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## Euclid Network

is the first European network of third sector leaders, which was launched in Paris on 16 March 2007. It develops, connects and supports third sector leaders across Europe to increase their professionalism and effectiveness. There are over 400 members from 16 European countries (Belgium, Bosnia-Herzegovina, Estonia, France, Germany, Hungary, Italy, Luxemburg, Macedonia, Montenegro, The Netherlands, Portugal, Serbia, Sweden, Switzerland and the UK).

Euclid Network was established as a partnership between third sector professional associations, Association of Chief Executives of Voluntary Organisations (ACEVO) in the UK, Centre des Jeunes Dirigents de l'Economie Sociale (CJDES) in France, and Ideell Arena in Sweden.

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Third Sector Leaders

ACEVO

Euclid  
Network  
third sector leaders

# Lessons from Abroad:

the third sector's role in public service transformation



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**Euclid Network**

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# Foreword



I would like to thank and congratulate all those who have taken time to put together such a well-informed and applied study.

The Government's commitment to public service reform is clear and harnessing the talents, skills and knowledge of the third sector is key to our success. The creation of the Office of the Third Sector has driven change across government to reduce barriers to the third sector's engagement and other initiatives such as the Compact and the action plan on service delivery continue to bring about real change on the ground.

But there is still much more to do and these are just the foundations for what, I hope, is to become a productive and long-standing relationship between the third and public sectors. This book provides many important lessons we can learn from other countries and through the experiences detailed here we can build a stronger partnership at home.

**Phil Hope MP**  
**Minister for the Third Sector**

# Introduction

A curious omission from the debate around the role of the third sector in transforming public services has been the sharing of experience from peers around the globe. This publication, a joint venture between ACEVO – the UK’s Association of Chief Executives of Voluntary Organisations – and Euclid Network – the first European network of third sector leaders (formed through a partnership between third sector leaders in the UK, France and Sweden) seeks to address that. It brings together the experience of leaders from around the world in transforming public services through the third sector. With examples from France, Portugal, Italy, Hungary, Sweden and the UK, we show the fascinating diversity of experience across Europe, which also exhibits a remarkable commonality in the challenges which third sector leaders in each country face.

Further afield we look to Australia, the United States of America, Canada and Japan, to draw on the lessons of significant engagement between the third sector and government in some of the largest economies in the world. The lessons are fascinating and the conclusions stark, proving that leadership development does not stop at the national border.

Every country has some form of welfare state, but the concept was born in Europe in the aftermath of the Second World War, where it became a vital component of both the new and restored democracies. For 50 years it has guaranteed a redistribution of the profits generated by strong economic growth and stabilised emerging social conflicts.

The welfare state has become a vital component of the identity of modern European society and on many occasions European voters have made clear that they are not ready to give it up.

In recent years, however, the combination of several factors – among them an economic slowdown, aging societies, technological innovation, increased competition and labour mobility - have made the welfare state unsustainable, as it was originally designed. It is perceived as being too expensive and not innovative or flexible enough; there is a general sense that it must be reformed. Many adjustments have been made but the right solution has not yet been identified.

The common public debate across Europe has been reduced to a simple question: whether or not to privatise. But the options are actually much broader, as there is a strong alternative; a third way. This publication shows that the third sector can be the third way for the reform of the welfare state in Europe, and beyond.

The third sector is incredibly diverse within countries, let alone between them, and goes under a variety of names. Whilst this can cause confusion - and occasional disagreements among proponents of different labels - it also reflects the huge diversity and decentralisation of the sector, which are two of its greatest strengths. Furthermore, it highlights the variety of contexts, especially the social and historical, within which the sector operates in different parts of the world. These contexts both shape and are shaped by the role of the sector.

Of the many terms that exist to describe the sector, the most common are “the third sector”, “social economy”, “solidarity sector”, “non-profit sector”, “voluntary sector”, “associative sector”, and “civil society”. Many of these terms are used in this publication because we have left these as the author of each chapter intended. Whilst all of these terms refer to subtly different aspects of the sector, the editors will use the broadest definition - third sector - which refers to the sector that is neither for the distribution of profit nor owned by government, and which has a public good at its core.

The UK is a good example of how beneficial a strong and developed relationship between the state and the third sector can be. ACEVO has been proud to lead the debate in the UK third

sector on our role in transforming public services, with considerable success. Initiatives such as the creation of the Compact, the establishment of the Office of the Third Sector, and the creation of the Government's action plan on third sector service delivery have brought about significant developments and improvements in the relationship between third sector organisations and the UK government. To be sure, there is still a huge amount of work to be done, but we should acknowledge how far we have already come. All of the major political parties in the UK understand the contribution that the third sector can make and are vying for our affections.

The role of the sector in the reform of the welfare state represents a unique opportunity for growth and to demonstrate the value the sector produces in our societies. Therefore, Euclid Network has made it a priority to help third sector leaders show their organisations' contributions, develop their skills and increase the quality of services through working in partnership with their peers.

Naturally, this is not a conclusion, but rather the beginning of a long path that triggers many questions about the relationship between the third sector and government in a post-welfare state. It raises questions about the legitimacy of the sector and the size of the state; what citizens want the state to deliver and what they would rather find elsewhere; and how the third sector can work in partnership with the corporate sector. It invites us to define how the state and third sector can work in partnership, and on what financial model; it demands that we establish who is going to pay for services, and how.

These are the questions we should ask ourselves objectively, abandoning ideological quarrels. These are the questions that will find partial answers in the cases we have collected in this publication and that ACEVO and Euclid Network will continue to collect and disseminate in the coming years.

Many scenarios can be envisaged, capitalising on the multiplicity and diversity of Europe. The EU has developed 27 laboratories of

social innovation, producing numerous successful cases of third sector organisations transforming public services. An accurate mapping of the sector today shows that the debate is lagging behind the reality.

The reform of the welfare state is an issue that cannot be ignored, because it is at the core of each country's identity and will characterise the future of every society. It is a natural progression of democracy itself. The result of global forces, this reform of the welfare state is being led by Europe. Now it is time to connect the social laboratories of Europe with those in the rest of the world, to take stock of the developments we have already seen, and to share the lessons that have been learnt in recent years.



# The role of the third sector in the European social model

Anne Spinali

Public service reform is one of the most important ways governments across Europe are responding to social change. No one denies the need for high-quality, efficient and personalised public services – or ‘services of general interest’ (SGIs) as they are known at the European level – but every government is faced with the issue of funding and providing these services. Third sector organisations have a key role to play in ensuring the voice of service users is heard in the policymaking, commissioning and delivery of these services.

Although it is not possible to define SGIs uniformly at European level, it is generally agreed that they cover a broad range of activities that are essential for the daily life of the public and that they should, therefore, be subject to specific public service obligations. That is why third sector organisations were so disappointed when the European Commission decided to shelve its work on a framework directive to safeguard these services<sup>1</sup>. The object of such a directive was never to legislate on how public authorities should carry out these services; rather, it was to provide understanding and guidance. The EU needs clear rules to ensure continuity of supply and fair access for everyone, while allowing services and their modes of delivery to evolve and modernise.

The liberalisation of sectors such as telecommunications, transport, electricity and gas at European level, and of education, health and social services in some member states, should not happen at the expense of accessibility and quality for consumers. This is why third sector organisations are working at *European* level to influence policymaking and ensure user needs are taken into account from the start.

