

Analysis of Community Development Financial Institutions in the Slovak Republic

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SUMMARY

The paper discusses the perspectives for local and regional development in Slovakia and provides the analysis of Community Development Financial Institutions (CDFI) in the Slovak Republic. The special focus is given to Košice and Prešov self-governmental region. The financial mechanism for public management operation and the description of the third sector in Slovakia are described as well.

Key words: community development financial institution, regional development, public management operation

INTRODUCTION

The Slovak Republic is a significantly regionally differentiating country. The regional disparities are given by historical, cultural, political and geographical conditions and also by different economical and demographical development. Some of the regions are strongly handicapped, which is known as historical marginalization. There are areas that were affected by industrialization process only marginally. Those parts have been usually out of the main routes and their civilization retardation deepened.

The main impulse to intensify process of differentiation in the Slovak Republic regions after 1990 has been caused by progressing of the transformation recession. The existing differences in the economical and social development in the particular Slovak regions that arose in the past have also been strengthened by structural changes in the supporting branches of economy. It is necessary to solve them systematically with high respect to reducing of the regional disparities. The support and help for the area of less developed or by structural changes affected regions is one of the priorities of the Slovak government.

1. LOCAL AND REGIONAL DEVELOPMENT IN SLOVAKIA

Process of democratization and decentralization is based on the local management significance enhancement. Considering the sphere represented by all the subjects interested in its development (local government bodies, business units, citizen associations and initiative

movements), the local government institutions play a non-substitutable role. Local government is related to the community of a village, a town or a region and makes both a basis and a subject of the communal policy.

both a basis and a subject of the communal policy. The important changes of the society in the Slovak Republic carried out after 1990 introduced the self-government principle, which gave a new content and dimension to communal policy. The complexity of the conditions under which Slovak self-government bodies work at the local level have a direct connection to the status and significance of local policy in the development of the society. Importance for both regional and local action has grown dramatically. Such trends are to be found not only in Slovakia but globally, being accompanied by new roles for the social partners such as partnership strategies at the local and regional levels and they become a means of responding to an increasingly unstable world.

American private and public founders were fundamental in starting the community foundations movement in Slovakia. This is no surprise: community foundations are by and large an American invention and, outside of the United Kingdom, were almost unknown in Europe until the mid-1990s. It was due to the Mott foundation that the community foundation movement in 1993-1994 started its activities in the Central Europe. These activities have survived due to other foundations that brought not only financial support but also invaluable technical assistance, know-how and encouragement. Some of them were international donors like the Open Society Fund, Rockefeller Brothers Fund, the Ford Foundation, and the German Marshall Fund of United States or the U.S. Agency for International Development.

The number of non-governmental organizations (NGOs) has grown rapidly in the 1990s. The NGO sector was

viewed in a certain period as a political opposition and sought to limit its influence. The NGO community, unified as a strong lobbying group and public recognition of the role of NGOs grew. As a result, the Slovak NGO sector is considered nowadays as one of the most dynamic in Central and Eastern Europe. The third sector became a very significant actor in Slovakia, with an influence on many aspects of social, political and economic life. The development in Slovakia led later to a regionalization of NGOs activities, after the regional state administration was introduced. Regionalization in the third sector was one of the natural responses to the expansion of the state, and aimed at a comparable strengthening of civil society in the regions. Also, the network of Third Sector Regional Panels has been created. The third-sector service centers along the lines of administrative regions already exist. These centers are concentrated on intensifying cooperation among NGOs within their regions, improving activities of NGOs in regions, presenting their activities to the regional administration and citizens in regions, and cooperating with regional media.

Some doubts about NGOs organizational capacity and long-term sustainability still exists. The funding base of many NGOs and community-based organizations is weak in this period, and only a small minority account for the major share of foreign funding. The largest number of active NGOs concentrates on education-related activities. The disparate range of NGOs and community-based organizations that focus on social and economic exclusion and the environment are less well supported and are likely to be confronted by a number of challenges.

Regionalization is being one of the most influential factors of local development in Slovakia and it has been one of the most interesting fields of social and political development during the 1990s. Two important phenomena emerged during the 1990s in relation to the regional dimension in Slovakia: cross-border cooperation and spontaneous bottom up regionalization. Cross-border cooperation seemed to be very natural in Slovak conditions as the share of bordering regions of the country is very high. Nevertheless, state, political interests dominated this field. Euro-regional initiatives were not officially supported and their development was partially undermined during the 1990s. The Slovak Republic brought its legal basis in this field rather closer to European standards, including the signing of bilateral treaties during 1999–2001.

