

# FINANCING AND COOPERATION BETWEEN THE PUBLIC ADMINISTRATION AND NON-PROFIT SECTOR IN THE SLOVAK REPUBLIC

Katarina Rentkova<sup>1</sup>, Daniela Majercakova<sup>2</sup>,

<sup>1,2</sup> *Comenius University in Bratislava, Faculty of Management  
Department of Economics and Finances, Bratislava, Slovakia*

**Abstract.** *This paper presents a country specific intake on the cooperation between the public administration and the non-profit sector in the Slovak republic.*

**Keywords:** *cooperation, local development, management, municipality, non-governmental organization, non-profit management, civil society, citizens*

## Introduction

The research is focused on the analysis of management and financing of the public administration. The management and the financing of the public administration are largely influenced by the level of the partnership and the cooperation between different actors within the public affairs. The news represents the part of people's daily life; they deliver information about what is happening in the public sector. Nobody knows how to be hidden from the information about the local affairs, against the discussions about the development plans and the petitions against the plans of the public administration.

For this purpose, the analysis is carried out via media, billboards advertisement, internet, social networking sites, and we collect also the information on the street. Such information can be used, ignored or, by applying this information we can be able to participate actively in the public sector affairs. The local public administration, citizens, nonprofit organizations and entrepreneurs are essential actors in the public affairs. They dispose of the various formal and informal instruments that affect the local development. The citizen's right to participate in the conduct of public affairs is considered as one of the most important democratic principles. The execution of this right seems being easier in towns and cities where people live and represent much more their opinions and so they are more opened for the dialogue on the local problems when executing their rights .

Non-profit sector is a bridge between the citizens and public affairs because it is related to the public administration. Non-profit sector has the important role, especially in responsibility of citizenship development. It has the influence on the public administration and it is also the bridge between citizen relationships with public or governmental institutions.

## **The research objective**

The basic problem of the regional development is to reduce of the differences between the regions and States which are considered as negative. This problem is also called disparities. But the objective of the research would be the maintenance of the strong sites in those regions, especially in the areas where the regional diversity is present. In Slovakia, the actual status of the regional policy realization and rural development policy was strongly influenced after entering the European Union in 2004, but also by the duties acquisition that were derived from the European Union Treaties. By application and realization of the regional policy (also known as the Structural policy or the Cohesion policy) the effective and respectable development on the national level may be ensured. The fundamental thesis is the role of the cooperation between authorities of local public administration and the non-governmental organizations and possibilities of the best practices utilization to manage the regional development on the local level. The main target is to identify and analyze the fundamental characteristics and resources for the determination of the essential problems which is executed on the local level in connection with the cooperation possibilities.

As a result of the decentralization of power to the municipalities, they became a central element of the local government. Municipalities have extensive power now. They became autonomous legal and economic authority and their role is to ensure the public goods to the citizens. The aim of our research was to analyze the local government and the management of the municipalities in the Slovak Republic. An important objective is also to define and to make identification of the financial management in the municipalities.

Another important instrument that helps to ensure the needs of citizens is the municipal budget. In the Slovak Republic, several reforms took place in recent years which dealt with the financing of municipalities. As a result of the tax reform, but also due to the possibility of drawing resources from the Structural Funds, there was one expectation that municipalities would achieve – the higher financial autonomy.

The municipalities may cooperate with legal and natural entities, in order to ensure local or regional development. The partnership may occur between municipalities and private sector in the form of enterprises, e.g. Public Private Partnerships (PPP). The partnership may also be developed between the municipalities and the local action groups, but it may also be created between the communities themselves. The participation and the partnership can be formed between the municipalities and non-profit organizations. The existence of non-profit organizations is embedded in civil society. The non-profit organizations are considered as the important elements to maintain a democratic political culture in the country. Their existence points to the implementation of the principles of democracy in the practice. More generally, non-profit sector is also the part of the complex dual transition from industrial society to postindustrial society and from national state to transnational policy regimes and identity of States and citizens. This transition shows the new dialogue and perspective addressing the visible and non-visible future of non-profit sector and non-profit organizations. This involves the perspectives of region, municipality or State policy.

The widespread consensus of the values in non-profit sector identified seven values – productive, effective, empowering, responsive, enriching, reliable and caring-lie at the core

of the non-profit sector. However, the values found that many non-profit leaders feel that the sector must do a better job of articulation and communicating these values among their stakeholder in the government and media.

