LEGAL REGULATION OF SUPPORT TOOLS IN SOCIAL ECONOMY AND ITS INNOVATIONS IN THE PERIOD OF COVID-19 IN SLOVAK REPUBLIC

Zuzana Gálisová¹, Peter Plavčan²

Abstract: The 20ties of the 21st century are characterized by the pandemic period of COVID-19. The fall of national economies, the fears of inhabitants regarding their health, and the unfavorable economic situation of big groups of inhabitants require functional measures. Implementing social economy principles in national economies is a tool to improve the economic situation of the marginalized groups of inhabitants without using social networks. The knowledge on the social economy system and legal regulation of support tools in social economy in Slovak Republic enable the dissemination of this knowledge and potentially implement in the current pandemic COVID-19 period even in the international environment. The legal regulation of the social economy offers more support tools to solve current economic problems during the COVID-19 pandemic period. Here we present a structured overview and generalization of the knowledge of legal regulations on the social economy as well as a detailed description of the content of the support tools of the social economy during the COVID-19 period.

UDC Classification: 346.7, 364-7, **DOI:** <https://doi.org/10.12955/pss.v2.210>

Keywords: social economy, investment aid, compensatory aid, subsidy, service voucher, support tool

Introduction

Specific social and economic measures aiming to improve the lives of marginalized groups of inhabitants worldwide are in general called social economy. Under social economy, we understand the creation and consumption of goods to the general benefit. The social economy currently gains the form of an institution providing paid state intervention or unpaid service for the society, but mainly for physical or legal persons, who are disadvantaged in the socio-economic environment of the society.

The social economy also covers upbringing and education activities, neglecting of the upbringing and education in the early child's age can later at older age be corrected only with a big effort, and we register a significant relationship between the costs of the state used for education with the results of education in selected categories of children and of the youth in the international measurements (Plavčan, 2019). University education of people has a positive economic, social and cultural impact supporting the development of the personality (Plavčan, Gálisová, 2020).

In social environment in businesses, the founders of social enterprises should focus mainly on the external factors, which can influence the future of the social enterprise. The external factors are usually divided into Demographics; Cultural; Economic; Technologic and Competition (Šebestová, Mačkinová, 2019).

In this paper, we rely on the thesis about the usefulness of the knowledge on legal regulation of support tools in social economy that provides economic possibilities to solve the unfavorable economic situation of more groups of inhabitants, especially of disadvantaged and vulnerable physical persons, but also of physical and legal persons in small and middle-sized businesses in the current unfavorable economic situation in the international and national context.

Goals and methods

This paper aims to present selected knowledge on legal regulation of support tools in the social economy in Slovak Republic, disseminate knowledge on support tools in the Slovak social economy, and enable potential implementation of this knowledge in the international context in current COVID-19 period.

The research problem in this paper is the creation of a structured overview and generalization of the knowledge on legal regulations on Slovak social economy as well as the introduction of the structured description of the support tools of social economy in the Slovak Republic in the context of the COVID-19 period.

The paper is based mainly on theoretical analysis, and its results have potential value for further research in the social sciences. The main research methods in this paper are special methods used in the context of the social sciences: historical-logical analysis of social data and transfer of basic social sciences principles to the Slovak and world economy.

¹ Pan-European University, Faculty of Law, Bratislava, Slovakia, zgalisova@gmail.com

² Danubius University, Faculty of Social Studies, Sládkovičovo, Slovakia, peter.plavcan@vsdanubius.sk

Legal regulation on social economy and social enterprises

In the Czechoslovak Republic, part of which was also Slovak Republic (since 1968 there was a federative division) experienced in the period from 1948 to 1989 an economy that was centrally planned by the state. In this economic model, the state was the main economic agent. Any entrepreneurial activities of physical persons in services were kept at minimum level (repairs of shoes, sale of agricultural leftovers, etc.). Legal persons to that time mostly managed cooperatives, these organizations were quite popular. These cooperatives mainly focused on agriculture or administration of the residential property of the members of the cooperative. Some of the traditional rules of these cooperatives, such as: voluntary and open membership and democratic organization, were not being made applicable.