In the UK, for example, the Royal National Institute of Blind People (RNIB), a member of the European Blind Union and the European Disability Forum, monitors very closely not only legislative proposals that may affect access to public services for blind and partially sighted people, for instance access to electronic

communications services or to emergency services, but also how these are commissioned and funded.

And we are not the only ones. The UK third sector does not work in isolation, and it would be beneficial for us to have a greater understanding of our relationship to Europe. The impact of EU legislation on people's lives is such that charities can no longer ignore the EU dimension of policymaking. The breadth of knowledge and expertise in the voluntary sector provides the EU with a powerful vehicle for social change. It is up to us as a sector to rise to this challenge.

*Anne Spinali is the European Campaigns Officer at the Royal National Institute of Blind People (RNIB) in the UK. Anne campaigns at European and UK levels to improve access to information, goods and services for blind and partially sighted people. Before joining RNIB, Anne worked as a policy adviser on public service reform at the CBI and as a senior researcher for an MEP in the European Parliament.*





Chapter 2

Public service  
reform in France:  
working towards  
a new relationship  
with the state

Amandine Courtin

Although the French third sector has considerable capacity and expertise, exploring its role in public service delivery reveals a historical marginalisation in French society. Previously without the voice or confidence to form a successful dialogue with government, the third sector, or '*l'économie sociale*' as it is known in France, now works vigorously to demonstrate its legitimacy in service delivery and in France's future. This state of affairs holds many lessons for third sector leaders in the UK and across Europe.

## The French third sector: local and fragmented

- Number of community organisations: 1.1 million
- Small size: 40% have fewer than 50 members
- 60% have fewer than 5 paid staff
- Small funding: 1 in 5 has an annual budget of less than €1,000
- Just over half are members of umbrella organisations
- Growth of employees: from 1990 to 2002, the number of people employed by the sector grew by 80% from a total of 800,000 to 1,435,000. This growth is far more significant than that in the general employment sector

The French third sector is a mixture of different European models:

- Anglo-Saxon: emphasis on volunteers;
- Germanic: orientated towards culture, leisure and significance of public funding;
- Scandinavian: a role as a complementary system alongside the welfare state.

## Public service delivery: a mission traditionally performed by the state

In France, as in many European countries, the third sector has had a historical role in the delivery of welfare services such as healthcare and education. However, as a result of the French Revolution and its radical new philosophy on the relationship between the individual and the state, the third sector experienced a unique dislocation from its role in delivering public services.

The *Le Chapelier* act of 1791 banned charitable organisations and trade unions on the grounds that there should be no intermediary bodies in the relationship between the citizen and the state. In the nineteenth century, this was integrated into administrative law. Whilst future political developments, such as the emergence of the Third Republic, universal suffrage and the democratisation of political practice, did open small windows of opportunity for the third sector (for example third sector organisations were granted institutional status in 1901), nevertheless the third sector remained marginalised in the political life of France.

It was not until the 1970s that the fundamental freedom of association was recognised by the French government and added to the foreword of the constitution. New ideologies in the 1960s had promoted a break between public and private life. Lying between the state and the market, the third sector was seen as the ideal vehicle for civil society to express its voice and to check the activities of the state.

In the 1980s, the socialist government acknowledged the role of the sector in French society and consequently decided to develop tools to allow a real dialogue between the third sector and the state. A committee focusing on social innovation and the social economy – ‘*la délégation interministérielle à l’innovation sociale et à l’économie sociale*’ (DiES) – was created. In 1983, Pierre Mauroy’s government further legitimised the role of the third sector by establishing a consultative service dedicated to improving the relationship between the third sector and the state.

The 1990s saw the third sector actively start to aggregate itself and to work with the state. An umbrella body for third sector leaders – *Conférence permanente des Coordinations Associatives* (CPCA) – was established, whose role was to set the agenda of the sector and to communicate this to the government.

2001 finally witnessed the emergence of a real willingness to collaborate between the state and the third sector through the formulation of a charter of mutual commitment. This agreement set the basis for a new level of contractual relations.

The French third sector is currently working to forge a new relationship with both national and local government. The decentralisation of the French state that began in the 1980s has accelerated. In 2001, decentralisation became a principle of the French state and since then it has been put into practice in every area of public policy. The third sector now reports to local and regional public authorities. For example, those dealing with health and social care report to the departmental or regional directorate of social and sanitary affairs (DDASS and DRASS). This has had huge political, financial and legal implications for the French third sector.

### A new role in service delivery: the challenge today

The third sector in France faces a new role in service delivery. There is competition among associations to receive tenders and funding. This new competitive environment requires charities to invest significantly in technical and management skills, which proves difficult for smaller organisations. At the moment we are seeing experimentation with tenders, and, in some cases, third sector organisations are entering bids alongside other third sector or private sector organisations.

Concerns are raised about sector independence as the combination of service delivery and advocacy roles for third sector organisations may not always be an easy one. The umbrella organisation for health and social care associations, UNIOPSS, has sought to address the issues for associations in their roles as both service deliverers and political advocates.

The commissioning environment in France has long been detrimental to the third sector, and this is slowly being addressed by the French government. There are no bodies similar to the

UK's National Audit Office in France. To address this, the French government has recently launched three new programmes to evaluate public policies:

- A performance audit;
- A new financial law (LOLF) to reform budgetary procedures;
- A broad review of public policies.

**Case study: Multi-annual contract of means and objectives/Contrat pluriannuel d'objectifs et de moyens (CPOM)**

The relationship between government and the third sector has changed to take into account this new role in service delivery. A new contract has been introduced to help achieve better funding for the sector and better allocation of this funding. This was made possible thanks to a large reform of budget law. On the government's side, this contract brought four main advantages:

1. It facilitated a shift from a watchdog relationship between government and the sector to a more contractual one.
2. It introduced a strategic vision to build a coherent social mission.
3. It modernised the budgetary rules and planned the budget on a five-yearly basis. Management is thus on a less short-term basis, enabling more sustainable funding.
4. It renewed the public service mission by separating the role of each stakeholder. The civil servants decide the orientation of the public policy. The chief executive of the third sector association manages. Finally, it is the task of the government and ministry to evaluate.

## The CPOM in practice and its results: Case study of supported housing and social rehabilitation centre.

This case study focuses on supported housing and the social rehabilitation centre – *Centre d’hebergement et de réinsertion sociale* – le Nouvel Horizon, which is linked to the French branch of the Salvation Army Foundation, the social arm of the Salvation Army. Nouvel Horizon is one of its supported projects.

This community centre works with three authorities:

- The Foundation of the French Salvation Army;
- The DDASS (*direction départementale des affaires sanitaires et sociales*), a decentralised administration body of the state which intervenes in health and social care affairs;
- The *préfecture*, which has some responsibilities in terms of accommodation and is also in charge of the registration of associations. The *préfecture* is the representative of national government at local level.

