space in which the social enterprise will operate.

5. Documents proving the material facilities for carrying out the objects of social enterprise are attached to the application.

6. The applicant for the status of social enterprise shall indicate circuit of co-operators of social enterprise.

The Central Office of Labour, Social Affairs and Family admits the status of a social enterprise to the applicant upon fulfillment the conditions. After the entry into force of the decision granting the status, the holder is listed into the Register of the Social Enterprises, which is continuously updated by the Central Office of Labour, Social Affairs and Family.

Register of the Social Enterprises includes:

- a) name, address and identification number of the legal person or the name and address of the natural person,
- b) the activities performed by the statistical classification of economic activities,
- c) amendment or termination of the information entered in the decision on the recognition of a social enterprise.

The Central Office granted the status of a social enterprise indefinitely. Upon the written request of the social enterprise or a written suggestion of the office, the decision on the recognition of a social enterprise shall be modified, suspended or cancelled, or there shall be issued a duplicate of the decision by The Central Office. The duplicate shall be issued in the case of a loss, a theft, an impairment decision on the recognition of a social enterprise or losing a decision about the change, suspension or cancelling the status of a social enterprise. The social enterprise that does not meet the requirements of this Law at least for 12 calendar months, the Central Office shall cancel the status of a social enterprise. The Central Office shall again grant the status of a social business after two years of cancelling the status of a social enterprise.

Social enterprise is obliged:

- a) to provide the protection of personal data of its employees,
- b) to create the conditions for carrying out its activities and to provide information and documents required by the control authorities,
- c) to submit annually a report of the results of its activities to the Central Office,
- d) to inform the Central Office about any changes of the data in the decision on the recognition of a social enterprise (Amendment of Law no. 5/2004 Coll. on employment services, §50b, 2013).

Although social economy in our country, in comparison to other countries in central Europe, began to develop earlier, there was a significant bias leading to a cut-down of activity possibilities. In comparison to western European countries, legislative amendment does not reflect social economy in full. Narrow definition of social economy may cause the non-utilization of its complex meaning (Alexy, 2007).

### **3. Operation of social economy and specific examples in Slovakia**

Social economy in Slovakia works in a limited way supported especially by mentioned legislation in our country. Despite of the legislative definition, there are operating subjects in the market that meet the criteria of a social enterprise and more or less fulfill the framework of social economy, which is approaching the concept of social economy defined by more European countries.

For the operation of social economy whenever in the world, there should be fulfilled criteria for its existence. Establishment and right administration of social economy demands:

**Market economy.** The free market is a necessary condition for the existence of the social entrepreneurship. The possibility of a doing business that has a chance to be successful on the market, is crucial for the social business, as well as for business in general.

**Active third sector.** One of the driving forces of the social entrepreneurship development in Slovakia is definitely an active third sector, which is vividly involved in the social field. Although, as mentioned, the economic dimension of the social entrepreneurship is in its infancy, the social dimension (tracking the social goals), the resolution to solve the social problems and to associate for this purpose is becoming a common place.

**Support from the EU.** The concept of the social economy in Slovakia came to be known in the relation to the implementation of the Community Initiative EQUAL under the National Thematic Network B for the social economy. EQUAL was another of the initiatives of the European Commission, which was financed by the European Social Fund and formed the part of the EU employment strategy. Also in Slovakia, EQUAL initiative has responded to the need of development the alternative in the labor market for people who are finding work and verified social business as a passage model for different target groups. The responsibility for the implementation of IS EQUAL was on the Ministry of Labour, Social Affairs and Family.

**Support within the legal system of the Slovak Republic.** Until 2008 in Slovakia an issue of social economy wasn't legally defined. Despite of this, forms of business that are associated with the social economy (cooperatives, sheltered workshops and sheltered workplaces) were anchored by the legal framework. By the amendment of the Law no. 5/2004 Coll. on employment services, there was made a space for the opening a new kind of a business.

Although the above-mentioned legal framework does not cover the full range of social economy, it is an opportunity to realize the first steps that are necessary to implement this new form of a business in the society.

**Public policy.** Public policy opens the space for use of the social economy. Social economy refers to a several areas, slices in the area of public policy. It is situated on the border between employment policy, social inclusion policy and social help, community development and civil society development (Lubelcová, 2).