During the last two centuries, the Czech economists presented social-economic approaches, where profit was not the first priority. Based on this tradition that reaches back to the 19th century, many non-profit organizations associating inhabitants (CIRIEC, 2012) have been established to the time of the 1st Czechoslovak Republic (in the years 1918 – 1938).

At the beginning of the 21st century, the factual literature in the Slovak Republic starts to publish specialist papers on the topics of social economy increasingly. In 2004, the National Council of Slovak Republic adopted an act on the employment services, where there is a definition of the term social enterprise. In parallel, the conditions for the legal persons to obtain the state of the social enterprise were stipulated (MPSVaR SR, 2004). In 2018, the National Council of Slovak Republic had adopted an Act on social economy and social enterprises (MPSVaR SR, 2018).

The Act on social economy and social enterprise provides a detailed definition of basic terms and definitions from social economy, mainly basic terms as public interest, socially beneficial service in social economy, disadvantaged person, vulnerable person, social enterprise, an enterprise with social impact, registered enterprise and so on. The Act on social economy and social enterprises also regulates the provision of support for enterprises in the broader sector of social economy and state administration.

In Slovak social-economic environment, there was a tradition to state multiple legal regulations and apply various social support contributions in practice relating to various groups of persons dependent on the distribution of social resources out of the labor market.

After 1989, the transformation of the Slovak economy resulted in the change of ownership relations and into the establishment of a strong private entrepreneurial sector through the transformation of the state property to the private property (e.g., by means of public auctions of state property using the newly created National property fund). Similarly, new legal regulations kept being adopted and regulated private entrepreneurship and free usage of profit. In the existing laws, the legal regulations enabling entrepreneurial activity of such subjects that before 1989 could never have been accepted (e.g., colleges), were added.

The change from a centrally planned economy to the market economy, however, has brought not only an increase in the effectivity of economic processes and higher social labor productivity but also negative consequences for until then unknown bankrupts of entrepreneurs as legal and physical persons, unemployment impacting big groups of inhabitants mainly with a lower degree of education, while this situation was new for the inhabitants and most of the inhabitants could not historically relate. At the turn of centuries, this social situation requires such changes of legal regulations that would protect the inhabitants from the negative impacts of a market economy. Here we speak, e.g., about the legal protection of the employee in connection with the employment, furthermore about various kinds of social contributions, etc. With regard to the previous social traditions in Slovak society, the social sphere and social economy became a public interest.

The analysis of the kinds of social enterprises in the Slovak Republic has shown that out of all registered social enterprises, the legal form of Limited Liability Company is the most frequent one with a percentage of 91 % out of all registered enterprises. Despite relatively big amount of cooperatives, the tradition of which persists in the Slovak Republic since the 2nd half of 20th century, it has been shown that these surprising have not been interested in registering as a social enterprise with resulting benefits and there are only a few cooperative among registered social enterprises (MPSVaR SR, 2021).

The central body of state administration in Slovak Republic for labor and unemployment, family and social support, and social insurance and retirement system is the Ministry of Labour, Social Affairs and Family of Slovak Republic (2001).

Financial support in the broader context of social economy

Support in the broader context of social economy with the meaning of the Act on Social economy and Social enterprises is to be understood as “investment help, compensatory contribution, and support in order to fund the demand for activities performed in compliance with special regulations in the sphere of state support and which are being performed in the area of Slovak Republic” (Ministry of Labour, Social Affairs and Family of Slovak Republic, 2018).

Suppose the registered social enterprise uses 100% of the profit to achieve positive social influence and practices democratic administration, with the meaning of the Act on social economy and social enterprises. In that case, all three kinds of support can be provided to such enterprise: investment support, compensation support, and help to support the demand.

The investment support and compensation support can also be rendered to such social enterprise, which is not registered as a social enterprise and also to enterprise with social impact by means of a financial tool, where the provided finances are to be reimbursed or by the combination of tools of reimbursable and non-reimbursable financial support. The Social economy and social enterprises Act does not regulate the mutual ratio for the combined financial support tool.