1st Stage		
<p><b>General assessments:</b></p> <ul style="list-style-type: none"> <li>• Quality of housing</li> <li>• Administration</li> <li>• Social work</li> <li>• Budget management</li> </ul>	<p><b>Actors:</b></p> <ul style="list-style-type: none"> <li>• Nouvel Horizon</li> <li>• Salvation Army</li> <li>• Audit cabinet</li> </ul>	<p><b>Results:</b></p> <ul style="list-style-type: none"> <li>• Hosting quality is average</li> <li>• Humanitarian vocation of the association</li> <li>• Low results on rehabilitation work</li> <li>• Not enough funding</li> <li>• Major deficiencies: no team to meet the people in the streets and no intermediary solutions between emergency shelter and accommodation</li> </ul>

## 2nd Stage

### Definition of objectives:

- Construct new building with more capacity
- Host more people (family, asylum seekers etc.)
- Offer a complete scheme from host to social rehabilitation

### Internal changes needed:

- Raise the profile of the team (training, recruitment of new staff)
- Development of partnerships with similar associations or services

## 3rd Stage

### Preparation of the final contract

- Locate the zone for improvement
- Action dossier: negotiation with DDASS about indicators written into the contract
- Shape the multi-annual subsidisation fund planning

## Results

### Definition of objectives:

- The contract was signed at the end of 2004
- Funding: €1.3 million
- Training plan and funds
- 12% increase in staff numbers

This contract took a participative approach in communal life. Nouvel Horizon worked on the technical side but also lobbied the mayor and the DDASS. ‘We have to convince the political interlocutors of the necessity of spending money,’ said Pierre Oliver, who runs Nouvel Horizon. ‘Meanwhile, I defended values, fundamental rights – the right to live in dignity – without speaking of social peace or social control and they have listened to me. But without the support of the ministry, I think we couldn’t have reached our objectives.’

The chief executives of health and social care centres have welcomed this contract because it has led to a new relationship between associations and institutions. The contract ‘gives security and stability. The director is released for five years from budgetary tension; we have moved from head-to-head relations to partnership. Instead of spending five years bargaining with DDASS, we use this time to improve the quality of our services and our social work.’

## The future for the French third sector

A key challenge for the third sector in France is increasing the confidence of the public and government in its service delivery. The historical marginalisation of the third sector in service delivery has continued to resonate. Despite the state’s increasing inability to accomplish its public service mission and the fact that it increasingly discharges the duties of public services to the third sector, even today, *la mission service publique* is still seen as the role of the state in the minds of French people. As such, reform of public service delivery has always been very limited.

The umbrella organisation UNIOPSS has developed a guide for associations to challenge their role in service delivery. UNIOPSS wants to emphasise the two main criteria that add significance to the sector: the social change that can be performed by the third sector and the associative dimension of the third sector; and the

fact that the sector gathers various actors from different backgrounds, all linked by a commitment to a common concern. Indeed, what really comes across from the situation in France is how the third sector needs to think about the added value it brings to service delivery. In a number of countries, the third sector provides added value when delivering services, but it has tended to assert it rather than show it. As in many countries, the third sector in France has an exciting new future in service delivery, but must work to prove our worth.

Despite recent attempts to represent the sector at national level in France, more work is needed to improve the dialogue between the third sector and local government. The third sector in the UK has a series of strong structures enabling dialogue with government including the compact which has been a significant vehicle for establishing a productive and sustainable dialogue with government. Similar structures are now needed in France.

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Chapter 3

# The role and work of the third sector in Portugal

Joel Hasse Ferreira  
and Paulo Kuteev-Moreira

The role of the third sector in public service delivery in Portugal has historically been very important. There is a general opinion, though perhaps not a wide consensus, in Portuguese society regarding the involvement of the third sector in public service delivery. Both the current government and its opposition support a strong role for the sector. The European Parliament's decision to designate 2011 as the European Year of Volunteering, supported by each of the 24 MEPs from Portugal, is a marker of this general government support for third sector involvement. In Portugal today, the government continues to give special attention to the third sector, even with the global financial restrictions that come as a result of the current international economic situation.

### Third sector involvement in public service delivery

Most social services in Portugal are financed by the state through its social security system; health and social care services in particular are managed through the National Health Service. Most social services and activities provided by the third sector are run through organisations such as mutualities or collectives, *misericórdias* (Portuguese 'social solidarity' organisations, chiefly religious in character), or the international group Caritas. Some, however, are organised at local or regional level by volunteers; volunteers also staff organisations such as the UMP (*União das Misericórdias Portuguesas*) or the CNIS (*Confederação das Instituições de Solidariedade Social*), whose role is to represent *misericórdias* and social solidarity institutions at national level. The CEEP, or European Centre for Enterprises with Public Participation and Enterprises of General Economic Interest, which often organises discussions on national and European social affairs, also has an important role to play in the agenda-setting and provision of social services in Portugal.

Portuguese 'Institutions of Social Solidarity', which are not publicly administered, are very numerous in each of the country's regions, and vary considerably in size. They are currently able to take advantage of national legislation that facilitates access to public financial support.

Historically, most third sector social service organisations were created by the Monarchy (particularly Queens) or by the Catholic Church. Since the fifteenth century, the Catholic Church has played an extremely important role in the creation and support of *misericórdias*, community organisations which were originally created to deal with difficult social situations. The most important *misericórdia* today is the *Santa Casa de Misericórdia de Lisboa*, an organisation that is currently directly linked to the state, with a board appointed by the national Ministers of Health and Social Security. This *misericórdia* controls the National Lottery, the Euromillions draw and sports betting. There is real concern regarding the involvement of the *misericórdia* in these enterprises, especially when the economic and political pressure created by some international gaming enterprises is taken into account; some of these concerns and problems have been raised in court.

In more recent history, the organisation Caritas, which is present in many European countries, has also played an important role in the formation of the social service third sector in Portugal. During one of the periods of greatest economic and social depression of the dictatorship, Caritas was in charge of distributing milk to the country's poorest children. In reality, the milk originated from international aid, mainly from North America, but it was known in many regions simply as 'Caritas milk'. Since establishing an important presence in the country during this period, Caritas has been heavily modernised and now has a strong influence in many regions, organising social service activities around the country. Caritas' work has been particularly important in regions such as Setúbal, where the existence of numerous industrial and services enterprises means that a large number of volunteers can have a significant impact on social service provision.

It is also important to mention that in Portugal, as in many other countries, the Red Cross has had a significant role to play, taking care of many complex and urgent situations concerning health; its decentralised structure has been instrumental in ensuring its country-wide impact.

## Barriers to further engagement

Social service organisations are facing several challenges in Portugal as well as in other European countries, among them rising poverty levels and other economic and social problems which have originated as a result of the international economic and financial crisis. In Portugal, there are several barriers to be overcome before these challenges can be faced successfully.

Confidence in the state and in public organisations as providers of social services remains low, but the idea of volunteer organisations as service providers still faces resistance across the country, though it is gaining support. This resistance must be overcome by all organisations that seek to provide social services. On top of this, smaller individual organisations often need to overcome problems in management and implementation: most of these organisations have boards run by individuals who are well known at local level, but who do not necessarily have specific qualifications for the job.

The current situation is paradoxical; on the one hand, the economic downturn that many countries are currently facing can, and does, create pressure to reduce funding for many organisations that provide public services and also creates greater negative pressure on them to perform their duties well in the eyes of the public. On the other hand, new or intensified social problems that have arisen in the current economic situation call for greater service provision by these organisations and for additional funding for their work.

## The state and its role in public service delivery

The Salazar and Marcelo dictatorship (1926–74) effectively controlled third sector organisations as part of its monopoly over Portuguese society. After the democratic revolution of 1974 and the approval of the Constitution in 1976, however, the state began to recognise the importance of the role of the third sector in general and to work with it more co-operatively.