Employment policy is aimed on the disadvantaged groups who have difficulties in the labor market therefore the aim of this policy should be to encourage the development of the intermediate labor market, an area, where hardly employable job seekers can manage to recruit either temporarily or permanently. This may be a community service and activation work, which are closely linked to the area of the community development.

The policy of social inclusion and social assistance opens up the possibilities for the use of social enterprises that provide social services and create much-needed service, but also new jobs.

Activities of the municipalities, cities and regions - community development, is also the part of the area of the social economy development, particularly through cooperative and municipal enterprises that respond to the specific needs of the locality.

Social Economy and business with social objectives already partially delivers, but it is expected, that also in the future it could bring a positive effect on employment, the services sector, particularly social services, and could enhance social inclusion and development of the social potential of localities (Lubelcová, 2).

Based on the aforementioned assumptions and given the high unemployment rate in Slovakia, we can conclude that the conditions for the development of the social economy are sufficient and this business model is more than necessary in our region.

### **3.1. Program EQUAL**

In 2004-2006, Slovakia joined the European Initiative EQUAL. Already mentioned EQUAL program is one of the instruments of the employment policy of the European Union. The basic mission of the Community Initiative EQUAL is to create conditions and provide a space for searching, verification and application the new approaches to the solving problems in the fight against all forms of discrimination and inequalities on the labor market. The purpose of the initiative is to complement the national policies and employment policies with the innovative approaches to the employment on the labor market, by the exchange of the experiences between partners from different countries.

Programs submitted under the Community Initiative EQUAL are funded by the European Social Fund (ESF).

EQUAL program can be seen as a preparatory platform for the research of environment for the implementation of the social economy in the Slovak market. The main priorities of the Equal initiative were the following:

1. Facilitating access and return to the labor market for those who have difficulty with integration and reintegration into the labor market.
2. Strengthening the social economy (the third sector), in particular the public services with a focus on improving the quality of job places.
3. Supporting the adaptability of firms and employees in relation to the structural economic change and the use of information and other new technologies.
4. Reducing gender gaps and supporting job desegregation.
5. Asylum seekers (ESF, 2010).

### **3.2. Funding and forms of social enterprises**

Social entrepreneurship is mostly dependent on the initial assistance of the public sector, state or European Union funds. However, it is important that business activities should be developed to the self-sufficiency of company and to be able to produce income that is needed to run business and cover its costs.

The form of financing of social enterprises in Slovakia is not explicitly determined within aforementioned Amendment of Law no. 5/2004 Coll. on employment services (§50b).

Enterprises with social aims, especially those which employ disabled job seekers can ask for the contribution from the state (through the local labor offices) according law conditions (§50) within the specific cases although they don't have the status of social enterprise. The same is in the case of social enterprises. Contribution for disabled employees is different according the region and the rate of unemployment.

Based on the current legal definition, social enterprises in Slovakia can be founded by public, private or non-profit sector. From this point of view, the form of financing business activities is different. Korimova suggests the ways of their financing.

Figure 1 – Structure of the social services organizations from the view of public finance

<i>Founder of the social service</i>	<i>Service provider</i>	<i>Public finance</i>	<i>Co-financing (recipient of the service and provider)</i>
State	Public sector, private sector, third sector – non-profit organization	90 - 100%	0 - 10% (layer of the poor and needy)
Higher territorial unit (municipality)	Municipality, private sector, third sector – non-profit organization	50 - 70%	30 - 50% (middle layer)
Private sector, third sector	Private sector, third sector – non-profit organization	10 - 30%	70 - 90% (upper layer)

Source: Korimová, G. et al., 2008, Social entrepreneurship and social enterprise, Banská Bystrica: Kopernikus, p. 90. ISBN 978-80-969549-6-4.

In 2008, when the legislative definition of social enterprises and their activities in the Slovak economy was accepted, 8 pilot social enterprises were founded and registered at the Central Office of Labour, Social Affairs and Family. They were territorially located just in the areas with the highest unemployment rate, while this rate of unemployment to 90-95% were long-term unemployed and generationally and maladjusted individuals or groups (Korimová, 2011).

The Central Office of Labour, Social Affairs and Family of Slovakia published on its website a list of individuals and entities that have applied for registration into the Register of Social Enterprises. From 2008 to the 31<sup>st</sup> July 2013, 96 companies were registered, of which 35 enterprises activity was cancelled and 9 of them suspended on their own request. Founders of social enterprises are not only private individuals, but by law it can be a legal entity, which is a municipality or autonomous region. Such cases of social enterprises were 31 out of the total number of registered enterprises (according [www.upsvar.sk](http://www.upsvar.sk)).

