

# THE SITUATION OF THE THIRD SECTOR IN SLOVAKIA, THE IMPACTS OF CRISIS, TRENDS, MAINSTREAMS AND CHALLENGES

Boris Strečanský<sup>1</sup>

## Facts and figures

## Types of organizations

Nonprofit sector in Slovakia can be understood in two ways – broader and narrower.

The *broader concept* defines the nonprofit sector negatively towards the concept of income generation ergo enterprising and is used by the official statistics.

In this approach nonprofit sector is a subset of a broader set of institutions that provide *non-market services*<sup>2</sup> such as social insurance, research, education and public administration, sports and recreation, etc.

Within this broader notion, not-for-profit institutions consist of organizations that have not been established with the purpose of enterprising (acting on the market)<sup>3</sup>. These include:

- Associations (unions, clubs, societies, etc.)
- Church based organizations
- Associations of land-owners and home-owners
- Nonprofit Organizations providing publicly beneficial services

- Associations of legal entities,
- Foundations
- Noninvestment funds,
- Professional chambers
- Political parties and movements
- Public-Law Institutions (such public TV, radio, etc.)
- Health care institutions (hospitals and clinics established as a nonprofit organizations)
- Foreign organizations operating in Slovakia
- Other organizations of this kind (SSO 2011/1).

Each of these types of organizations is legally defined by specific laws or through the Civic Code. The broader approach is not particularly useful in contemplating about the third sector as it is clear that many types of organizations that are included in the broader concept are not identified by themselves or by the public to be a part of the “third sector”.

*The narrower concept* of nonprofit organizations looks at the third sector as organizations that roughly follow the internationally accepted criteria of nonprofit organizations (Anheier, Salamon)<sup>4</sup>. This approach is used in the activist and civil society community and to some extent in the media coverage of the civil society. An important element of this concept is the non-government nature of these entities and interest to act in public space. For the purpose of this article we will consider the third sector in this narrower concept.

The types of organizations that can be included in the narrower concept are:

- Associations
- Nonprofit organizations providing publicly beneficial services
- Foundations
- Non-investment funds
- Church-based organizations (not churches per se, but organizations established by churches that provide various social services)
- Association of Land and Home Owners

In this concept, professional chambers, public-law institutions, political parties and movements, or health care institutions are not perceived as a part of the “third sector” as they are either established by regional governments (health clinics and hospitals) or exist from the pre-1989 past to fulfill various delegated functions by the government, especially in self-regulation of various professional industries (medical doctors, chamber of attorneys, etc.) or in execution of public functions (maintaining public registries – notary chamber). Political parties and movements are also not perceived in the public discourse as a part of the third sector, although they belong to civil society. But also in this area, there are signs of change. Professional chambers also go through a process of change and emancipation or need respond to new market pressures which change their positioning in the society.

## Size and structure of the third sector

The number of the nonprofit organizations constantly grows. The total number of different nonprofit entities is over 40 thousand. The growth in numbers is a sign of a freedom of association and an expression of interest of citizens to associate, which can be interpreted as relatively strong given the size of the population of Slovakia (5,4 million).

The Table 1 below provides an overview of numbers of different types of nonprofit organizations between 1999 and 2010.

Table 1: Number of nonprofit organizations (1999–2010)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Associations	9,942	11,685	12,903	14,654	14,588	16,346	18,420	20,375	22,113	23,651	25,460	26,991
Church organizations	2,986	3,270	3,356	3,128	3,122	3,120	3,170	3,208	3,241	3,283	3,333	3,354
Homeowners Associations	3,335	4,614	5,426	6,304	6,334	7,013	7,674	8,339	8,794	9,082	9,421	9,642
Nonprofit organizations providing publicly beneficial services	–	–	–	–	–	–	1,030	1,439	1,610	1,628	1,869	2,101
Foundations	456	491	518	530	402	429	458	483	493	382	412	426
Associations of Legal Persons	392	504	575	614	611	751	848	928	972	1,020	1,070	810
Non-investment funds	230	279	297	341	370	426	457	481	483	454	470	484
Professional organizations	205	218	225	141	116	106	102	101	93	88	94	93
Health Care Subsidiary Organizations	–	–	–	–	53	288	95	41	41	41	41	34
Other	268	221	266	498	510	781	260	248	241	245	225	241
TOTAL	17,814	21,282	23,566	26,210	26,106	29,260	32,514	35,643	38,081	39,874	42,395	44,176

Source: SSO 2011/2

The most frequent type of NPO in Slovakia is civic association followed by association of home-owners and by church organizations.

*Civic association* has a purpose of associating citizens towards advancement of a particular goal – public or mutual benefit one. The relatively simple procedure for registration makes this legal form most popular. It requires only three physical persons for founding an association. Also, the law does not require preparing an annual report unlike foundations or nonprofit organizations providing publicly beneficial services.

Legal forms as foundations, non-investment funds or nonprofit organizations providing public beneficial services operate in a more detailed and structured legal and financial reporting framework compared to associations. These include audit requirements, annual report requirements and notification requirements to registration authorities (Ministry of Internal Affairs). Also internal governance of these types of

nonprofit organizations is more structured and pre-defined by law, compared to civic associations which operate in a legal framework set by the post-velvet revolution euphoria in early 1990.

*Foundations* represent also an important segment of the Slovak third sector which is designed to provide funding to support publicly beneficial activities<sup>5</sup>, which means that besides NGOs as recipients of support provided by foundations support also NGOs, but also municipalities, public institutions (schools, hospitals) or individuals in need. The asset collection and accumulation role and grant-making functions of foundations, are stipulated in the law (Act No. 34/2002 Coll.). The practice and behavior of Slovak foundations in recent years suggests that they embraced these roles, especially the grant-making role. Asset accumulation in a form of endowment takes place only rarely.