As a result, most third sector organisations found a way to make their structures more democratic and participative. Most people in Portugal are now involved in social organisations, participating in their democratic systems – this holds true for individuals, regardless of political ideology. Participation in social organisations has also increased as a result of trade union activity; many trade unions now have social activities and organisations. These organisations were created and are currently run by autonomous management, and some – like the SAMS organisation, which has an excellent hospital in Lisbon and runs other health facilities in the capital, the southern regions and the Atlantic autonomous regions – have significant impact in the areas where they work.

## The financial system and the relevance of housing in the third sector

A final aspect of the Portuguese third sector worth considering in order to form a full picture of the sector's current significance is its role in personal finance and housing.

Many individuals in Portugal are members of the Montepio Geral, a nationwide co-operative bank that is an important third sector actor. The Montepio could be termed a sort of 'mutualist bank', but the fact that it is not state run does not decrease its clientele: it successfully competes with commercial banks in several areas, and its management is recognised as professional and efficient. This third sector bank affects the day-to-day lives of many Portuguese citizens.

The same can be said of many citizen-run 'housing co-operatives', most of which provide housing for vulnerable individuals. These have had an undeniable effect in reducing the lack of housing in the country, and some municipalities have provided support for creating enterprises that manage local social housing projects, recognising the organisations' importance to many individuals.

### The healthcare sector: a case study for third sector public service delivery

Decree 101/2006 legally established the National Network for Integrated Care (RNCCI) as responsible for catering to the needs of citizens on various issues related to health and social care. This national integrated care network represents a major breakthrough in the position of the third sector in the development of health structures and services, as well as in its contribution to the national health system.

The network's objective is defined as 'promoting better services for citizens in a vulnerable situation or suffering from a chronic disease', as well as providing support for 'effective rehabilitation in a post-acute context'.

Its principles are simple:

- Offering diversity on the type and agent of health and social care;
- Creating an integrated care model with a multi-dimensional perspective that stimulates a comprehensive response to psychological and social needs;
- Promoting multidisciplinary work.

Launched in May 2006, this national network already offers more than 2,000 beds, providing a variety of services ranging from long-term care to rehabilitation and palliative care, and employs more than 1,000 people, including doctors, nurses, social workers, rehabilitation professionals and ancillary personnel.

The RNCCI has introduced a whole new approach to care, and over 90% of its newly contracted beds come from the third sector.

## The Portuguese network for integrated care Goals – 2016

Convalescence Unit: 1.44 beds per 1,000 inhabitants who are 65 and over	2.782
Mid-term and Rehabilitation Unit: 1.6 beds per 1,000 inhabitants, 65 and over	3.091
Long-term and Support Care Unit: 4 beds per 1,000 inhabitants, 65 and over	7.728
Day Care Unit: 2 vacancies per 1,000 inhabitants, 65 and over	2.318
Palliative Care Unit: 0.48 beds per 1,000 inhabitants, 65 and over	927
Hospital Support Team for Palliative Care: 1 team per 250,000 inhabitants	40
Community Support Team for Palliative Care: 1 team per 150,000 inhabitants	50
Discharge Team: 1 team per hospital	+/-90
Continued and integrated health care team: 1 team per family health centre	+/-360

The table above indicates the objectives for 2016. It also suggests the impact that this health policy objective will have on the third sector in Portugal. The sector will be under pressure to grow rapidly and also to offer quite differentiated services. As the third sector already has a good historical record of providing care, as well as field experience, it should expect some pressure to also strengthen its technical credibility in the long run.

The figure overleaf indicates the diversity of new care structures to be developed within the network:

## Units and teams

### In-patient units

Convalescence Unit

Mid-term and Rehabilitation Unit

Long-term and Support Care Unit

In-hospital Palliative Care Unit

### Out-patient units

Day Care Unit

### Hospital teams

Hospital Support Teams for Palliative Care

Discharge Teams

### Home care teams

Community Support Teams for Palliative Care

LTC Integrated Health Care Team

If the third sector wishes to rise to the task of providing this diversity and breadth of healthcare, its challenges for the future will include the following:

- Seeking better relationships with Regional Co-ordination Teams and aiding them in improving their efficiency and impact;
- Guaranteeing long-term financial stability in any contract signed with the government;
- Improving the sector's general working relationship with the National Health Service.

As a closing remark, we can say that if the third sector is able to overcome these challenges and have a significant role in the provision of healthcare by co-operating with government providers, Portugal will no doubt be able to develop the variety of new services suggested by the RNCCI, which essentially complement the role of the National Health Service and create opportunities for more integrated, holistic healthcare, building bridges between health provision and social action.

## Threats and challenges

It is fair to say that the third sector in Portugal fulfils its most important roles in the areas of social cohesion and in providing support for people with health problems or any kind of social difficulties. As society cohesion increases as the result of citizen participation and the national economy develops further, social organisations will no doubt be able to analyse social problems in more depth and to tackle them more fully.

At the moment, many of these organisations are participating in this development by promoting discussions on several social and cultural questions. The Montepio Geral promotes general discussion sessions and funds international conferences, and the misericórdias and Caritas are active in organising different events. These larger organisations are all supported by smaller organisations at local level, where they raise awareness of issues of local relevance and contribute to regional and social cohesion.

The activities of these organisations have been threatened by ‘winds of liberalisation’, often represented by lobbyists within the European administration, who may seek to decrease the funding or influence of social organisations within individual countries. The approval of the Social Services of General Interest Report, which highlights the importance of individualised, efficient public services, is important for this reason, as is the exclusion of lotteries from the Services Directive: both enable and support further work in and by social organisations through EU action.

To summarise, the most significant threats and challenges faced by the third sector are the increase in poverty and social problems as the result of the emerging global financial situation, cultural resistance to volunteering action within Portugal, difficulties in management for smaller organisations, ‘winds of liberalisation’ at the European level, and the lack of resources which originates from difficult financial situations and lack of support for the third

sector. Though these challenges are not insignificant, they can certainly be overcome.

Conferences, meetings and other forms of contact between social organisations within Europe can greatly contribute to the work of Portuguese social organisations, as well as to organisations in other countries. Third sector organisations could learn a variety of good practices from each other, and together they are able to carry out a deep and complete analysis of the social work that is being done across Europe as a whole. The more active and representative social organisations within Portugal already have specific European links, which enable greater co-ordination and more efficient action.

The role of the third sector in providing public services, social services and services of general interest is fundamental. It has an extremely important role to play in stimulating social and economic change, and can often do so in a more effective way than local or national government. The role that social organisations currently play can no doubt be developed and improved as Portuguese society evolves alongside emerging economic and cultural conditions, such as demographic changes as a result of immigration. It is clear that the third sector in Portugal has the potential to overcome the difficulties and challenges it faces, and to develop new possibilities and opportunities to its benefit and the benefit of Portuguese citizens.