Suppose the enterprise in the broader context of social economy breaks the provisions of the Act on Social economy and Social enterprises, e.g., by stopping to comply with the requirements for social enterprises etc. or by breaking provisions of general acts, e.g., Commercial Code, The Bookkeeping Act or other. In that case, the enterprise has a duty to return provided support or its aliquoted share after deducting tax depreciation of the purchased or long-term tangible property.

Investment support

Investment support is financial means provided from public resources that, as per the Act on Social economy and Social enterprises, support investments or preparations of the investment project and consultancy services connected with this preparation. The investment support can have a nature of capital costs and running costs from public resources provided from the European structural and investment funds or from the state household.

With the meaning of the Act on Social Economy and Social Enterprises, it is possible to provide investment support in the form of financial tool. In contrast, the finances to use one are being provided as follows: reimbursable support and a combination of reimbursable support and non-reimbursable support.

When providing financial means by combining the reimbursable support and non-reimbursable support, the details on the way of providing these means in the form of investment support are not regulated by the Act on Social Economic and Social Enterprises. The details on the ratio between the reimbursable and non-reimbursable finances are also not regulated by the Act. Therefore there might be disputes between the individual receivers of the investment support and unequal approach to the public resources finances, which may cause non-constitutionality of the whole process of the provision of the investment support according to this Act.

Furthermore, it is possible to render investment support in the form of conditionally reimbursable financial contribution and non-reimbursable financial contribution grants for the registered social enterprise. The investment support can be provided by means of sale of the intangible property for lower price than the general value of the property is or by renting the intangible property for lower price than the value of the rent of the intangible property is as per the expert report. Investment support may also be provided in the form of income tax reliefs.

Even if the finances are provided by means of conditionally reimbursable financial contribution, the law should regulate the way of the provision of the contribution and the way of return of financial means within investment support for the registered social enterprise as well as the reasons and the quantification by measurable indicators, so that it is possible to objectively evaluate the fulfillment or failure to fulfill the condition to reimburse or not to reimburse the conditionally reimbursable financial contribution. Similarly, the law should regulate the details on the way of the stipulation of the price when selling intangible property for lower price than general property value or when renting the intangible property for lower price than value of the rent of the intangible property defined in the expert's report, e.g., by defining the final price as a percentual part stipulated by the expert's report, etc.

With the meaning of the Act on Social Economic and Social Enterprises, the investment costs of the investment support are mainly investment costs for the procurement of the long-term tangible property and long-term intangible property. Furthermore, the investment costs of the investment support cover estimated wage costs for the vacancies created in direct connection to the investment project. The employer may also receive contribution for the coverage of operational costs (rent, insurance of the object, energy costs, costs for reparation and maintenance of the object, etc.) in the amount of 2,5 multiple of the total work price calculated from the average wage of the employee in the economy of Slovak republic (for one citizen with health disability) up to 5 multiple under the same conditions (for one citizen with the decrease of ability to perform the gainful activity by more than 70%) for the first to the third quarter of the calendar year that precedes the calendar year in which the contribution is provided as well as the contribution for the provision of transport for employees with health disability (Šebestová, 2019).

Important parts of the contract on investment support for the registered social enterprise are the provisions relating to the employment relation and remuneration that is why there are provisions in the contract regulating minimum wages and further monetary settlements connected with the employment that the enterprise in the broader context of social economy commits to pay to employees during the duration of the contract, as well as the timetable of the refund of the whole conditionally reimbursable financial contribution.

The investment support when selling property for a price that is lower than the general value of the property or the rent of the intangible property defined by the expert's report is to be provided by means of contract of purchase or by the rental agreement.

The main requirements of the contract of purchase or of rental agreement according to the Act on Social Economy and Social Enterprises is the value of the intangible property stipulated by the expert's report and the purchase prices or the agreed rental price, while the rent cannot be agreed for longer than 10 years.

Furthermore, the contract of purchase or rental agreement according to the Act on Social Economy and Social Enterprises has to contain an agreement on the establishment of the right of first refusal towards the intangible property to the benefit of the seller for the duration of 30 years from the day of the transfer of the ownership right and the commitment of the buyer that he will return the difference between the price stipulated by the expert's report and the purchase price to the seller, as follows: if the status of the registers social enterprise expires or is canceled, if the enterprise enters liquidation if the bankruptcy for the property was decreed, the restructuring was approved, or the ownership right to the intangible property is transferred if the seller will not use his right of first refusal or it period to use the right of first refusal will expire.