Foundations are required to register their endowment at their establishment<sup>6</sup> and then annually re-evaluate its value. Manipulation with the endowment and its investment is strictly regulated which results in the practice where foundations do not register their assets into endowment and keep them as “other” assets, which allows them a greater flexibility. Revenues on investment of endowments are not tax free in Slovakia.

A special segment among foundations is corporate foundations that have emerged along the extension of the 2% tax assignment to corporate income taxpayers. In 2004–2008 many larger corporations established foundations that carry corporate logo and name and conduct charitable programs while using the funding generated by the 2% of tax provided by the mother corporation<sup>7</sup>. In 2011 there was 85 corporate foundations (foundations whose founder was a corporate entity) in Slovakia<sup>8</sup>.

*Non-Investment Funds* are nonprofit organizations that collect funds for particular public benefit purpose.

*Nonprofit organizations providing publicly beneficial services* are organizations with purpose of service provision. This legal form has been used also by regional governments in transformation of hospitals and clinics from original state-owned structures to independent organizations.

The *church based organizations* are established by churches and are registered by the Ministry of Culture. As of 2011 there were 18 registered churches and religious societies in Slovakia, 33 episcopates, districts and eparchies. These churches and religious societies have established 2,547 organizations, which include monastic orders, special-purpose organizations (for example catholic charities, hospices, shelters for refugees, etc) and associations.

Not each of the 40,000+ nonprofits is active and in operation. Approximately 2,5% of these organizations are in the process of liquidation. Also a large number of them is dormant, invisible or do not perform any activity. An indicator that suggests what is the ratio between the active and passive organizations is the registration for obtaining the 2% of income tax<sup>9</sup>. In 2011 10,962 associations, foundation and funds registered in the List of Recipients of 2% Tax which suggests that this most active part of the third sector somewhere around 10,000 organizations<sup>10</sup>.

Table 2: Number of registered in the List of recipients of the 2% tax<sup>11</sup>

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Associations	3,314	2,825	3,250	4,983	–	–	–	–	8,429	–
Non-Investment Funds	164	137	165	219	–	–	–	–	242	–
Non-profit organizations providing publicly beneficial services	103	94	139	230	–	–	–	–	527	–
Foundations	321	187	168	197	–	–	–	–	234	–
Organizations with International Subject	3	4	3	8	–	–	–	–	7	–
Church established organizations	86	88	78	103	–	–	–	–	112	–
Slovak Red Cross and its branches	44	34	29	30	–	–	–	–	24	–
Research and Development Organizations	–	–	–	–	–	–	–	–	10	–
Total	4,035	3,369	3,829	5,746	7100	7,662	7,720	8,993	9,585	10,962

Note: „–“: Data is not available or non-existent.

## Functions of the nonprofit organizations

There is limited statistical evidence on the breakdown of nonprofits based on their thematic focus. However, different indirect evidence as well as the authors' estimate suggests that nonprofit sector in Slovakia is active in following subject areas<sup>12</sup>: the largest share of the third sector in Slovakia is involved in sports and recreation area, followed by housing, social care, cultural activities and environmental protection. In a less significant numbers the third sector operates in health protection, education, regional and rural development, humanitarian assistance and development aid, human rights, minority rights and rule of law.

In terms of functions, the author joins the view that in last 5 years the third sector performed following six functions in Slovakia (Strečanský 2008).

- a) Watchdog function. This function has been especially developed since 1998 when an important part of the nonprofit sector became an important bulwark against authoritarian tendencies. There is not many of watchdog NGOs, but they are visible and are able to influence the overall culture of public affairs management.
- b) Alternative public policy development function. This function has a tradition in Slovakia since nineties. In that period emerged think-tanks and policy institutions that provided input to public discourse and crafted policies in various areas of life – economic, privatization, legal reform, public administration or environment.
- c) Advocacy function to promote interests and rights of various groups of citizens or to advance particular issues – ranging from environment protection, foster care for children to human rights and antidiscrimination issues.

- d) Innovation function is another function that the Slovak third sector has performed in last decade – there have been dozens of social innovations developed and piloted by NGOs in Slovakia in last ten years. Among others, these include: Roma teaching assistants in schools, self-help groups for women recovering from breast cancer operations, alternative schools, micro-lending programs for women, community foundations, low-threshold community clubs, etc. (Bútorá–Bútorová–Strečanský 2012:30).
- e) Service provision function has also developed, especially in the area of social care for people with special needs, elderly, children or sick people and in the education sector. Services in the area of environment, research or rural development are less present. Especially in the area of social affairs and education the public sector perceives the nonprofit service providers as competitors. Nonprofit service providers are not just supplementary to the state services, but may provide better and alternative service. However, there is a lack of empirical evidence on to have quantifiable comparisons between the performance of state and nonprofit service providers. First attempts of comparison of quality of service and economic aspects of it were made in 2011 as a part of the background study commissioned by the Governmental Plenipotentiary for Development of Civil Society (Košťál–Matloň–Kozák 2011). Regardless of this fact, NGOs bring competition to the field of service provision, which was not very present in public services in general. The element of competition contributed to balancing tendencies towards corporatism and thus, also to the search for an optimal version of public policies (ibid).
- f) Humanitarian and development function, both in-country and abroad. Nonprofit organizations play a role in building social cohesion by raising awareness of public of local, regional or global responsibility and solidarity with those that suffer or are in a need for development.

### Revenue structure and financial characteristics of the nonprofit sector

The data displayed below provide some insight about the financial aspect of the Slovak nonprofit sector. Unfortunately, the available data cover only a part of all revenues of the third sector. Further research and collaboration with the official authorities will be needed in future to build a more comprehensive picture of revenue of Slovak third sector.