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Chapter 4

# Growing pains: the Italian third sector

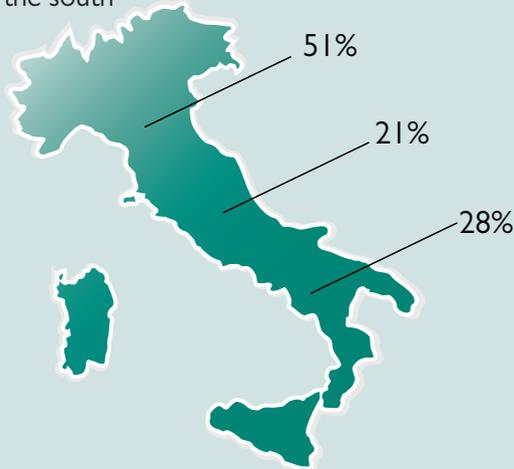
Alessandro Messina

Today, the Italian third sector seems to have lost the central role in public debate concerning social change that it held a decade ago. What does this mean for the sector? Alessandro Messina explores whether this situation reveals a sector settled in its role or a third sector whose period of growth is yet to come.

The number of non-profit organisations in Italy continues to grow, as does the volume of public services they provide. The third sector is no longer a new actor in the Italian welfare system and, in some ways, this could be considered positive – a ‘normalisation’ of the sector’s role in society and, on a lower level, its role in the economy. However, the exponential growth of a broad range of non-profit organisations – their number has increased by 283% in the last ten years – along with the deep changes in public policies and the forms of local government, and the significant cut in public budgets, all lead us to believe that the current muted role of the third sector in public debate is far from symbolic of its maturity.

There are about 235,000 non-profit organisations in Italy, of which:

- 51% are based in the north
- 21% are in the centre
- 28% are in the south



About 4 million people work in the Italian third sector: 3 million of them are volunteers, 100,000 are religious people and more than 500,000 are paid personnel. 80% of Italian non-profit organisations rely on a voluntary workforce, and for 88% of those (70% of the total), it is the only kind of workforce they have.

The non-profit sector, as with any social and economic phenomenon, shows a great heterogeneity across the regions of Italy. The wide variety of non-profit organisations in respect to regions should be cross-analysed and compared with other variables:

- The most relevant legal form is the non-recognised association (making up more than 60% of the total); recognised associations form 27%; social co-operatives make up just 2%;
- 55.2% of non-profit organisations in Italy have been established since 1990;
- The largest number of voluntary organisations are involved in culture, sport and leisure (63.4% in total, of which 40.6% are sport associations); the next largest area is social services and healthcare (8.7%).

Institutional Sector	Percentage (number of units on total)
Culture, sport and leisure	63.4
Social services	8.7
Commercial and professional associations; unions	7.1
Education and research	5.3
Health	4.4
Legal system, advocacy, politics	3.1
Religion	2.7
Economic development and social cohesion	2.0
Environment	1.5
Miscellaneous	0.7
Philanthropic institutions, charities, volunteer promotion	0.6
International activities and co-operation	0.6

## From charity to solidarity: a brief history of a long path

The political unification of Italy in 1861 signalled the beginning of the third sector's dialogue with the state. Since then, the role of the state in the welfare system has been quite small. The nineteenth century saw informal and formal non-profit organisations emerging and legitimating actions they had already been carrying out for hundreds of years. The late nineteenth century saw the funding of the first network of social co-operatives, namely the socialist '*Lega Nazionale Delle Cooperative*' in the north of the country and the '*Confederazione Delle Cooperative Italiane*', which had a clear Catholic orientation.

This growth of the third sector stalled between the arrival of fascism (1922) and the end of the Second World War. Afterwards, the newborn Italian Constitution (1947) gave relevant room to the role of free associations and co-operatives. People began taking part in social change more actively, supporting a process of civic and democratic growth<sup>2</sup>. Thirty years later, the so-called welfare state became a 'system' of welfare in which public and private sectors co-operated in order to guarantee innovative processes for providing social services<sup>3</sup>.

The present configuration of the Italian third sector is due to an expansive trend that started in the second half of the 1970s. During these years, the growth of the third sector was mainly a development of the associative phenomenon, built upon societal movements and campaigns for civil rights, the peace movement, and the women's movement.

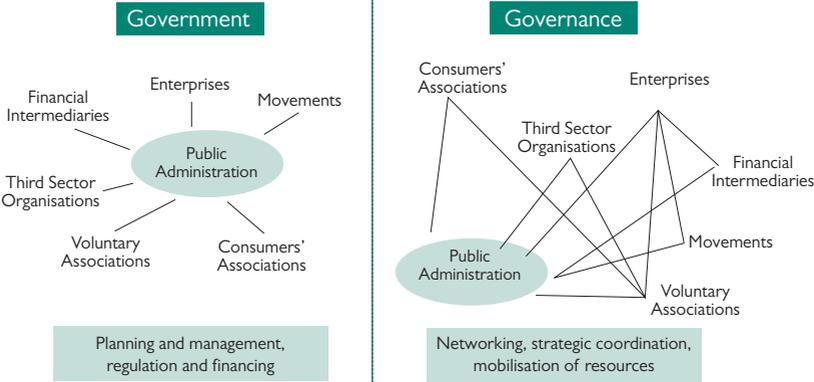
The 1980s saw not only a quantitative development of the third sector, but also a qualitative one, including:

- Change in its function: not simply advocating, but providing services to beneficiaries;
- Change in its organisational typologies: there has been a progressive autonomy from the control of the Church and of the political parties<sup>4</sup>.

The last few years of the 1980s saw the Italian third sector become prominent in the social and economic activity of Italy. The third sector and social enterprise were recognised as main actors in encouraging social change. The relationship between public and private sector produced micro-local initiatives and new welfare models. Actions and strategies were initiated at local level to create new opportunities and make development more sustainable. Government and the public sector became more and more involved in supporting social enterprise as a vehicle for local development.

The engagement of the third sector in service delivery today can be observed not only in welfare services (health, education and social services), but also among services to individuals and the community<sup>5</sup>. This development can be considered as emerging from the joint action of new forms of social marginalisation and the progressive privatisation of welfare services.

### The relationship between government and the third sector in Italy



There are three important activities of the Italian government affecting the role of the third sector in service provision at the moment:

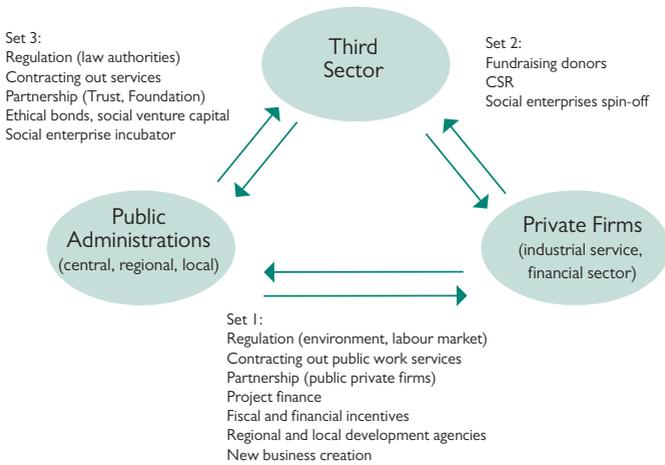
- A growing reliance on the outsourcing of services and activities;
- Inter-institutional co-operation and collaboration among local authorities;
- The setting up of national projects for the diffusion of public governance.

Three main types of relationship can be identified between the Italian public sector, the profit enterprise sector and the non-profit sector<sup>6</sup>.