The economic and social transformation during the 1990s caused deep regional disparities that were not addressed effectively. A highly centralized and state centrist approach prevailed. Activities in favour of regional development were in fact decided and controlled by the central government and organized within various ministries, often as individual decisions and short-term initiatives. Only later they were combined with the limited role of state institutions in the regions. The main

tasks were supposed to be organized by the state and its agencies, financed by the state budget. The Košice and Prešov regions, being part of CE are the most economically affected regions in Slovakia.

Nowadays, the local and regional development in Slovak Republic is being much influenced by the process of EU accession. European Commission of the European Union influences regional development through its agencies and programs. The main aim is to utilize the Union's Structural Funds to promote a coordinated public/private approach to development at the local level, with the overall aim of creating higher employment. Local development initiatives are intended to be locally driven, but higher-level authorities can facilitate the conditions by which this can come about, and this role they indeed seem to be taking on.

In order to be recognized by the European Commission, Territorial Employment Pacts must satisfy three criteria:

1. there must be a “bottom-up” approach whereby initiatives should come from the local level;
2. there should be the involvement of a partnership that brings together all the local actors involved: administrations and the public sector; social partners; private organizations and associations;
3. an integrated approach should be followed, based on a detailed analysis of the local situation, to be used to develop an integrated strategy with innovative measures (action plan).

The programming documents are being prepared within EU on the basis of intensive consultations between the European Commission, the respective member state and other authorized authorities and institutions. Depending on regulations and current practice of each member state, these authorities include economic and social partners at national, regional and local levels. This process of partnership is one of basic principles of the regional policy of EU. In accordance with the principle of partnership, the preparation of the National Plan of Regional Development of the Slovak Republic was also executed, with participation of central bodies of state administration, regional offices, self-governments and their associations, representatives of the third sector, associations of businesspeople, science, education and other relevant organizations. (presently, in 2003, only National Development Plan and Sectoral Operational Programs are agreed). Instead of Regional Operational Programs, only so called Programs of Economic and Social Development of Municipalities approved at the regional level should harmonize the interests of local communities with the intentions of economic and other entities (organizations) located in the territory covered by them, depending on local conditions and possibilities. The elaboration of these programs lies within the authority of the individual municipalities.

2. FINANCIAL MECHANISMS FOR PUBLIC MANAGEMENT OPERATION

There are several financial mechanisms for public management operation in Slovakia.

The first one is the State Administration. Naturally, the state budget is the funding source for the state administration's central bodies and the regional and district offices also. Individual branches within the district and regional offices are financed through the budget chapter of the respective regional office. In 2001, the government came to the decision to decrease the number of budget chapters. The regional offices chapters will be abandoned. The local state administration was to be financed through the chapter of respective ministry or the Ministry of Interior of the SR. Later on, the entire system shall be revised by the Act on the state treasury.

The second one is a municipality. The municipality funds needs of public management primarily through its own revenues, state subsidies and other sources. Major sources of municipal revenue are:

- a) Share in the state tax revenue: The funds from the state tax revenue (personal income tax, corporate tax and road tax) are distributed to the municipalities in compliance with the given rules. These rules changed during the 1991– 2000 period. Revenues from the personal income tax are distributed according to the population (of the municipality). Distribution of corporate tax revenue reflects the localization of the corporation. Sixty percent of revenues are distributed proportionally to population and another forty percent according to the residence of a taxpayer. Municipalities receive 40% of road tax revenues also. These funds are distributed proportionally to population as well. The overall portion of state tax money allotted to the municipalities is annually determined by the state budget (except for the share in the road tax revenues).
- b) Revenue from local taxes and local fees: The real estate tax is an exclusive municipal tax. It is calculated as a multiple of the rate for individual types of real estate given by the notice of the Ministry of Finance of the Slovak republic. Local fees (taxes) include fines/licenses for: dogs; alcohol and tobacco products sale; gambling and slot machines; cash registers; car entry into the historical centre of the city; taxes for lodging; advertisement; public entrance; spa and recreation; non-residential use of an apartment; public property use; air pollution; waste disposal as well as other fees.
- c) Revenues of enterprise and property ownership.
- d) Administrative and other fees and payments.
- e) Capital assets sale revenues.
- f) Revenues from provided loans.
- g) Revenues from rental of buildings and facilities, transfers from contributory organizations and transfers from the financial funds of the municipality.
- h) Donations and voluntary fundraising for municipality revenues. Besides these revenues, municipalities can have also the following revenues.
- i) Transfers and other subsidies from the state budget: Subsidies to municipalities for the provision of self-governmental services belong under this category. Until 1995, all municipalities under 5,000 inhabitants were eligible for this subsidy.
- j) Subsidies from state funds: This category consisted mainly of transfers from the State environmental fund for construction of technical infrastructure facilities (sewage, wastewater treatment facilities, etc.) Also, Pro Slovakia, the State fund for funding cultural activities, the State water management fund for supporting the construction of water supply systems and the State fund for housing development and construction. The above mentioned funds were cancelled.
- k) Received credits and revenue from municipal bonds.