#### Private Sector Funding

The income of nonprofit organizations (narrower set, without political parties, public-law institutions, etc.) from contributions and gifts from private sector (financial and non-financial corporations, private individuals) has had a growing trend. Since 2005 it varies between €100–150 million<sup>13</sup>.

*Table 3: Contributions and gifts in € received by NPOs (narrower set) from corporations, private individuals and foreign sources<sup>14</sup>*

	2005	2006	2007	2008	2009	2010
Foundations	32,089,814	22,043,053	25,534,190	27,772,057	23,277,274	19,816,508
Non-Investment Funds	187,651	4,417,366	3,283,580	2,885,295	2,841,913	2,031,041
Nonprofit organization providing publicly beneficial services	5,678,300	10,577,298	21,409,862	21,532,331	14,871,694	16,125,857
Associations of Landowners and House Owners	1,974,021	4,271,930	941,393	1,080,873	0	219,247
Associations	41,896,706	58,530,545	75,969,722	55,807,020	72,992,934	71,896,203
Church-based organizations	15,061,480	13,297,187	19,716,245	18,152,841	14,462,377	23,302,255
Professional Chambers	53,309	48,164	19,518	48,695	25,366	11,300
Other Chambers	0	31,152	36,381	53,143	2,000	14,580
Association of	2,063,228	3,424,632	2,468,134	4,488,407	2,438,221	4,542,860
Legal Entities						
International Organizations	2,072,473	2,538,465	1,814,944	383,489	1,768,690	1,770,090
TOTAL	101,076,982	119,179,792	151,193,969	132,204,151	132,680,469	139,729,941

## Public Sector Funding

The insight on the size and share public funding of the nonprofits in Slovakia can be obtained by looking at direct and indirect funding instruments:

- Subsidies from budgetary chapters of different ministries and government agencies.
- Subsidies from the levy on the gaming industry.
- Structural funds of the EU.
- Bilateral aid (for example Norwegian, Swiss financial mechanisms).
- 2% tax assignation.

As it has been explained above, over 10,000 nonprofit organizations are annually registered in the List of recipients of 2% tax. The 2% tax assignation represents funding that is considered as public funding and its use is monitored and audited by the Financial Authority of the Ministry of Finance and the Supreme Control Body.

The amount of 2% income tax NPOs collect every year has a growing trend, however, in last two years in a result of the financial crisis the trend has changed and the total amount is declining. In 2011 it reached €41,5 million which is at the level of 2007. Corporations provide over 60% of the total amount and the trend is that the corporate share decreases and the share of physical persons slowly increases.

The role of the 2% income tax is considered by the NPOs as crucial to their sustainability. The funding has two major advantages over other types of public funding: a) it comes in time i.e. it can be counted with, b) it is not project-bound, but can be

used as a general purpose funding. Despite in quantitative terms it plays only partial role in the funding structure of the third sector in Slovakia, the qualitative aspect is significant.

The most significant public direct funding source for NPOs are subsidies and transfers from budgetary chapters provided directly through various ministries and their agencies to nonprofit organizations (budget expenditure item 64,2001).

*Table 4: State subsidies and transfers to nonprofit organizations and the like organizations in € for 2005–2010<sup>15</sup>*

	2005	2006	2007	2008	2009	2010	2011
Total	43,227,809	29,029,984	37,246,101	75,761,060	67,140,000	64,060,000	51,595,000 <sup>16</sup>

The practice of government in administration of subsidies has improved since 2005. There is a pressure and tendency towards establishing clearer and publicly accessible guidelines on applying for subsidies and specifying the eligibility criteria. Currently 9 of 15 studied ministries can be considered as having open systems of subsidy provisions (systems where nonprofit organizations are specifically stated as eligible recipients) (Farenzenová 2011).

The revenues from gaming and lotteries earmarked for NPOs form only a very small percentage of the total state revenues (0,6% of the total, which is €580 thousand) gained from this source. These funds are re-distributed by the Ministry of Finance to nonprofit in a Call for proposals.

More significant role is played by the Structural Funds. However, there is no comprehensive statistics that could quantify the amounts of structural funds flow to nonprofit organizations. The bilateral funds from Swiss and Norwegian (+EFTA) Financial Mechanisms represent also important public funding source for nonprofits in Slovakia.

The figures on earned income as well as on structural funds are missing. Therefore it is difficult to provide a full picture of the Slovak third sector revenue structure. However, what is clear is that the private funding increases, public funding increases as well.

To summarize the situation in the funding and its structure of Slovak nonprofit sector as it evolved in last 6 years:

*Table 5: Structure of Revenue of nonprofit organizations in Slovakia in € in 2005–2011*

	2005	2006	2007	2008	2009	2010	2011
Governmental Subsidies	43,227,809	29,029,984	37,246,101	75,761,060	67,140,000	64,060,000	51,595,000
2% Tax	30,896,237	37,142,140	42,125,093	49,180,451	55,180,237	44,146,478	41,595,000
Private Contributions and Gants	101,076,982	119,179,792	151,193,969	132,204,151	112,084,523	116,964,983	n.a.
Foreign contributions and grants	36,763,245	28,307,721	25,105,581	34,927,225	20,595,946	22,764,958	n.a.
Earned income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural Funds EU	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



## Nonprofit sector as a funding source

Nonprofit sector is also a resource that provides financial support to other entities (individuals in need, public institutions – schools, hospitals or other nonprofit organizations and initiatives) in advancement of publicly beneficial or mutually beneficial goals. This can be illustrated by the amount of contributions that nonprofit organizations provided to third parties that range between €40 million and €90 million annually. The largest provider of contributions is church-based organizations, followed by foundations and associations.