### *1. The business – government relationship model*

This indirectly affects non-profit organisations. The public administration carries out, above all, a watchdog (regulation) function with regards to private businesses, in areas such as employment, the labour market (flexible forms of employment) and protection of the environment. The public administration introduces and manages fiscal and financial incentives available for enterprises, either directly or through development agencies that operate at a national, regional or local level; in recent years, these incentives have been strengthened by the supply of services, such as training, export assistance, research and development, consulting and assistance (legal, accounting and commercial) and the system of technological and industrial parks, enterprise incubators etc. Finally, a third important relationship is connected to the role of public administration as the procurement centre for goods and services; this includes the contracting out of services by local health authorities and local authorities in general, global service and facility management and large public tenders (public infrastructures).

# Government, private sector and third sector relationships



## 2. Private – third sector partnerships

This second group (Set 2) involves the relationships between profit enterprises and non-profit organisations.

The most important of these is the use of financial resources and employee work time by private sector enterprises, in accordance with CSR logic. Less important is the purchase of goods and services on behalf of non-profit institutions, while, as of 2006 (when new regulations on social enterprises were introduced), some enterprises, in collaboration with banks, are considering establishing spin-off private profit and non-profit entities.

## 3. Third sector – governmental partnerships

Finally, the third group (set 3) covers other third sector–government relationships, divided as follows:

- Watchdog activity by the public sector in the third sector through national laws and local and national regulatory authorities;

- Transfer of financial resources through direct contributions and public funds connected with the setting up and carrying out of projects;
- Contracting out towards non-profit organisations, in particular in the social sector as well as in the health sector and, more recently, in sectors such as culture, education and training, which leads towards the building up of stable relationships between clients and suppliers;
- Partnerships with the third sector through the creation of foundations in sectors such as social assistance, sport and culture: for example, there are approximately 400 foundations at local level which run nursing homes in Lombardy, and 17 health-improvement enterprises (the so called *società della salute*<sup>7</sup>) have been set up in Tuscany for the management of the socio-medical services network.

### Establishing a dialogue with government: a third sector united?

Establishing a successful dialogue with government is difficult due to the low levels of aggregation within the sector. The level of co-operation within the third sector, however, is increasing. 27% of social co-operative consortia – the more significant form of the third sector network – have been set up since 2001. The main services these consortia provide are: assistance in formulating bids to public administration (84%), project making and management (82%), general contracting (79%), marketing and communication (75%), financial and fiscal administration (67%), training (67%) and recruitment (37%).

Further networks exist with specific purposes, such as lobbying at either local or national levels, aimed both at promoting the partners of the network and the issues they work for (for example, children's or elderly people's issues). The best known umbrella organisation in Italy is the *Forum Permanente del Terzo Settore*. It was launched more than ten years ago in order to put the non-profit sector, the role of civil society and the

modernisation of the welfare system onto the political agenda. The result was partial success – at least at a formal level – but now the *Forum* seems to have lost its political power.

Co-operation across the sectors is very weak indeed. During the last few years, an important public debate has focused on the need to improve productive relationships between non-profit organisations<sup>8</sup>. The idea is to set up ‘districts of the other economy’, i.e. intense networks of exchange and relations – economic, financial, cultural and social – which, ranging from e-commerce to buyer groups, can spur the development of each single operator who takes part in the network.

The importance of the third sector is increasingly recognised by the Italian government in legislation. In the late 1990s, third sector organisations were granted a fiscal status, ONLUS (*Organizzazioni Non Lucrative di Utilità Sociale*), if they operated in specific fields of public interest, in order to benefit from tax advantages: social co-operatives, for example, automatically receive ONLUS status. Only non-profit organisations (associations, foundations, committees, co-operatives) can become ONLUS. Ten years after the ONLUS law was issued, however, it is still unclear whether it is convenient or not – given the wide range of restrictions and the relative benefits – for an average non-profit organisation to become an ONLUS.

Another crucial piece of legislation was Law 328/2000 on the ‘Reform of national social and health care’: in it, for the first time, the Italian government recognised the third sector, especially at local level, as one of the main actors in delivering social services. Under the 328/2000, all local authorities are engaged to define the so-called ‘Zone Plan’: a document, formulated at a very local level, in which each public local authority identifies strategic objectives, and tools and resources dedicated to social policy in order to develop integrated strategies to be discussed together with third sector organisations.

Whilst both important breakthroughs, these laws need an appropriate system of support actions in order to become effective: training sessions for public officials about the non-profit sector, checking systems for the quality standards of the services provided, and economic and financial measures aimed at strengthening the entrepreneurial dimension of third sector organisations. But these actions have not been carried out. Even today, most public managers confuse social co-operatives and voluntary organisations, ONLUS and NGOs, and ignore the norms, the laws and even the substantial and concrete differences between the 'social enterprise' model and philanthropy.

At the risk of generating greater confusion, Law 155/2006, aimed at introducing the new juridical form of 'social enterprise' (*'impresa sociale'*) to the Italian system, was issued in March 2006. The law does not state any facilities or benefits for those private entities that become *'impresa sociale'*, but includes, for the first time in the Italian non-profit normative, traditional commercial bodies (legal companies) among those who can become social enterprises, and widens the range of 'non-profit activity' (for example, introducing social tourism)<sup>9</sup>. It is not wholly clear what the intent of the norm is, and today we still lack any concrete implementation because of the delay in many institutions utilising the new procedures: some chambers of commerce, for example, are not yet ready to register social enterprises in their own record, as the law states they should.

In Italy, the difficulties in finding a standard definition for the so-called social economy and in focusing on the organisations and the range of activities characterising it are strictly connected. There is great heterogeneity among non-profit organisations, as well as in the activities they carry out: this does not help the definition of general regulation for the sector. Currently, the system of rules rarely reflects a co-ordinated or complete approach to the issues of financial, economic and legal equilibrium of third sector organisations. The existing legislation is orientated towards the *agents* rather than the *activities*, and so the lack of a specific legal

framework risks leading to the paradox whereby norms imposed on the third sector are taken from the regulation of traditional economic sectors and are based on a *profit* approach. Furthermore, in this context, non-profit organisations have to put great effort into remaining up to date on the Italian *mare magnum* of national, regional and local laws, often diverting financial and human resources from real development opportunities.

### Light and shadow: the influence of Italian norms on social enterprise

The growth of the third sector, particularly in its more entrepreneurial component, the social co-operatives, has been spurred on by the contracting of public services focusing on welfare and assistance to the third sector by local authorities.

Thus, since the beginning of the 1980s, the collective goods allocation model has tended to shift to a model based on the separation between the cost of social policies (a cost supported by public institutions at different local levels) and the direct allocation of social services which are managed by non-profit organisations according to the ‘third party government’ paradigm<sup>10</sup>.

Moreover, an entrepreneurial approach towards providing services for disadvantaged people has achieved success and allowed these new entities (known today as ‘social enterprises’) to be more sustainable, operating according to a long-term approach. When the first form of social enterprise was born, it was able to connect social needs and entrepreneurial approaches: hence it was called ‘co-operative of assistance and solidarity’.

Later on, according to some authors<sup>11</sup>, the Italian social co-operative took other forms. Three forms appear to be the most important: i) ‘co-operatives of assistance and solidarity’; ii) ‘integrated co-operatives’, which combine a form of co-operative production, providing goods and services in

diverse fields of the market but with policies for integrating disadvantaged people in the labour market; and iii) 'co-operatives of social services', which are more specifically dedicated to health and social assistance and have a significant volunteer component. Even with a confusing and untidy legal framework, the activity of these social co-operatives is ever increasing and becoming more legitimate.