Among the most common forms of social enterprises (although they don't have a status of social enterprise) we can count sheltered workshops, charity organizations, subjects of non-profit sector and production cooperatives of disabled.

### 3.3. Example of social subjects

The one of examples of existing subjects of social economy are sheltered workshops employing disabled people who produce certain goods or services. Although they are not self-sufficient and are significantly dependent on a help from outside, they perform a certain economic activity. Sheltered workshops can be found in a high number in Slovakia and they are focused on various activities: production of office supplies, decorations, advertising and

promotional materials, textile production, food processing, furniture, woodworking, carpentry, as well as wellness or motor service and many more (Alexy, 2007).

### *3.3.1. The sheltered workshop ABTEX*

The sheltered workshop ABTEX was established in 2005 as the company limited with the registration at The Central Office of the Labour, Social Affairs and Family. The seat of the workshop is in the town Michalovce – in the eastern part of Slovakia. While entering the market, there were a few sheltered workshops as nowadays, but more textile production companies existed. Contrary, these big companies finished their entrepreneurship in the meantime, so the competition is the same also the amount of sheltered workshops has increased.

The aim of the entrepreneurship was to produce the work clothing for company clients in Slovakia. The vision of the workshop, with the view of the help to the long-term unemployed, was to bring the production of the high quality work clothing for company clients hereby to maintain working places for people with health disabilities (handicapped people).

The sheltered workshop started with 12 handicapped employees, nowadays the workshop has 1 employee without health disability and 15 handicapped employees.

Since the beginning besides the work clothing, the assortment of the production widened to the promotion textile and hotel's textile.

The financing of the sheltered workshop is covered also from public finance. State grants are used as support for the sheltered workshops. The state grant covers 17,5% of the workshop budget. In the beginning, manager asked for the grant for foundation the working places in the sheltered workshop.

The manager sees this entrepreneurship, from the view of the contribution to the society, as the form of socialization of handicapped people. From the practical view of native legislative and its impact on the workshop activities, manager states, that the current legislative is much more better than in the 2005. The company can be founded quicker and with less money. About establishment of the sheltered workshops, it's the same. Bureaucracy is difficult and dissuades others from establishing the social entrepreneurship. Also there are more controls as in the classical entrepreneurship. From the novelty of the law in May 2013, submissions for sheltered workshops were radically decreased. So it's the step, when he expects decrease of working places for handicapped people – in 50%.



#### **4. Possible benefits of social economy and barriers of its development in Slovak conditions**

Social economy and social entrepreneurship are trying to promote and solve the existing problems of employment and employability of a large part of the population. They are based on the three principles of the modern European social policy of employment: *motivation, activity, reward*. The aim of the *motivating principle* is that everyone who is of working age and is able to work should be motivated by all instruments of economic and social policy to ensure by work a steady income in the form of permanent income. Social contributions are not seen as a permanent condition, but only as an aid to overcome the state of unemployment. Motivation should be focused on understanding the responsibility for individual and his family. *Activity*, as the second principle of employment policy, is aimed on the mobilization of economically and socially sufficient and the properly motivated individual to acquire a permanent income and increase the quality of his life and possibly other family members. *Reward*, in the form of regular income, is the third principle of employment policy, which completes the process of “starting up” an unemployed or an excluded individual who is entering the labor market (Korimová et al., 2008).

Potential benefits that social economy may bring to the society in Slovakia are:

- Employment development

It allows stimulate the labor supply at the local level, according to the local needs and on the level of the local resources. Although it is not a traditional employment relationship, long-term and stable relationships allow the labor income.

- Service sector development

The service sector is not adequately developed in Slovakia, not in extent, not in the structure. It represents in so many locations a reduced level of infrastructure space and civilizational backwardness, which is the limit for other development activities and opportunities (eg tourism development).

- Social services development

Their scope and structure have been inadequate for long time and do not allow the full power of social assistance, which should (according to conceptual plans) be more focused on the performance of individualized social work with clients at social risk. Currently, under the influence of decentralization, there is a reduction in the number of social services their capacity is insufficient for the effective output of social assistance. Social economy could help to ensure less professionally demanding social needs by self-help activities and lay help under the guidance of a supervisor.