Because of the aforementioned reasons, the mandatory annex to the contract of purchase or rental agreement is the expert's report on the value of the intangible property or expert's report on the definition of the value of the rent for the intangible property.

Compensation support

In the Slovak Republic, the compensation support can be provided to the enterprise in the broader context of social economy, if the enterprise is disadvantaged compared to the other enterprises performing similar activity to gain profit, and because of achieving positive social influence.

The compensation support can be provided to a registered social enterprise in the form of reimbursable financial means or by a combination of the reimbursable and non-reimbursable support, in the form of non-reimbursable support, and in the form of a grant.

The reimbursable form of the support is not really compensation support, as the receiver of this compensation form of the support has a duty to return the full extent of the provided finances. In this case, the support can be granted to help pay the debt if the receiver of the compensation support currently experiences insolvency or a similar case that would happen. As for other forms of compensation support for the registered social enterprises, we could speak of partially or fully non-reimbursable provision of finances from the public resource by means of the provider. The reasons for the provision of the compensation support could be in case of integration enterprise, e.g., increased costs for creating fitting working premises on the workplace for disadvantaged persons, etc. The reasons for the provision of the compensation support in social enterprises could be increased maintenance costs or costs for reparation

and renovation or reconstruction of the residential property connected with, e.g., creation of the modifications for disabled persons.

Grant

The grant is being provided to the receiver, who can be a registered social enterprise. The provider provides the grant in the form of investment support and compensation support. The provider of the grant is the Ministry of Labour, Social Affairs and Family of the Slovak Republic, the Headquarters of the Labour, Social Affairs and Family or other Ministry for the fields, in which the registered social enterprise achieves positive social influence to the extent of its activity by providing socially beneficiary service in the field of democracy, culture, social affairs, education, science and technology, creation and protection of the environment as well as further sections of human development (Plavčan, 2020).

The provider of the grant announces a call, assesses the application for the grant, and approves the grant's provision and amount. The grants are being provided on the basis of the fulfillment of the conditions of the call, in the order as delivered. This is how the process proceeds until the financial means allocated for the grant have been spent.

Contribution to support the demand by means of service voucher

The contribution to support the demand is being done for two specific activities, for the household care and garden care, where it is being used to pay for household and garden care services. These services are being provided by registered social enterprises to a physical or dependent person in compliance with the Act on Social Economy and Social Enterprises. This support has a form of a service, e.g., cleaning, cleaning windows, emptying waste bins, washing, ironing, lawn mowing, cutting trees and bushes, and preparing the wood for fireplaces/preparation of split fuelwood further activities coming as service.

The contribution to support demand by means of provided service is being done by means of service vouchers as stipulated by the Act on Social Economy and Social Enterprises. The printing, distribution, sale, resale, repurchase, liquidation, and administration of inventories of service vouchers is being safeguarded by Ministry of Labour, Social Affairs, and Family of Slovak Republic that also monitors their protection and safety and controls the handling of service vouchers when these are being distributed, sold, resold, repurchased and destroyed. Currently, the Ministry of Labour, Social Affairs, and Family of Slovak Republic safeguards issuing two kinds of service vouchers, the blue service voucher, and pink service vouchers, both with the nominal value of ten euros.

A physical person can pay for the household and garden care provided by a registered social enterprise by using a blue service voucher. The dependent person can pay for the household and garden care provided by registered social enterprise using both blue service voucher and pink service voucher to be used by the dependent person. The purchase price of the blue service voucher is its nominal value for a physical person that is 10 euros. The dependent person is entitled to buy blue service voucher for physical person for the nominal value of 10 euros, but can also buy pink service voucher for dependent person with a nominal value of 10 euros, but buy it for the reduced price, for 5 euros.