It is important to note that the municipalities in the Slovak Republic established the municipal budgetary and contributory organizations per which they want to ensure public goods. Municipalities also established the public utility companies as a type of non-profit organization to which they inserted their municipal property. Non-profit and charitable organizations participate at the formation of GDP; participate in the creation of employment rates, counterwork against the increase of the unemployment rate. Non-governmental organizations constitute an important element of public life. Our research analyzes their role at the local government. The main objective is the municipality. The purpose is to analyze the relationship between two actors involved in the local development of regions, i.e. municipalities and non-profit organizations.

## **Methodology**

The research is processed by using a wide scale of the scientific methods and procedures. The specific range of methods was based on the research needs of the individual parts. The intention is to follow the logical continuity of the chapters, the correctness and the adequacy of information and data. One of the research parts is focused on the definition and the determination of the local self-government and territorial authorities. This section deals with the analysis of the relationship of the non-profit organizations and the municipalities. We deal with the definition of management, financing and of budget creation of municipalities, but also with the establishment and the management of NGOs. This part is prepared by using the analytical methods – the historical analysis, the casual analysis and the synthesis. Empirical research has been elaborated and it is based on the case study. We have tried to analyze the process and to identify the critical areas. The main method was supplemented by the supporting research methods – online inquiry, interview and secondary analysis. The research findings and the recommendations for the practice have been processed by using the secondary, the content and the causal analysis, but also by the statistical methods.

## **Non-profit organizations in Slovakia**

After 1989 both, the number and the size of NGOs, has increase. Also in this time, after change of the political regime, NGOs have begun to professionalize, diversify their activities and expand. It was a meaningful change of the way of thinking for the Slovak society and individuals.

The non-profit activities and voluntary service was present in Slovakia also before 1989. Although in the era of communism these activities were suppressed, after 1989 this type of society meaning and welfare activities was reestablished. There was a boom of establishing the non-profit organizations. The reasons of establish and rapid development of

non-profit organizations in Slovakia was: the needs of compensation for lacks, development of new technologies and telecommunications, recovery of citizenship and voluntarisms.

Basic organizational information about NGO in Slovakia can be summarized to the following characteristics:

- Geographic diversity between the regions across the country is a mix of organizations from capital city and smaller cities or villages;
- Local organizations. Most of NGOs in Slovakia were established without connections to international NGO or organizations;
- Officially registered. Each NGO must have an organizational form and must be registered under the non-profit equivalent laws;
- Variety domains. NGOs are active in many fields, for example in social services, culture, education, community development, leisure, environment, sport;
- Small number of staff, what means huge voluntary incomes, full-time staff does not have more than 10 people, depending on different factors;
- Low level of self-financing. Financial sources for Slovakian NGOs are mostly coming from public sources, private sources, international sources, small grants opportunities (for example from foundations and EU grants), membership. Self-financing is not more than 10% of sources in 80% of NGOs.

Also the legal entities of non-profit organizations in Slovakia are different type by type. As was mentioned before, the geographic diversity is also the space for variety of legal entities of NGOs. More than 50% of NGOs were established in the cities, more than 30% in the capital of Slovakia, Bratislava. Next 20% of NGOs are providing their services or activities in the villages or near the towns, for example in the settlements.

The most famous organizational form is civil association. As the Act No. 83/1990 Coll. on the association of citizens wrote, this legal form does include associations, societies, unions, movements and clubs. On the other hand this Act excluding the churches, religious society and political parties. Civil associations are provided most of their activities only for their members. In the register of Ministry of Interior are now included more than 36.000 civil associations.

The second biggest group of NGOs is established by the Act No. 35/2002 Coll. on the welfare nonprofit organizations. This Act does characterize the welfare non-profit organization as a legal entity which is established for providing the welfare services for pre-determinate conditions and for all users by all conditions and which profit must be used only for profit of organization or their member, not for own profit of establisher of organization. Their focus is to provide welfare services, which mean social services, health care, humanitarian aid, development of science and research, education, environmental protection or sport and another physical training, regional development, protection of human rights. At the moment is in the register of Ministry of Interior about 2400 welfare non-profit organizations.

The third most widely used legal form is the Foundation. After the Act No. 34/2002 Coll. on the foundations, foundations are associations intended to support welfare activities.