- Social inclusion strengthening and new strategy of social assistance to the dependent

The social economy can offer jobs for long-term unemployed, people hard-employable and low-skilled. It enables the integration by work and meaningfulness of this work for specific people, for municipality and for the community.

- Development of social potential of localities

Social enterprises built on the principles of self-help, social dialogue, social cohesion and public welfare objectives at the locality level, help to restore social relationships and social ties in the locality. They help to revitalize the locality as a living social organism that is able to articulate their needs and mobilize local resources to satisfy them.

- Acceleration of decentralized competencies adoption at regional and local municipal levels

Local authorities gained power and duties to execute and realize the conceptions of social and economic development of localities and regions by the decentralization of public administration. The degree of competence, willingness and ability of these institutions to socially responsible decision-making has its limits and social entrepreneurship can act as a process for linking policies and programs to the specific needs of people in the local area (Lubelcová, 1).

Within the social entrepreneurship we talk about the creation of intermediate labor market, which prepares workers to the labor market or self-employment. It is generally accepted that for the long-term unemployed or unemployable the social enterprise is an excellent instrument of employment policy. Competitive business environment is not disturbed because partial and limited subsidies on labor costs for their employees are because of their low productivity and work quality.

At the European Commission level there were determined perspective fields of social entrepreneurship, which can be applied almost immediately in conditions of Slovakia. Especially social enterprises in the agricultural sector could start rural employment and reduce long-term unemployment. If we add under-utilized tangible and intangible property (buildings, land, ground) of the state, municipalities and regions, as well as natural and legal persons who would be willing to participate in long-term projects then we can talk about the real effects of social business in our country (Korimová, 2013).

Barriers facing the development of social economy should also be taken into account; in particular, the legal framework for the definition of social economy. Majority of social enterprises is dependent on subsidies from the European Union funds or from a country's state budget. Consequently, profitable activity and self-sufficiency of social enterprises and formation of their financial independence is not supported well.

**Distrust in the cooperatives.** Another barrier is the lack of trust in the cooperatives, which is in the post-communist countries caused by negative perception of the cooperatives, including those, founded before the era of communism, as an organization associated with the former communist regime. One of the barriers of the adoption the social economy in post-communist countries is according J. Defourny, general lack of confidence in the solidarity action. The concept of solidarity is primarily seen as an individual's relationship to friends and family, a vision of economic activity is associated with its own objectives rather than a positive contribution to society (Defourny, 2003).

**Inadequate resources mobilization.** Distrust of solidarity is closely related problem to human resources mobilization. The existence of the social economy is possible only in conditions where people are able to mobilize in favor to solve the problems that worry them (Defourny, 2003).

**Underestimation of the economic dimension.** The problem of Slovak activists working in the field of social entrepreneurship is also a lack of knowledge, or underestimation of the economic dimension of social enterprises. Although these are largely socially committed and hardworking individuals, their activity is not economically anchored, and social enterprises are not enterprises in the true sense. There is a focus on social objectives, but it is not supported by sufficient knowledge of economy and its principles. This underestimation of the economic dimension of enterprises leads to the failure on the market and the inability to achieve one of the main objectives of social entrepreneurship that is the ability of self-financing. For functioning social economy not only active third sector is essential, but also the spirit of enterprise and entrepreneurial skills (Bábek, 2007).

As the barriers for the development of social economy we can also see the consequences of the implementation the social economy into the legislation that brought: not entirely qualified project preparation, high managerial payments, rejection of these enterprises by private sector for alleged discrimination in the field of competition, massive media coverage only of projects shortcomings and not the substance of ideas of social entrepreneurship. This meant that the professional and lay public began to reject this excellent instrument of employment policy (Korimová, 2011).

There can be also supplemented a barrier of *limited entrepreneurial thinking*, which is often associated with the vision and objectives of the company only for its own benefit, or profit. This entrepreneurial vision reduces the need for perception the importance of social entrepreneurship with its orientation at the social needs.

Because of the mentioned barriers, largely public awareness of the benefits of the social economy and the implementation of the education in the educational phase at schools through the relevant training courses should help to the development and better implementation of the social economy.

## 5. Challenges of social economy in Slovakia in terms of its perception and legislative definition

Not everyone is blessed with physical and mental health, or the same number of talents or social conditions. Therefore, emphasis should be placed on the support of the socially disadvantaged individuals and social groups (Katuninec, 2007).