The Ministry of Labour, Social Affairs and Family of Slovak Republic has to comply with the Act on Social Economy and Social Enterprises and buy from the registered social enterprise, if requested and financially controlled, every blue service voucher for the sum of thirteen euro and every pink service voucher for the nominal value equal to ten euros.

The service voucher has a nature of valuable and currently has a nominal value of 10 euros. This nominal value is the same for the blue service voucher for physical persons as well as for the pink service voucher that is meant for the dependent persons with the meaning of the Act on Social Economy and Social Enterprises.

The unused, invalid, or damaged service vouchers are being bought on the basis of the written request of registered social enterprise. The registered social enterprise that requests purchase of service vouchers will state in its request its identification data, what kind of services were provided for each service voucher, the amount of service vouchers, thereof the amount of service vouchers for dependent persons and the total sum of purchased service vouchers. The sum for which the service vouchers are purchased can be paid after their authenticity and validity have been verified.

Legal regulation of social economy in the period of COVID-19

In 2020, we were confronted with a special situation of spreading a virus causing a COVID-19 disease. The government of the Slovak Republic has started to adopt measures at the beginning of the year that was supposed to prevent the spreading of this virus. These measures were mostly of legal and financial nature and were oriented on legal and physical persons with various impact. Many legal persons enabled by law to apply for a status of a registered social enterprise have significant financial problems connected mostly with a loss of income from their entrepreneurial activity.

Currently there are no statistic indicators on the national level of management that would provide information on the status of the entrepreneurial environment and more detailed reasons that led to the increase of unemployment and to pausing or ending entrepreneurial activities of various businesses. These statistic data are necessary to identify more serious problems in the business environment and are needed to process and approve functional measures to mitigate the consequences of stopping or pausing the economy in almost all the spheres and fields.

With the respect to various measures for physical persons that restrict occupational life and social interaction, the consequences of these measures are most significantly seen in the sector of services and connected fields. Especially culture, sport, tourism, education, social sphere have witnessed the most significant impacts of the measures of the management on their activities, for both legal persons (theaters, cinemas, schools, educational institutions, etc.) and physical persons (artists, sportsmen and sportswomen, teachers, etc.) The loss of clients has affected all of the aforementioned fields, although those are mainly small and middle-sized businesses concerned that cover more than 99, 5 % of the business sector in the Slovak economy.

In the field of social economy, the legal persons having a status of social enterprise or position of an enterprise with a social impact, but also physical persons are being supported by means of the Act on Social Economy and Social Enterprises and by means of indirect support by legal regulation of the term of disadvantaged person and vulnerable person.

In the social economy, the registered social enterprises are active that might have integration enterprises, social enterprises in housing, and generally registered social enterprises with the meaning of the Act on Social Economic and Social Enterprises.

Currently, in the period of the decrease of economic indicators on the status of Slovak, but also world economy especially for the field of services, we need current statistic indicators about the status of activities of all the categories of the registered social enterprises.

We can only presume that the integration enterprises with the respect to their dependency on the clients to which they provide their services in the craft production, gardening, household works, etc. they are losing clients mainly because of insolvency and also the ability to employ disadvantaged and vulnerable persons with social impact to these categories of physical persons and therefore to the integration enterprise as such.

And similarly, the same problems can be expected in the social enterprises in housing because of the financial insolvency of the clients resulting from the high growth of the amount of unemployed person mainly in the categories of the inhabitants with lower education for which this accommodation is intended, as well as because of the changes in the fiscal policy of the state and changes in the economics of banks that transfers negatives from the economy to the client.

In 2020 the National Council of Slovak Republic had adopted new legal regulation in the Act on Social Economy and Social Enterprises in the form of transitory provisions with the validity during the duration of an extraordinary situation, state of emergency that has been announced in connection to COVID-19 disease.

The new legal regulation connected with the extraordinary situation, state of emergency announced in connection with the COVID-19 requires solution of the current social and economic situations emerging in the national economy, but it will be necessary also in other periods of time.

The legal regulation of current facts emerging in the social economy covers legal, but mainly financial help in the form of grants, contributions, and non-reimbursable financial support to sustain the employment of disadvantaged persons and vulnerable persons in the integrated social enterprises, so

that these disadvantaged and vulnerable persons so not join the groups of people leaving of social contributions, including unemployment help.