The third one is the Self-Governmental Region. The self-governmental regions mostly use the revenues from their share in state tax collections, surcharges to personal income taxes they create, and funds of horizontal leveling of self-governmental regions. In addition to these sources, self-governmental regions can use financial sources similar to municipalities. Exact mechanisms for the finance of self-governmental regions do not exist yet. Instruments are loan guarantees, credit programs and subsidies.

The Association of Towns and Communities of the Slovak Republic (ZMOS) is the most influential organization in protecting local government interests in Slovakia. More than 90% of the country's cities and communities are members. For more than ten years, ZMOS has been promoting the interests of local government and presenting important arguments in support of regional government.

The Union of Cities is the second most influential association of local governments, and is dominant among larger cities. This smaller association (in terms of membership) developed large and long-term public administration reform campaign. It made regionalisation as one of its most important objectives (many member cities are centers of particular regions). The main difference compared to the ZMOS was that the Union of Cities endeavoured to prepare its own reform proposal, including the position and roles of regional governments. The State funds for the public management operation are available as well. When evaluating developments in the financing of municipal self-governments since 1991, it is necessary to take into account the overall social and economic evolution of the state as a consequence of the extensive transformation process of the former state-man. In 1996, state funds have joined the financing of municipal needs with regular and capital grants. There were 10 state funds in the Slovak Republic but most of them have been cancelled by the parliament in 2002.

The most important of these funds playing an important role to municipalities were:

- the State Fund for the Living Environment, which was founded to concentrate financial means to provide for environmental protection;
- the Pro Slovakia Fund, which administers grants for the development of cultural activities, including preservation of historical monuments;
- the State Water Economy Fund, which particularly supports construction of water supply systems;
- the State Fund for the Development of Housing, whose aim is to help recover the dynamics of housing development.

The dominance of Bratislava city and region presents a significant regional development issue within the country. Bratislava has the most encouraging socio-economic indicators without exception – for example, the GDP exceeded the EU average by over 20 percent; over 90 percent of the employees in the financial sector were concentrated in the Bratislava region; as is over 60 per cent of the total foreign capital. The most underdeveloped

areas are in the east of the country - the farthest from the capital and, therefore, least likely to benefit. The only exception being Košice, the second most significant urban area. This still creates a potential for a negative cycle of development. As a result, the regional development trend is the emergence of an increasing west-east divide. In common with other CEE countries, the western Slovak regions have generally benefited more from economic co-operation and other impulses arising from relative proximity to western European countries. Finally, there are a number of highly disadvantaged rural areas. According to OECD criteria, 87 per cent of the Slovak districts can be classified either as predominantly rural (36 percent) or typically rural (51 percent) regions. A number of these regions, located principally in the southern border and eastern areas of the country, have a highly agrarian structure with poor infrastructure, and are currently undergoing a difficult process of transition. The basic characteristics of Košice and Prešov regions in comparison to other regions of Slovakia are given in the Table 1.

Table 1. The basic characteristics of Slovakia regions.

Region	Area (km ²)	Inhabitants	Density	Number of villages	The degree of urbanization
Bratislava	2 053	599 042	291,8	72	83,94
Trnava	4 148	550 918	132,8	249	50,28
Trenčín	4 502	604 917	134,4	276	57,83
Nitra	6 343	712 312	112,3	350	48,09
Žilina	6 788	692 434	102,0	315	51,22
Banská Bystrica	9 455	661 343	69,9	516	54,33
Preš	8 993	791 335	88,0	666	50,34
Košice	6 753	766 650	113,5	439	56,68
Total	49 035	5 378 951	109,7	2 883	56,13
			Over 50,000	0.06	0.06 0.3 0.4 0.4

The municipal structure of Slovakia features instability and a large number of small municipalities (fragmentation). In 1950, there were 3,344 municipalities in Slovakia averaging 1,029 residents. In 1989, there were only 2,694 municipalities with an average population of 1,963. After the changes in 1989, the number of municipalities rocketed to 2,825 in 1991 (1). The Table 2 shows the share of municipalities in Slovakia.