For example: protection and development of environment, cultural and spiritual values, development of education, science and technologies, child rights protection, protection of health. This type of organization is providing services or activities for whole society. In the register of Ministry of Interior one can find about 640 foundations. More than 95% are non-private foundations.

The fourth biggest legal form of non-profit organizations is non-investment funds, which are established by the Act No.147/1997 Coll. on the non-investment funds. The fund is a non-profit legal entity, which does associate financial sources for achieving the welfare purpose or the individual aid in the threat of life or the urgent aid after natural disasters. The welfare purpose of the established non-investments funds are especially the protection and development of spiritual values, protection of human rights, formation and protection of environment, preservation of cultural heritage. In Slovakia we have at the moment about 540 non-investments funds which are actively participating in the development of the society.

## **Financing of non-profit organizations in Slovakia**

Not only in Slovakia, but also in many other countries, the NGO's are continually faced with the limitations. First of all, to gain access to adequate resources is the problem to have sources from the private investments. However, the problem of sustainable NGO's financing is not only the problem of quantity, it means also limited availability of resources. There are significant problems with the quality, namely limitations of existing resources for NGO financing in the region, country or society as well. For this reason, we can say, that in the praxis and also in the meaning of leaders and establishers of NGO must be available to believe and to bring the "self-financing" strategies for organization. In these years, of financial crisis, most of philanthropic donor funds or individual investments are coming to the NGO like a next level after self-financing strategies.

Peter F. Drucker was the first, who connected together two contradictory concepts: management and non-profit. He clearly emphasized that in these two concepts, there isn't a conflict, because management and non-profit must be connected in to one: non-profit management. Criticism of that standpoint still exists especially in the financial management, where we can identify five pronouncements:

- 1) Because the NGOs are not enterprises, they don't need any kind of management;
- 2) The NGOs have a higher level of complexity, because they don't have consumers in the common sense;
- 3) NGOs are conscious of human needs, so they can't speak about consumers;
- 4) NGOs do not need strategic plans and they do not generate any profit;
- 5) In the NGOs is everything different, so they need "special" management.

These five pronouncements are mostly the "wall" between the understandings of the managerial needs of NGO in Slovakia. Many NGOs are lacking the managerial skills, strategic plan, self-financing ideas of business or any connection to the local or international donors, what is the fundamental problem inside the organization.

In the Slovakia, there are three main types of sources of NGO financing at the national or international level:

- 1) State;
- 2) Private sector and
- 3) General public.

## **Public administration in the Slovak Republic**

The public administration and the State administration represent two different terms whose definitions are often misinterpreted. The term “public administration” is more extensive in its content than the State administration. The public administration represents the managing body of all public affairs, in other words, it is the public interests management. The important point to notice is that only the State and some Non-State Bodies are liable to dispose with the public power that deals with public affairs. Public administration is carried out and organized in three levels:

- State,
- Region – territorial units,
- Municipality/ Village.

Each defined level disposes by its own elected representatives, assigned tasks and responsibilities. The public administration consists of two basic components, the State government and the local government. This article focuses mainly on the local government which is represented by the municipalities.

The Act No. 369/1990 Coll. on municipalities as amended defines the status and the competences of municipality. This Act has been amended 39 times. According to the Section 1 of the abovementioned act, the term “municipality” is defined as separate territorial and administrative unit. The section1 of this act defines municipality as:

- "(1) A separate local authority and administrative unit of the Slovak Republic which joints people with permanent residence on the defined territory. Municipality is legal body individually administrating its assets and incomes under the conditions stipulated by law.
- (2) The main task of the municipality is universal development of its territory and population needs when exercising its competences. Obligations and restrictions stipulated by law or international treaty should be imposed to municipality only in order to ensure the exercise of its powers.
- (3) A municipality has the right of association with other municipalities in order to achieve mutual benefit. "

The law directly imposes to municipality the obligation to take care of local development of its territory and needs of its inhabitants. Under the abovementioned act, every municipality

is obliged to implement policies guaranteeing local development. This obligation is the task that municipality is obliged to ensure in the field of the cohesion policy. Analysis of the Slovak legislation show the progressive pressure exerted to the municipality in order to ensure its development.

In many States, the process of implementation of decentralization elements has existed as a result of the society development. Decentralization is defined as the transfer of responsibilities from the State authorities to the municipalities. The Slovak Republic as a modern democratic State was prepared to join the EU and therefore the legislation was amended in favor of decentralization. Act No. 416/2001 Coll. on the transfer of some competencies from the State administration to municipalities and higher territorial units, as amended, transferred competences of ministries, regional offices and district offices to municipalities.