*Table 6: Contributions and Gifts in € provided by Nonprofit organizations<sup>17</sup>*

	2005	2006	2007	2008	2009	2010
Foundations	13,535,015	23,026,920	21,668,160	26,743,112	22,226,226	20,201,39
Non-investment funds	1,052,317	1,242,148	1,433,961	1,645,695	1,666,053	1,211,170
Nonprofit organization providing publicly beneficial services	866,461	1,366,051	2,190,832	5,695,180	7,633,339	6,512,574
Associations of Landowners and House Owners	0	0	0	5,846	0	218
Associations	1,364,973	5,770,399	13,647,005	14,170,695	16,212,958	16,339,943
Church-based organizations	23,032,788	31,355,449	27,965,448	40,330,985	31,570,805	13,554,765
Professional chambers	47,119	64,767	44,762	26,223	450,129	68,801
Other chambers	170,285	163,795	175,978	117,639	25,610	53,981
Association of Legal Entities	1,313,151	608,970	436,944	2,465,741	952,783	1,729,585
International organizations	592,644	417,958	375,755	33	619	189,437
TOTAL	41,974,753	64,016,457	64,314,052	91,201,116	80,738,522	59,921,713

One of the foundations basic missions is giving grants for implementation of activities for the public benefit. According to the Center for Philanthropy – a nonprofit think-tank, in 2010, 404 foundations gave out grants and gifts with a total value of €32.8 million, which is €2.2 million more than in the 2009. Many foundations provide grants via open grant programs for which anyone who fulfills the criteria can apply.

For several years, the largest grant making foundations in Slovakia have been Habitat for Humanity International Foundation, Pázmány Péter Foundation and SPP (Slovak Gas Industry) Foundation. In 2010, foundations in Slovakia held €66.4 million in assets (Bútorá–Bútorová–Strečanský 2012:51). However, vast majority of foundations does not develop capital endowments or other assets, but focuses on raising funding on a flow-through basis and act as nonprofit financial intermediaries.

The money from the 2% tax assignment of physical persons and corporations is important to foundations. In 2010 they received €14.1 million from the 2% tax which is

almost one third of the total assigned amount, while foundations represent only a small fraction of all recipients of 2%.

Foundations allocate their support primarily to education, culture, social care and health protection<sup>18</sup>.

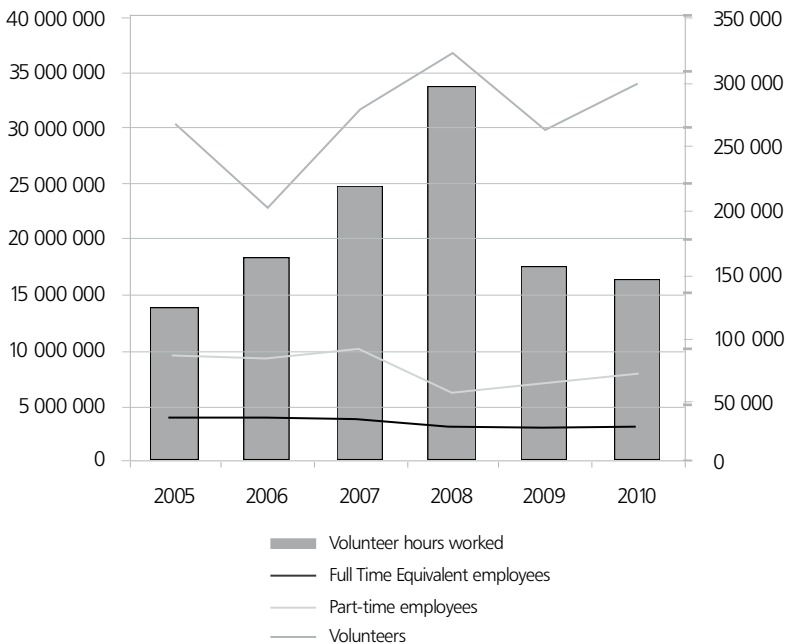
**Nonprofit sector, employment and volunteering**

The nonprofit sector is not a significant employer and its employment power decreased over time, both in full-time employment as well as in part-time employment. The volunteering data suggest an increase of number of volunteers while the volunteered time decreased.

*Table 7: Number of FTE employees, part-time employees and volunteers in nonprofit organizations 2005–2010<sup>19</sup>*

	2005	2006	2007	2008	2009	2010
Full Time Equivalent employees	34,067	33,974	33,305	25,214	24,453	25,600
# of Part-time employees	82,683	79,959	89,844	44,685	54,078	63,618
# of Volunteers	227,030	220,470	286,741	324,708	272,909	304,094
# of Volunteer hours worked	13,766,992	18,259,897	24,672,685	33,626,730	17,460,719	16,297,300

*Chart 1: Employment in the NPOs in Slovakia 2005–2010*



The largest employers in the third sector are nonprofit organizations providing publicly beneficial services, followed by associations and church-based organizations as far regular employment is concerned. The largest number of part-time employees and volunteers of the third sector are employed by associations and nonprofit service organizations (Brozmanová-Gregorová–Marček–Mračková 2009:98).

## Selected issues

### Relations between the State and the nonprofit organizations

The relationship between the State and the nonprofit sector has been complicated since the establishment of modern Slovakia in 1993.

Several studies recently studied this relationship (Strečanský 2008, Bútora–Bútorová–Strečanský–Onrušek–Mesežnikov 2011, Bútora–Bútorová–Strečanský 2012) and suggest that NGO-government relationship in Slovakia has been influenced by the cycle of domestic political process where NGOs had to engage in the struggle for the democratic rules and European orientation and practiced their campaigning potential. As a result, the advocacy and activist dimension of the Slovak third sector has grown and became over-sized. On the contrary the service dimension of the third sector has not had enough space to develop.

As a result of this complicated nature of relationship with the state, also the process of the standard government-third sector relationship development has been delayed. NGOs have felt frustrated from their non-acceptance by the state as a development actor.