Table 2. Development of the share of municipalities in given size categories in Slovakia [%]

Size Category	1950	1961	1980	1991	2000
Under 500	44.6	35.8	35.3	41.2	41.5
500–999	30.6	31.5	29.2	27.6	27.0
1,000–1,999	16.7	20.1	20.8	18.5	18.6
2,000–4,999	6.2	9.9	10.3	8.4	8.7
5,000–9,999	1.2	1.7	2.0	1.8	1.8
10,000–49,999	0.7	0.9	2.0	2.2	2.1

3. THE NON-GOVERNMENTAL SECTOR IN SLOVAKIA

The four basic legal forms of non-governmental non-profit organizations include organizations associating individuals and/or organizations (civic associations), organizations managing assets – foundations, non-investment funds, and non-profit organizations providing public-benefit services.

Activities of international organizations in Slovakia are regulated by Law no. 116/1985 coll. on conditions for operation of organizations with an international element as described in Law no. 157/1989 coll. These organizations can register in accordance with the laws on foundations, non-investment funds, or non-profit organizations.

Civic Association is the legal entity associating citizens and/or organizations with the aim of promoting their common interests.

Foundation is the organization which associates asset in order to support a public-benefit purpose. The public-benefit purpose can be particularly development and protection of spiritual or cultural values, human rights or other humanitarian goals, protection and development of the environment, preservation of natural values, protection of health, rights of children and youth, development of science, education and physical education, humanitarian help for specific individuals or groups in threat of life or in urgent need of help after a natural disaster.

Non-Investment Fund is the organization associating assets in order to support a public-benefit purpose. The public-benefit purpose can be particularly development and protection of spiritual or cultural values, human rights or other humanitarian goals, protection and development of the environment, preservation of natural values, protection of health, rights of children and youth, development of science, education and physical education, humanitarian help for specific individuals or groups in threat of life or in urgent need of help after a natural disaster.

Non-profit Organization Providing Public Benefit Services is non-profit legal entity which associates financial resources to fulfil a public-benefit purpose or to provide humanitarian help to an individual/group in threat of life or in need of urgent assistance after a natural disaster. The public-benefit purpose can be particularly any of the following:

- development and protection of spiritual or cultural values
- protection of human rights
- protection and development of the environment
- preservation of natural and cultural values

- protection and promotion of health and education
- development of social services

The last ten years have been connected with an extraordinary development of the third sector in Slovakia. The sector fundamentally cultivates new values in society such as assisting others, charity, solidarity and philanthropy, as well as citizens' participation in decisions on public affairs. Its service and advocacy roles are implanting themselves more and more into the consciousness of the public as a whole. The sector has proved that it is also able to function under great pressure, and that it is developing and maturing politically. It is constructing new relations, not only within the third sector community, but with central and local governments, and other important groups in society. In future there is a risk that the role of foundations and NGO's as catalysts of social changes generally will be decreasing because of several factors; the leading one is lack of capital. The Table 3 demonstrates the number of NGOs in percentage according to legal form in the Slovakia. The Table 4 demonstrates the geographical distribution of the NGOs in Slovakia.

Table 3. Number of NGOs in percentage according to legal form in Slovakia.

Legal form	Number	%
Civic associations (societies, unions, movements, international NGOs)	17,000	95.3
Foundations	472	2.7
Non-investment funds	269	1.5
Non-profit organizations providing public benefit services	103	0.5
Total	17,844	100.0

Table 4. The geographical distribution of NGOs in Slovakia

Region	%
Bratislava	35.0
B. Bystrica	10.2
Košice	12.4
Nitra	9.4
Prešov	10.0
Trenčín	7.0
Trnava	6.4
Žilina	9.5
Total:	100.0

There are several NGOs that provide the support for non-governmental organizations for community development. Below are listed the most important of them.