After a long period of difficult public discussion in 1991 and the introduction of Act 381 in the same year, it was possible, for the first time, to define the 'social co-operative' and to form a clear division between these new actors, the traditional co-operatives and other non-profit organisations.

The main characteristics of social co-operatives, as declared by Act 381, can be synthesised as follows:

- They must carry out their activities 'for the general benefit of the community and for the social integration of citizens' (this is their legal definition).
- Their membership is composed of workers, clients and volunteers. In order to stimulate the co-operatives' entrepreneurial approach, the members who work voluntarily cannot make up more than 50% of the total workforce, and there is no obligation to have a voluntary workforce at all (this was a hard compromise reached by the two political forces).
- They have a democratic management, the so-called 'one head one vote' (a vote in meetings does not depend on the amount of contributed capital).
- They are divided into two categories:
  - A-type** social co-operatives carry out activities in the fields of health, social or educational services.
  - B-type** co-operatives act to integrate disadvantaged people into the labour market ('several activities – agricultural, industrial, commercial or service-industry related – are carried

out in order to include disadvantaged people into the workforce’) and a minimum of 30% of their workforce must be disadvantaged.

Social co-operatives number about 8,000 today and their growth rate is about 10% per annum. Although their number is low compared to the total size of the non-profit sector (made up of about 235,000 organisations), they undoubtedly represent the core of the contracting-out process.

### The third sector and its role in service delivery

The third sector’s engagement in public service delivery remains limited. Third sector organisations represent only about 20% of private parties providing public services, whilst private for-profit organisations make up about 80%. Public service markets in Italy remain undeveloped.

There are several barriers to a level playing field. In Italy, the non-profit sector is active only in certain areas of service delivery. Non-profit organisations are particularly involved in providing social and health services. Their engagement in other kinds of services (administration, ICT, economic services etc.) remains extremely uncommon. Non-profit organisations suffer further due to the type of services they tend to provide. Social services are marked by a declining public budget and hard-to-access funding.

The third sector is growing. As previously mentioned, the number of social co-operatives, the most active non-profit organisations in tendering, has been growing at a rate of 10% per annum in the last few years. The growth in quantity is therefore clear. What is unclear is whether the quality of the sector can be sustained. The delivery of social services is often subsidised by the wages of social workers or beneficiaries, whilst the managerial skills of third sector organisations do not improve with the growth of the business.

The commissioning environment for the third sector in Italy is detrimental to its delivery of public services. At present, many arrangements between public administration and non-profit organisations are still being made based on the lowest offer. Although several attempts have been made to introduce new and more coherent criteria, in many cases public bodies have shown no interest in these efforts. The declining provision in the national budget for social services does not help. Another serious problem is the temporary, and often extemporary, nature of arrangements with public bodies, which are perceived as the primary cause of job insecurity, one of the major risk elements in the whole sector.

The lack of knowledge and skills of those who contract out services further hinders the Italian third sector's role in service delivery. The average public official does not have the knowledge or skills necessary to manage the challenges of contracting out as a way to free new resources within civil society. It should be noted that very few officials have received (or continue to receive) appropriate training and that strong differences among regions do not favour a centralised approach to tackling this fundamental issue. This poor commissioning environment impacts on the added value expected to be brought to service delivery by non-profit organisations. Projects for regional training networks have been set up in Rome, Lombardia and Marche, but they still are in a very early, experimental stage<sup>12</sup>.

In order to achieve their common goal of meeting community needs, third sector and public bodies need to establish a partnership, characterised by joint project planning, comparison and assessment. Today in Italy we still see a situation in which partnership is a rarity, while sub-alternatives (of non-profit organisations to public bodies) prevail. The lack of resources, the absence of binding forms of planning, and the low levels of any alternative source of funding (private donors above all) all contribute to make an independent, strong action of non-profits difficult.

## Conclusion

The road to an autonomous and well-developed third sector, which plays a significant role in Italian public services, is still ‘long and winding’. Public service markets remain relatively immature and reform is slow, both at national and local levels. Social expenditure is declining and ‘social markets’ are more of an idea than a reality. Significant capacity building and behaviour change by both government commissioners and non-profit organisations are needed on both fronts.

Current Italian political life does not help. The economic recession and the severe limitations in the exercise of some fundamental human rights – concerning immigrants, workers’ protection, media freedom etc. – mean that the need for a strong civil society, in which non-profit organisations are central, is greater than ever. Unfortunately, the third sector today seems too focused on just ‘carrying on’, without striving for a higher level of professionalisation (managerial growth); it is risking its social and cultural identity for the sake of its own survival. Will the third sector find the capacity to renew itself and contribute to the crucial life of our democracy? This is the real challenge that lies ahead for the Italian third sector.

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# Public service delivery by third sector organisations in Hungary

Margit Kinyik  
and Éva Varga

Public service delivery by non-state organisations is a work in progress in Hungary. Although legally and financially NGO participation in public service provision is possible, due to some gaps and contradictions in regulation it has still remained an alternative only for the stronger, more institutionalised part of the non-profit sector. Non-state suppliers are usually welcomed because of the lower cost of delivery they can offer, whilst state monopolies are still typical in the provision of welfare services. Although churches, for-profit and non-profit service providers appear in public service provision, the public services market remains underdeveloped, as does the Hungarian third sector's relationship with the state.

### The main features of the Hungarian non-profit sector

The Central Eastern European (CEE) region and its national third sectors are often handled as a homogeneous entity since they obviously share some common features. However, distinctive national characteristics are becoming more and more visible since the transition from Communism to social democracy.

Some aspects of the third sector in the CEE region remain similar, such as the structure, revenues and economic contribution of these third sectors<sup>13</sup>, which distinguish them from those of the Western and developed countries. Across the region, sports, hobby and cultural NGOs dominate CEE third sectors, while NGOs continue to only play a small role in the core welfare services (i.e. social, health and education). At 33%, public sector support was below the average (40%) of 22 countries studied in 1995–6, and behind the Western European mean (56%)<sup>14</sup>. Co-operation between the third sector and the state has not been fully established yet in CEE countries, and third sectors remained 'fragile entities'<sup>15</sup> during the first decade after the transition, suffering from different 'growing pains'.

The Hungarian non-profit sector still retains some of these features, such as the dominance of sports<sup>16</sup>, hobby and cultural NGOs, economic contribution and employment capacities<sup>17</sup>.

However, the sector has grown impressively as a whole with almost 60,000 non-profit organisations according to the latest statistics<sup>18</sup>.

The majority of these non-profit organisations operate as associations and private foundations. These can be regarded as the ‘classic civil’ part of the sector – organisations founded by citizens or organisations independent from the state. However, the other state-owned part (public foundations, public bodies and public utility companies<sup>19</sup>) is also considerable, not because of its size but rather its economic power.

Data shows that the third sector ‘phenomenon’ in Hungary is mostly an urban one. Approximately a quarter (25.2%) of non-profit organisations were established in the capital, where about the same percentage of the country’s population can be found. Another 22.1% operated in county capitals, and 28.3% in other cities<sup>20</sup>. The remaining 24.4% of the NGOs operated in the villages<sup>21</sup>.

Financially, there are deep inequalities within the Hungarian third sector. 80% of all revenues went to 4% of the third sector in 2005. These were mostly public utility companies and public foundations, according to statistics. Their appearance led to a strong concentration of state funding too, since about 60% of available state resources were allocated to them in 2005<sup>22</sup>.