### Governmental Council for NGOs

After 1998 the government began to recognize the nonprofit sector as a public actor. This was partly due to the role the NGOs played in the civic campaign in mobilizing voter participation in national elections in 1998. This appreciation was reflected in 2001 also by the establishment of a governmental advisory body – The Governmental Council for Non-Governmental Organizations as well as by the enactment of the legislation allowing assigning 1% of income tax (later on increased to 2%) to non-profit organizations.

The Council had a small secretariat, based at the Office of Government and was chaired by the Vice-Prime minister in charge of minorities, human rights, European affairs and knowledge society. The Council was a space where major issues in the legal or fiscal frameworks were discussed and where NGO representatives had a space to raise issues that they considered important. Higher officers or deputy ministers of the cabinet took part at its sessions. NGOs were represented by various NGO platform representatives

and personalities from different areas of the sector. Until 2010 this was the only space in the government that dealt with the issues relevant to the nonprofit sector. Its capacities were rather limited as there was very limited full-time staff assigned to it in last period. However, NGOs appreciated that there existed a dialogue space that improved the communication and decreased potential tensions (Strečanský B.–Bútorá M. et al. 2009).

The very existence of the space for dialogue since 2001 was not sufficient for satisfying the needs and expectations of NPOs towards the state on the development of the third sector. The reasons for dissatisfaction among NPOs were multifold: NPOs had been disappointed from the lacking of partnership approach in planning and implementing the structural funds in Slovakia and also from limited access to structural funding – both in 2002–2006 and 2007–2013 programming periods (Košťál 2010).

Nonprofits were repeatedly not taken into account by the public sector as service providers in different sectors (health, education, social care). There were also attempts of government to limit access to public funding (for example and attempt to abolish the 2% tax for corporations in 2006) and changes in the legislation (draft Law on Associations in 2008) that were insufficiently consulted and raised concerns among the NGO umbrella associations.

### **The plenipotentiary of the government for the development of civil society**

The cabinet of Ms. Radičová, that came to power in July 2010 declared its readiness to take the voice of citizens into account. The government manifesto was named Civic Responsibility and Cooperation and many of its statements emphasized citizens' participation in public affairs – the cooperation of public administration bodies with the nonprofit sector, charity, or strengthening the volunteer sector (Košťál 2010).

Paradoxically, the Radičová's cabinet dissolved the Council of the Government for NGOs and a more broadly conceived Council of the Government of the Slovak Republic for Human Rights, National Minorities and Gender Equality was established. This new institution was meant to integrate the agendas of the previously existing advisory bodies and assure that the state's partners gain a stronger influence. It encompassed eight independent committees, including the Committee for nongovernmental organizations, whose chairperson became the Plenipotentiary of the Government for the Development of Civil Society; a completely new post established on premier Radičová's initiative in 2011 (ibid).

There was no consensus among NGO leaders on the usefulness of such function. Some of them were skeptical or even critical, while many others supported the idea. The new Plenipotentiary Filip Vagač emphasized that the current relationship between the state and the third sector is not clearly defined, while the sector as whole is *“very undernourished, many organizations cannot perform the basic functions for which they were founded and the state does not use the potential of what citizens offer”*. His main role was to prepare the Strategy of Civil Society Development in Slovakia and an Action

Plan for its implementation. He also contributed to the passing of the law on volunteering by the Parliament in October 2011 which created a legal framework for volunteering and enabled a 3% tax assignment for those individual taxpayers who act as volunteers, an exemption from several kinds of local tax and elimination of VAT for provision of voluntary services (ibid).

The new government of Prime Minister Fico that came to power after victory in early elections in March 2012, has confirmed its interest in continuation of the engagement with the civil society. In July 2012 the government re-established the Governmental Council for NGOs in a response to calls for it from the third sector to elevate the level of interaction with the state from the “committee” level to “council” level i.e. having a more direct access to the cabinet members.

### The strategy for development of civil society in Slovak Republic

The strategy for development of civil society in Slovak Republic (Strategy 2012) has been the most significant result of the effort of Plenipotentiary in the area of third sector – state relationship. It has been approved by the Parliament in February 2012 and became the first official document approved by the Parliament in Slovakia since 1993 that specifies position of the state towards the third sector.

The document offers basic arguments promoting the support for civil society and cooperation between State and non-governmental, nonprofit organisations (NGOs). It states strategic goals of the civil society development until 2020 in three areas:

1. NGOs’ participation in fulfillment of public administration tasks and definition of the areas of cooperation;
2. Promotion of active citizens and open governance;
3. Promotion of public discussion on important matters of the society.

The Strategy introduces also an *Action Plan for 2012–2013* which formulates tasks for different ministries in regard to the Strategy. For example, there are tasks that aim at creating a space for synergies between efforts of civil society organizations and public administration:

*“After consultations with key actors of civil society, Slovak government shall approve Memorandum of Understanding based on the declarations individual ministries. The Memorandum will determine principal values and positions in relation to civil society and participation, principles in relation to organized initiatives and various types of nongovernmental nonprofit organizations and determines the cooperation areas with NGOs. The objective of creating permanent platform for dialogue between the State and the civil society will from a part of the Memorandum, which should, apart from the dialogue with NGOs, create an opportunity for public discussion on serious society issues, promoting active citizens and strengthening civic capital”* (Strategy 2012:25).

There are also tasks related to the implementation of partnership principle in the 2014–2020 programming as well as to the support for involvement of citizens in decision-making and promoting open governance in public administration. Altogether, there are 22 different tasks in three strategic areas and 2 tasks for monitoring of the Action Plan.