Nowadays, there are enough societal challenges for social economy in Slovakia - this mainly includes high unemployment, particularly in selected regions, integration of disabled handicapped people, large Roma community living in the specific conditions, possibility of restoring traditions, production of local (traditional) products. According to some authors, a key step in the development of social economy in independent Slovakia lies in introducing a law defining social entrepreneurship and facilitating its financial support (Sokol, 2010).

Social entrepreneurship is one of the ways to encourage the development of small and medium enterprises in Slovakia and to promote employment of hard-employable groups (Korimová, 2008).

Within social economy, three fields can be identified in which Slovak social economy can be regarded as both public and social service:

- Public services – environmental protection, its cultivation and cleaning, maintenance and improvement of local infrastructure quality (communications, stock of houses, schools, health and cultural centers and many more).
- Social services – help to families, help and care about family members (children, youth, old people, disabled and handicapped people...) – as a combination of professional and lay (volunteer) work.
- Development, leisure and cultural activities (Lubelcová, 1).

Addressing the problems of social policy cannot remain just a matter of political leaders, but must also move to lower components as well as to the citizens themselves, of course there should be created adequate conditions for them. The state should intervene particular in the creation of a fair legal system, but it does not mean that every solution of the social question has come from the state. In the social policy there is an area also for unions, non-governmental organizations but also for the Church (Katuninec, 2007).

On the base of the aforementioned facts about the implementation of the social economy, we can say that the environment in which the social economy is taking shape is influenced by present development and activities of government institutions, as well as civic activities.

To transform the social entrepreneurship in theory and practice into an alternative of the “classical business”, it is necessary to create an attractive and acceptable flexible system of *professional education*. The product of the education would be manager of social entrepreneurship, who in conjunction

with other qualified professionals can manage social enterprise especially on the non-profit principle in a competitive environment. The possibility of profit is not excluded. The role of *Information* is also significant, i.e. information about the objectives of social entrepreneurship and social enterprise towards the external environment (general public, state and local governments - municipalities). Only by this way, human and social capital of individuals and groups in the society can be mobilized. Information of the internal environment will cover specific subjects of social entrepreneurship in the sense of having sufficient knowledge and information about the importance and functioning of social business, financial, capacity and other conditions and possibilities of social networking to use them effectively and provide them to those groups of citizens, who are reliant on social entrepreneurship for various reasons. All of these activities should be done with the goal of their progressive social and labor inclusion (Korimová et al., 2008).

Particularly, it is necessary to prepare managers to use resources from the European Union (Structural Funds, other types of social assistance). On the other hand, “Emergency measures” for persons in adverse social conditions should not be the focus of social policy, because the redistribution of public funds for socially disadvantaged is ineffective in the long term - as was the example of some cases of first social enterprises that were able to operate only during the period of state support (Katuninec, 2007). Therefore it is necessary to promote awareness of the need for social view of doing business, and that social sentient economists would emerge and social entrepreneurship would be a business that will be able to succeed in market competition.

To increase the public awareness of the external environment is also significant. It still reflects the voluntary and philanthropic activity of individuals and groups in society, but only residual and supportively. It is necessary to develop different marketing strategies, media coverage and presentation materials. Towards the internal awareness of the social enterprises it should be focused on gradual fulfillment mechanisms for clients and employees to be active, to seek possibilities of application in order to improve their quality of life, which is the aim of social entrepreneurship (Korimová et al., 2008).

## **Conclusion**

Social economy development is at a crucial stage due to the present economic crisis which will validate or invalidate specific economic patterns; the process of social economy projects evaluation and monitoring is a priority because it allows demonstrating the need to continue the innovating initiatives that may change people and communities. (Nicolaescu, V., Cace, C., Cace, S., 2012).

The article highlights the attitudes and perceptions of social economy in Slovak Republic on the basis of historical development and social events throughout Europe. Social economy has been implemented in our economy in

terms of legislative definition of social enterprise, but still does not fulfill the complexity of the possibility of its use.

We can still perceive barriers in its development, particularly those ones related to the current perception of the given issue where, in many cases, subjects of social economy are still viewed as those burdening the economic system in terms of constant subsidies. This can be partially caused by current legislation. Therefore, it is necessary to point out examples of good practice of social enterprises and lead the society to the awareness of benefits of social economy to the national economy which can lead to a reparation of the social economy awareness.

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