This act transferred the exercise of the State administration to municipalities. The section 2 of the act lists all competences those exercise was transferred to municipalities. The transfer of those competences caused the increase of municipality's expenditure. If the financial level of the competences transfer has not been modified, the municipality would have entered into existential problems. The common provisions of the Act No. 303/1995 Coll. on the Financial Regulation, as amended, stipulated that municipalities would perform their own tasks from their own budgets, but to fulfill transferred competences the State would provide the funds from the State budget.

The law established tasks which the municipality has to exercise. Municipality has to carry out tasks of regional development. The section 12 of the Act No. 539/2008 Coll. on regional development (coming into force on 4<sup>th</sup> of November 2008), as amended, imposed various obligations on municipality in the area of regional development.

Evaluation and analysis of the development level of the defined plans have to be done by the municipality; this means the plan of economic and social development of municipalities. The municipality has to cooperate with other bodies, public and governmental, to support the local and regional development. In order to support development, the municipality should promote also the development of business activities on its territory. By amending the existing legislation, one of the possibilities how to finance the regional development is to provide the assets from municipal budgets (Sec. 4). In order to support the development, the right planning documentation seems to be necessary: the Local plan and Zoning plan of municipality. The vital point to notice in this area is that the municipality and its level of activity is the body of the highest priority of the impact on the overall development of the country.

The problem of the Slovak Republic is the character of the rural landscape. The effects of the Lisbon Treaty and secondary legal acts that defined the areas of operation of cohesion policy changed the area of rural development. We consider as important to note that the support of rural development falls under the common agricultural policy, under current legislation. Rural development, its problems, challenges, goals and priorities represent the part of special document called: The National rural development strategy. Rural development is not out of the general regional development. Coordinated support for rural areas will be co-financed on the agreed demarcation lines from the structural funds and the European Agricultural Fund for Rural Development. The allocated resources will

be used efficiently to support the rural population. The coordinated implementation of policies has to be ensured in order to avoid duplication of used funds.

## **Municipalities and Non-governmental organizations**

Analysis of the Slovak legislation shows the relationship between municipalities and NGOs. Municipalities and NGOs enter into various relations and forms of cooperation. For the purposes of this article, we identified two basic types of relations and cooperation. We can distinguish the following relations:

- Municipality targets its activities towards NGOs - provides funding, non-financial assistance.
- NGO has the influence on municipality - to improve the fulfillment of public service tasks.

Municipality acts as founder of NGOs. Municipalities in Slovakia constitute their own NGOs to provide public goods. Municipalities establish budgetary and subsidized organizations in which they inserted the communal property. NGOs are established as a separate organization where the voluntary citizen's work is often used. Objectives of establishing such organization may be various – e.g. to get 2% of income taxes of the citizens or the local entrepreneurs, to obtain a grant from foundations, funds, to support domestic programs or from European public sources. Most of these organizations serve with the public benefit objectives that exceed individual interests and provide the public goods. If a municipality is the founder of NGO, this organization has the character of a public institution. Management and financial system of the NGO is strongly linked to public budget. The result is a synergistic effect - the acquired resources can be used for the implementation of public projects in village.

Municipality acts as promoter of the NGOs. The public authority may provide financial or non-financial support to such NGOs. Financial support is in the form of money and funds. Non-financial support can be in the form of public rental space, equipment and provision of services, volunteer work or know-how. Municipalities may benefit from this relationship with the NGOs. The contribution from NGO is defined as a second type that the NGOs and municipalities have between them. Municipalities may benefit, e.g. in achieving public tasks (to ensure leisure activities for elementary school students through local civic organization), in contractual delivery of services for the municipality (e.g. the social care for the elderly), in the political participation. The political participation is the control and influence of local government through the establishment of NGOs.

## **Conclusion**

This paper presents a country specific intake on the cooperation between the public administration and the non-profit sector in the Slovak republic. The relationships of funding

between NGOs and municipalities are indisputable. One direction of action is from the municipality to the NGOs, another direction of action is easily identifiable from NGOs to the municipality. The relationship between defined entities was analyzed through looking at the implementation of the joint projects. The goals of such a cooperation were found to range from training support, consultancy to other various professional and methodological assistance.

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