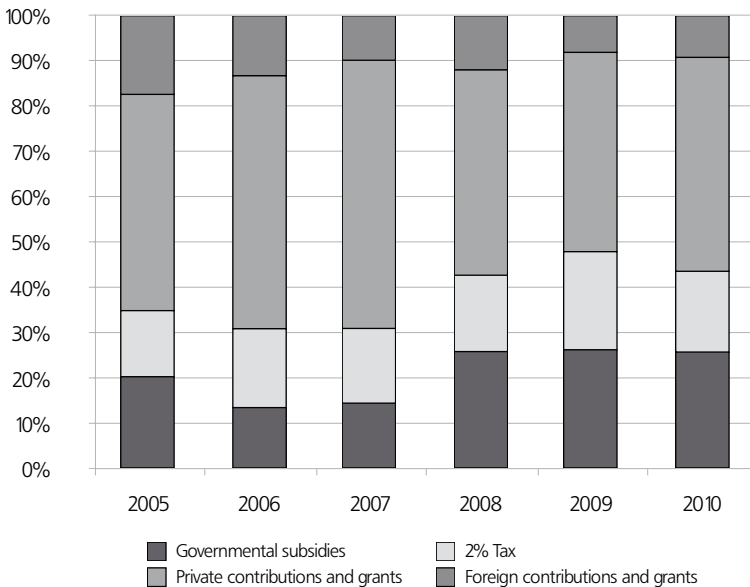
There are several dilemmas for how the relationship between the state and third sector will shape up. The global and European debt crisis may impact on this relationship by limiting the resources of the state towards the NPOs. Also NPOs need to clarify for themselves how to work with public sources and private sources and how to more intensively communicate its role and benefits to the general public.

### Tax Assignment

The tax assignment has become one of the three major sources of funding of NPOs in Slovakia: besides direct governmental subsidies and foreign contributions and grants (structural funds are not taken into account).

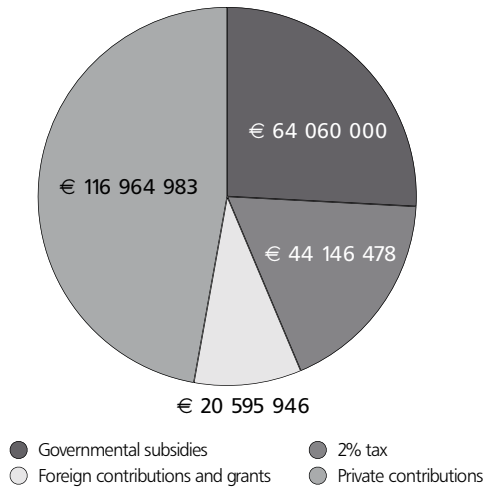
It is a key instrument of the decentralized support for the nonprofit sector from public sources in Slovakia. It has been popular both among its recipients (over 10,000 registered NPOs for receiving it), and among its providers (according to unofficial data, this mechanism is used by more than 50% of individual taxpayers and more than 90% of corporate taxpayers with positive tax).

*Chart 2: Ratio of Government Subsidies, 2% Tax and Foreign Grants on the income of Slovak nonprofit organizations<sup>20</sup>*



In last decade there was a trend of decreasing foreign funding (mostly bilateral aid and private foundations) which required that domestic public and private sources would replace it to some extent. As the chart shows, the share of the 2% funding has been significant in covering the gap.

Chart 3: 2% tax, foreign contributions, government subsidies and private contributions (2010)



The 2% tax mechanism has been controversial system from its beginning in 2002. It has been very much praised but also criticized. NGOs do not consider it ideal, but since no other alternative model is available in Slovakia (e.g. tax write-offs for charitable gifts), they appreciate the current one. It should be noted that when the tax assignment came into effect in 2002, the parliament abolished the “traditional” tax incentives for taxpayers. This was happening in the time of major tax reforms, decreasing tax rates and simplification of the tax collection system.

The 2% system influenced many relationships that emerged since then between the government, business and nonprofits. For example, once it became available for corporate taxpayers, the number of foundations established by corporate entity started to grow. Between 1990 and 2001 only 23 corporate foundations were registered in Slovakia. Since 2002 to 2007 there were 58 new corporate foundations established. Many would bear the same name as the founder. In 2011 there exists up to 90 corporate foundations that makes 20% of all foundations.

After 2004 many corporations assigned their 2% tax to foundations that they founded. Especially, large companies whose assigned tax was significant in scale were assigning large volumes of funds. For example in 2010, out of the top ten recipients of 2% income tax, 6 were corporate foundations.

The law requires that the 2% tax funds need to be used by the end of the next year after the year when the funds arrive to the recipient. This condition has contributed to the proliferation of different grant-making programs organized by various corporate

foundations, which are an effective way, how to spend the resources through a competitive and open process.

The income from the 2% tax assignment for civic associations and nonprofit organizations shows a downward trend since 2009, which is caused by both the global economic and financial crisis (difference between 2009 and 2010) and the decrease in the assignment percentage from 2% to 1.5% (difference between 2010 and 2011). See Table 8 below.

*Table 8: Amount in € of the 2% tax provided to eligible nonprofits<sup>21</sup> by personal and corporate income taxpayers 2004–2011*

	Personal Income Taxpayers	Corporate Income Taxpayers	Total (€)	Change on previous year (%)
2004	9,159,000	18,896,000	28,054,604	–
2005	10,371,000	20,525,000	30,896,237	10.13
2006	11,713,000	25,629,000	37,342,140	20.86
2007	12,819,000	29,306,000	42,125,093	12.81
2008	15,036,000	34,144,000	49,180,451	16.75
2009	17,684,000	37,496,000	55,180,237	12.20
2010	15,553,000	28,592,000	44,146,478	–20.00
2011	16,503,000	25,092,000	41,595,000	–5.77

### Recent modifications of the 2% tax assignment

As a result of interaction between the Ministry of Finance and the civil society, the mechanism has gone since 2002 through following changes, which had sometimes political and sometimes economic rationale (Farenzenová 2011):

- Increase of the percentage that can be assigned from 1% to 2% (2004).
- Extension of availability of this mechanism to corporate income tax taxpayers (2004).
- Increase of minimal assignable amount from €0.6 to €3.32 (for individuals, the corporate taxpayers minimum amount that can be assigned is €8.3) in 2006.
- Narrowing or expanding the eligible purposes (in 2007, 2008 and 2010).<sup>22</sup>
- Phasing out of corporate income tax assignment from the level of 2% to 0.5% during 9 years period (2011–2020) and establishment of matching option for corporate income taxpayers (2009).