The legal requirement regarding periodically required measures during further periods also covers the field of identification, gaining, processing of information on social economy in connection with the extraordinary situation or the state of emergency announced in connection with the COVID-19 disease in order to inform the public authorities and the possibility of preparation of legal regulation decreasing or removing its negative consequences.

Conclusion

The increase of the amount of information on the possibilities could increase the activity of the state bodies with the implementation of the social economy into governing measures applicable in the national states in connection with the pandemic situation caused by the spread of the virus causing the COVID-19 disease. The application of the social economy measures is one of the ways how to effectively provide financial means to the disadvantaged and vulnerable physical persons, but also to small and middle-sized entrepreneurs to save or to resuscitate their businesses. The system of state intervention directly into the economy of these groups of physical or legal persons is considered to be more perspective than solving unemployment in small and middle-sized enterprises by means of social network or non-reimbursable contributions that do not stimulate their economic activity.

The paper has presented knowledge on legal regulation of support tools in the social economy and their potential application in the international context in the current pandemic period of COVID-19. We presume that the Slovak practice will be useful for the field of legal regulations on support tools in social economy and for other states, as in this form, the rules of the social economy provide various variable economic possibilities to solve the unfavorable economic situation of disadvantaged and vulnerable physical persons, but also physical and legal persons in small and middle-sized businesses in the current unfavorable economic situation of COVID-19.

As for the solution of the research problem, the selection of legal information has been presented emerging from the environment of the Slovak social economy as well as the description of selected support tools of social economy in the Slovak Republic in the context of the pandemic COVID-19 period.

References

- CIRIEC (2012). The social economy in the European Union. Summary of the Report drawn up for the European Economic and Social Committee by the International Centre of Research and Information on the Public, Social and Cooperative Economy (CIRIEC). QE-31-12-784-EN-C
- Ministry of Labour, Social Affairs and Family of Slovak Republic (2021). Register sociálnych podnikov [Register of social enterprises]. Bratislava: Ministerstvo práce, sociálnych vecí a rodiny SR. employment.gov.sk/sk/praca-zamestnanost/socialna-ekonomika/
- Ministry of Labour, Social Affairs and Family of Slovak Republic (2018). Zákon č. 112/2018 Z. z. o sociálnej ekonomike a sociálnych podnikoch [Act no. 112/2018 Coll. on the social economy and social enterprises]. Bratislava: Ministerstvo práce, sociálnych vecí a rodiny SR. <https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2018/112/>
- Ministry of Labour, Social Affairs and Family of Slovak Republic (2001). Zákon č. 575/2001 Z. z. o organizácii činnosti vlády a organizácii ústrednej štátnej správy [Act no. 575/2001 Coll. on the organization of government activities and the organization of the central state administration]. Bratislava: Ministerstvo vnútra SR. <https://www.zakonypreludi.sk/zz/2001-575>
- Plavčan, P. (2020). Sociálna a vedomostná ekonomika [Social and knowledge economy]. Brno: MSD. ISBN 978-80-7392-352-5
- Plavčan, P. (2019). The comparison of PISA educational results with gross domestic product in member states of European Union. Prague: International Conference on Innovations and Science education. March 20-22, 2019. In Journal Contact. Print ISSN 1805-997X, Online ISSN 1805-9961.
- Plavčan, P., Gálisová, Z. (2019). Legal regulations regards funding higher education in the Slovak Republic and international level. In: Počítačové právo, UI, ochrana údajov a najväčšie technologické trendy: medzinárodná vedecká konferencia dňa 6. júna 2019. Sládkovičovo: VŠ Danubius. ISBN 978-80-7392-333-4.
- Šebestová, P. (2019). Projektový manažment sociálnych podnikov [Project management of social enterprises]. Brno: MSD 2019. 168 s. ISBN 978-80-7369-315-0
- Šebestová, P., Mačkinová M. (2019). Development of social economy and social entrepreneurship in Slovakia. Prague: International Conference on Innovations and Science education. March 20-22, 2019. In Journal Contact. Print ISSN 1805-997X, Online ISSN 1805-9961