I. Foundation with offices in the Slovak Republic

- EPCE - Environmental Partnership for Central Europe
- FDCE - The Fund for the Development of the Carpathian Euroregion
- Jan Hus Foundation
- Charta '77 - Well known foundation supporting democracy development
- NOS – OSF: Slovak office of the world wide network of George Soros's Open Society Foundation
- The Foundation for a Civil Society
- The International Visegrad Fund (Czech Republic, Hungary, Poland and Slovakia)

II. International Foundations

- EPCE - Environmental Partnership Central Europe Foundation (Czech Republic) - Czech office foundation supporting environmental activities
- ESF-Strasbourg, F - The ESF - European Science Foundation acts as a catalyst for the development of science on pan-European level
- Ford Foundation (International Affairs Grants) - The Ford Foundation is a resource for innovative people and institutions worldwide
- MOTT Foundation - Supporting efforts that promote a just, sustainable and equitable society
- OSF - Open Society Foundation - Network of Soros Foundations
- Pew Charitable Fund
- RBF - Rockefeller Brothers Fund - RBF is dedicated to improving the well-being of all people through support of efforts that contribute in the transition to global interdependence
- REC - Regional Environmental Centre for Central and Eastern Europe - REC supports environmental activities in Central and Eastern Europe
- Sabre Foundation - Conceptual and material support of academic, educational and professional institutes in Central and Eastern Europe - Contact: Sabre Foundation,
- Sasakawa Peace Foundation
- The William and Mary Greve Foundation, Inc. - Foundation granted projects in education, USA - Eastern Europe relation, environment etc.

III. International Institutions Providing Grants

- Central European University Foundation - The USA foundation supporting projects in higher education and academic research
- Charity Know How Fund, UK
- UNEP - United Nations Environment Programme - UN organisation for environmental programmes

- UNESCO - UN organisation for education, science and culture
- UNIDO - United Nations Industrial Development Organization - UN organisation for industrial development
- USAID - US Agency for International Development - USA agency supporting international development and cooperation
- USIA - US International Agency

IV. Other Foundations

- Foundation Centre - Information about (mainly) USA foundations
- Council on Foundations - Information about USA foundations
- European Foundation Centre - Information about European foundations
- Non-profit Resources Catalogue - Contacts to foundations in world
- NGOnet - Information about NGO organisations

V. Organisations providing services to NGO sector and grant seekers

- ETF - European Training Foundation, Torino - I - ETF is grant-holding institution of Phare Programme
- ISPO - Information Society Project Office, BE - Office for support of Information Society projects
- PIET - Partners for International Education and Training - PIET administers USAID educational and training projects in Central Europe
- SAIA – Slovak Academic Information Agency, Bratislava, Slovakia, The national contact point for international programs

IV. CONCLUSIONS

Local development in the Slovak Republic is changing in the meantime, and is getting been more and more influenced by the entering European Union. Grant schemes like PHARE, ISPA, SAPARD and expected structural funds of EU are becoming dominant in financing local development and there are substantially changing life of local communities. Local development tends to be more organized, institutionalized, lead by the frames of European and state regional policy but also supported and giving rather big chances for development of microregions, communities, municipalities, etc. Continuing dependency on foreign funding was one of the major constraints to the financial viability of the NGO sector and in actual situation they can utilize their experience in gaining European grants and using already existing partnerships and networks.

In the near future,

- the local development will be supported from horizontal objectives for all European Social Fund operations,
- small grants from the ESF for the activities of NGOs and local partnerships can be made available,
- the Community Initiative EQUAL, providing substantial funding for testing new approaches to combat discrimination and exclusion is also based on the key principles of local development

➤ Moreover, the URBAN and LEADER Community Initiatives, focusing respectively on urban and rural development, support area-based approaches putting the emphasis on capacity-building, empowerment of local actors and targeting of local activity.

This means also, that their mission is going to be less political and more practical, influencing everyday life of communities.

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Összefoglaló

A cikk a regionális fejlődés lehetőségeit vizsgálja Szlovákiában, és a Szlovák Köztársaságban működő Közösségi Fejlődés Pénzügyi Intézményeit elemzi. Kassa és Presov önkormányzó régió került a vizsgálat középpontjába. A közmenedzsment működésének pénzügyi mechanizmusa és Szlovákia tercier szektorának leírására is sor kerül.

Резюме

Статья рассматривает возможность регионального развития в Словакии, и анализирует действующие в Словацкой Республике Институтов Финансового Развития Сообщества. В центре исследования были регионы самоуправления Кошицы и Прешова, а также механизм финансовой деятельности общественного менеджмента и описания Словацкого сектора услуг.