The most controversial part of 2% tax mechanism is its extension to corporate taxpayers. This has been repeatedly criticized by the Prime Minister Fico government in 2006 and 2009 but also by the previous government of Mr. Dzurinda, who established this possibility in 2002.

The criticism has been based on findings about tax evasions related to the tax assignment when the 2% tax had been sent to recipients whose identities were dubious and with whom communication was extremely complicated (nonprofit organizations with income that is not the subject of the income tax are not obliged for registration at



the tax office). Also, the fact that large corporations were taking the advantage of the tax assignation to promote their brands added to the dissatisfaction of the government to continue with the system. In 2011 new fiscal arguments were added: the disproportional increase of the assigned tax between 2007–2010 caused a significant decrease of the state budget revenue.

The first attempt to abolish the corporate tax assignation in 2006 was not successful as the government had to face a strong civic campaign that mobilized NGOs and public against such move.

The second attempt in 2009 to limit the corporate tax assignment was more successful. The Ministry of Finance pushed the adjustment of the tax assignation mechanism, in which the corporate income taxpayers will have to lower their assigned percentage from 2% to 0.5% of the income tax by 2019. Since 2011 the system allows the corporate income taxpayer to assign only 1.5%. It also allows to assign 2% from its tax, but only, if the taxpayers can prove that he/she provided a gift in the amount of 0.5% of its tax. (Thus the total income for the recipient would be 2.5%). The impuls for this change was the fact that the largest and most-prosperous corporations established their own foundations and had been sending the 2% tax to them. The 2009 adjustment of the system was meant to motivate the corporate taxpayers to take higher responsibility for the support of public benefit nonprofit organizations<sup>23</sup>.

Being afraid of further decreases of this system, NGOs made a pressure towards the Parliament by the end of 2011 in an attempt to postpone the phasing out of the system so that the matching ratio between 2% and 0.5% will continue one more year beyond the original schedule. NGOs argued that the expected reduction of the amount of money from the assignation mechanism would amount to such a financial loss, that NGOs very existence would be threatened<sup>24</sup>. This would mean that the social safety net itself would be substantially weakened in a society undergoing a moment of deep crisis. Parliament accepted this call and approved the postponement for one year. As a result, the current model for assignation of 2% will remain in place until 2013.

In 2011 emerged first figures that allowed to analyze what is the effect of the new system. However, it is hard to filter the effects of the financial and debt crises from the direct effects of the change of the system. The results were not surprising:

The number of corporations that assign the 2% of the tax decreased:

	2009	2010	2011/nov.
# of corporations using the mechanism of the 2%	30,078	26,172	25,421
Annual Change (#)		-3906	-418
Annual Change (%)		-13%	-1.5%

Along the decrease of corporate taxpayers using the mechanism the amount assigned by the corporations decreased as well. After the 24% decrease in 2010, additional 12% decreased was noticed in 2011.

	2009	2010	2011/nov.
Total Amount of Percentage Tax of Corporate Taxpayers (€)	37,496,000	28,592,000	25,092,000
Annual change (€)		-8,904,000	-3,500,000
Annual change (%)		-23.8%	-12.24%

Out of 25,421 corporate taxpayers only 9,53% (2,467) provided a gift for public-benefit purpose (matching) that allowed them to assign 2% (and not only 1.5%).

	2011/nov.
# of corporations using the tax assignment system	25,754
Of this – # of corporations assigning 15%	23,489
Of this # of corporations assigning 2% (made an extra 0.5% gift)	2,467
% of corporations that made an extra 0.5% gift	9.5%

The tax assignment remains for the future an important decentralized public finance instrument to support the civil society in Slovakia.

## Bibliography

- Broznanová-Gregorová A.–Marček E.–Mračková A. (2009): *Analýza dobrovoľníctva na Slovensku*. Banská Bystrica, 98.
- Bútora M.–Bútorová Z.–Strečanský B. (2012): *Active Citizenship and the Non-Governmental Sector in Slovakia: Trends and Perspectives*. Bratislava: Včelí dom association, 51.
- Bútora M.–Bútorová Z.–Strečanský B.–Ondrušek D.–Mesežnikov G. (ed.) (2011): *Štúdia súčasného stavu občianskej spoločnosti na Slovensku*. Bratislava: Inštitút pre verejné otázky, Centrum pre filantropiu n.o., PDCS o.z.
- Farenzenová M. (2011): Správa o stave v rezorte financii In. Bútora M.–Bútorová Z.–Strečanský B.–Ondrušek D.–Mesežnikov G. (ed.) (2011): *Štúdia súčasného stavu občianskej spoločnosti na Slovensku*. Bratislava: Inštitút pre verejné otázky, Centrum pre filantropiu n.o., PDCS o.z.
- Košťál C.–Matloň P.–Kozák M. (2011): Zmapovanie ekonomických parametrov spolupráce medzi štátom a MNO In. Bútora M.–Bútorová Z.–Strečanský B.–Ondrušek D.–Mesežnikov G. (ed.) (2011): *Štúdia súčasného stavu občianskej spoločnosti na Slovensku*. Bratislava: Inštitút pre verejné otázky, Centrum pre filantropiu n.o., PDCS o.z.
- Kubánová M. et al.: Financovanie mimovládnych organizácií z verejných zdrojov Slovenskej republiky a Európskej únie. In. Strečanský Boris (2008): *Kvadratura kruhu alebo otázka spôsobu? K niektorým otázkam roly verejných zdrojov v podpore občianskeho hlasu vo verejnej politike na Slovensku v r. 1995–2007*. Zborník štúdií a esejí. Bratislava: Nadácia Ekopolis.
- Slovak Statistical Office (2011): Time Series Database SLOVSTAT, Methodological comments, last update: October 13, 2011, [http://www.statistics.sk/pls/elisw/objekt.send?uic=3726&m\\_sso=4&m\\_so=73&ic=19](http://www.statistics.sk/pls/elisw/objekt.send?uic=3726&m_sso=4&m_so=73&ic=19)
- Správa o stave slovenských nadácií za r. 2008 (2009) Bratislava: Slovak Donors' Forum, 11, last update: May 15, 2012, <http://www.donorsforum.sk/dokumenty/2010/Sprava%20o%20stave%20slovenskych%20nadacii%202008.pdf>
- Strečanský B.–Bútora M. et al. (2008): Mimovládne neziskové organizácie a dobrovoľníctvo. In. Mesežnikov–Kollár M.–Bútora M. (eds.). *Slovensko. Súhrnná správa o stave spoločnosti*. Bratislava: Inštitút pre verejné otázky. [http://tretisektor.gov.sk/data/files/1870\\_strategy-of-civil-society-development-in-slovakia.pdf](http://tretisektor.gov.sk/data/files/1870_strategy-of-civil-society-development-in-slovakia.pdf)
- Strečanský B.: "We and They" – Slovakia. In. Nicholson, T. (ed.) (2008): *"We and they". NGOs Influence on Decision Making Processes in the Visegrad Group Countries*. Bratislava: The Sasakawa Peace Foundation.

## Footnotes

- 1 Executive Director, Center for Philanthropy n.o., Bratislava (strecansky@changent.sk).
- 2 According to ESA 95 (European System of Accounts which is the harmonized European methodology for the compilation of national accounts and regional accounts used by members of the European Union) non-market services are provided by entities that sell goods or services for a price that is economically insignificant. This means that earnings cover less than 50% of product/service production costs.
- 3 “nezriadené za účelom podnikania” ergo “nezárobkové organizácie”.
- 4 Independent board, volunteering, no distribution of profit among founders, independence from the state or private institutions, formal nature (incorporation)
- 5 Public benefit purpose is understood in Slovak legal context mainly as the development and protection of spiritual and cultural values, promotion and protection of human rights and other humanitarian goals, protection and creation of environment, protection of natural values, health protection, protection of rights of children and youth, development of science, education and physical culture and humanitarian assistance for individuals or groups of people being in a life-threatening situations or in an urgent need in nature disasters.
- 6 The minimum amount of endowment needed for registration of foundation is €6,638.
- 7 The law on foundations does not distinguish between corporate or independent foundations. Any foundation needs to pursue public benefit purposes.
- 8 Document analysis of Center for Philanthropy at the Registry of foundations at Ministry of Interior.
- 9 2% income tax assignation is an indirect financial mechanism that allows individual (since 2002) and corporate (since 2004) income taxpayers to transfer 2% of their tax duty to non-governmental nonprofit organization that is registered by the Notary Chamber as a recipient of 2%.
- 10 The law allows that 2% tax recipients can be only civic associations, foundations, nonprofit organizations, non-investment funds and church-funded organizations (not churches themselves).
- 11 The list of registered recipients of the 2% tax, 2011 ([www.rozhodnisk.sk](http://www.rozhodnisk.sk)).
- 12 Study on Current State of Civil Society in Slovakia.
- 13 Unfortunately data about the earned income on the total income of nonprofit organizations are not available.
- 14 Based on the Slovstate Timeline Series Database, Slovak Statistical Office.
- 15 Data obtained from the Final State Accounts for 2005–2010. Compiled from Kubánová M. et al. (2008) and Farenzenová (2011).
- 16 Proposal of Final State Account for 2011, July 2012, <http://www.finance.gov.sk/Default.aspx?CatID=8229>
- 17 Slovstat, [http://www.statistics.sk/pls/elisw/objekt.send?uic=3806&m\\_sso=4&m\\_so=73&ic=19](http://www.statistics.sk/pls/elisw/objekt.send?uic=3806&m_sso=4&m_so=73&ic=19)
- 18 Správa o stave slovenských nadácií za r. 2008. Fórum donorov, 2009, page 11  
<http://www.donorsforum.sk/dokumenty/2010/Sprava%20o%20stave%20slovenskych%20nadacii%202008.pdf>
- 19 Based on the Slovstate Timeline Series Database, Slovak Statistical Office.
- 20 Based on data from Slovstat and Ministry of Finance of Slovak Republic. Data on foreign funding for 2009–2011 are not available.
- 21 The Law on Income Tax #595/2003 allows only specified nonprofits to register for receiving the 2% tax: Associations, foundations, nonprofit organizations providing publicly beneficial services, church-based organizations, non-investment funds, Slovak Red Cross, organizations with international element and research and development organizations.
- 22 Eligible purposes are: health protection, prevention, curation and resocialization of drug addicts, support and development of physical culture, provision of social care, protection of cultural values, support of education, protection of human rights, protection and creation of environment, science and research.
- 23 Position of the Section of Budgetary Policy of Ministry of Finance on the Open Call of NGOs on the Tax Assignation, November 2011.
- 24 Open call of NGOs on the Tax Assignation Mechanism from Corporate Income  
<http://www.changenet.sk/?section=kampane&x=631592&cat=14675>



Photo/Fotó: Gönczö Viktor