## Public service delivery in Hungary

There are several ways to take part in public service delivery as a non-state organisation: institutional service provision, contracting and placing services into state-owned non-profit organisations. In addition, there can be many different types of contracts between NGOs and central or local state institutions. However, because of the chaotic legal definition of ‘public service’<sup>23</sup> they are not taken into account as public service delivery contracts. Statistics, based on questionnaires completed by local authorities and NGOs, can also be confusing since they do not differentiate between the three types of service delivery mentioned above, and often use only ‘contracting’.

Statistics based on questionnaires completed by local governments show that they prefer to establish public foundations and support their own public utility companies rather than contract non-governmental organisations<sup>24</sup>. More than half of local governments established public foundations or public utility companies, while only approximately one in five had contracts with NGOs. Nevertheless, the number of contracting local governments almost doubled between 1996 and 2000 (from 338 to 632), and in the same way the number of NGO contractors grew from 905 to 1,666. Contracts covered mainly education, cultural and social services. Four out of five contracts were realised in villages according to the data, although later research results are inconsistent with this (as we see below in the situation of small villages).

## The outsourcing of public service delivery *(Independent) institutional provision*

Institutional provision (educational, cultural and social including accommodation) can be initiated by non-state organisations<sup>25</sup>, which have to fulfil professional criteria (usually having a strategic plan) and technical and human resources criteria, regulated by law, in order to get an operating licence. The licence authorises the organisation to draw on the quota fixed by the current Law on Central Budget. In this case, the organisation gets the full amount for the service from the central budget. Non-state organisations with some property at the start, such as traditional churches, which was returned as compensation after the political transition, have a better chance of becoming licensed service providers since institutional providers need a building first. Churches can enjoy even more advantages (according to a government level contract with the Vatican from 1997) in this type of outsourcing, since they are entitled to get 50% more in the form of state quota than other providers. This is problematic as it breaks sector neutrality in financing and puts other potential providers, mainly NGOs, or other applicants for the license, at a disadvantage.

## Contracting out

The main responsibility for service provision (i.e. basic social or cultural services) falls on the local government or other state organisations<sup>26</sup>. Local authorities and their micro-region level co-operations have an important role in outsourcing, since they have the most diverse service provision role at local level.

The decentralisation process provided a strong political, but restricted financial, independence for the local levels, whilst simultaneously creating a huge number of local authorities (3,194 in 2008), one for each settlement. Experiences from the 1990s still showed that, although political independence is important at a local level, it cannot be treated separately from the economic environment, since constantly decreasing state funds are not sufficient to maintain public services. The traditional economic gaps between the western and eastern parts of the country, or the capital–countryside contrast, couldn't be balanced by the state; the failure of local governments to deliver most core welfare services was obvious. The settlement structure of the country further aggravates this situation, since about three-quarters of settlements have fewer than 2,000 inhabitants, and the number of cities and towns was only 307 in 2008<sup>27</sup>. As a result, basic welfare services could develop only sporadically, and, unfortunately, were more often missing in most deprived areas<sup>28</sup>.

Due to the financial difficulties of local governments and the consequent gaps in service provision, new forms of public service delivery have been encouraged since 2004. These are based on the co-operation of local governments on a micro-regional level. Although the so-called 'multi-functional micro-regions', which are free co-operations of local governments<sup>29</sup>, do not cover perfectly the former micro-regions<sup>30</sup>, their number is more or less the same. These new-style micro-regions are quite diverse in their size and structure, but they serve the same goals: to provide at least three different welfare services (social, education and health) at their levels. They are encouraged by additional state funds, which provide more resources for service provision than the decreasing quotas for separated institutions run by a single local government.

Although these multi-functional micro-regions have had a positive impact on welfare service delivery in general, they don't seem to have provided new opportunities for the third sector, which is negatively discriminated against by financial regulations. The additional state support to micro-regions is only one-third of the total in cases when the service is outsourced to a third sector supplier. Although the Act of Regional Development assigned civil forums as partners to micro-region levels<sup>31</sup>, they do not seem to have space for negotiations when it comes to public service delivery.

Nevertheless, third sector organisations are trying to access public services on both levels of local governments, but the contracting situation has more uncertainties from preparation until implementation. A contract needs preparation and negotiations between the local government and the non-state organisation. Local governments can help (as usually happens) with the technical infrastructure (providing building or equipment); however, the price paid for service delivery is the result of negotiation, and usually ends up being less than the costs the organisation has to cover<sup>32</sup>. Research shows that contracting out usually means a cost rationalisation for local governments, which results in a cheaper service than if it were provided by a governmental institution<sup>33</sup>.

Contracts can be initiated by both parties, but it is usually non-state organisations who approach the local government and bid for the service<sup>34</sup>. A totally new strategy for cost rationalisation by some local governments in the last few years has been to reorganise their institutions and found non-profit organisations. These 'virtual' non-profit organisations (which are usually established by the employees of the institution) are asked to bid for service provision. If they bid successfully and are granted a contract, the local government often lays off its relevant staff. The minimum standards of contracts are regulated in sector acts (social, education etc.), in different ways and at a rather general level, and they are not related to any unified procurement process. For these reasons, processes often lack transparency,

depend on subjective, discretionary decisions, on lobbying capacity and relations of the NGOs. Although contracts can usually be signed for five years, monopoly situations can develop. Innovativeness of service providers (mainly NGOs) is expected; however, because of the capacity problems of local governments, and lack of proper professional control mechanisms (standards, measures for some added value), such expectations are usually not met.

## Outsourcing into state-owned non-profit organisations

Placing public services (communal services, such as waste disposal or public employment) into state-owned non-profit organisations (for example, public utility companies) has been a popular and comfortable solution for local authorities, as they are used to working with their own institutions instead of external partners. This way they can keep their power and generate additional resources for themselves. Establishing public foundations or public utility companies also means savings for local governments, and indirectly hinders NGO participation in public service delivery.

## Future directions

As we can see, different practices lead to different situations and strategies. As research on the legal and financial background of public service delivery has highlighted<sup>35</sup>, the ambiguous and confusing legal term of 'public service' and poor and controversial regulation has resulted in inequalities in access and funding possibilities for non-state service providers belonging to the different sectors. Public service provision is a possibility for the economically stronger, more professionalised third sector organisations, while the smaller organisations still don't really have access to public service markets, since recent regulations favour institutional provision (both in independent or contractual situations), even if the service is complex and needs different competencies. Contracts are rather grant-like<sup>36</sup> and the old paternalistic attitudes and reflexes of local governments are the reasons why contracts put NGOs in subordinated situations and

are sometimes accompanied by attempts to reduce civil autonomy, being handled as 'own institutions' by local authorities.

Public service delivery by non-state organisations was not high on the political agenda in Hungary until 2003. Although churches, non-profit organisations and some enterprises recognised the opportunities, the state preserved its monopoly<sup>37</sup> in providing welfare services. The first call for third sector organisations to provide public services appeared in the Civil Strategy of the Government in 2003, then later, and more significantly, in its second version in 2006. Although most of the barriers to third sector engagement are mentioned in these strategy documents<sup>38</sup>, their implementation seems to have been delayed, and, with regards to the above-mentioned micro-region situation, these strategies are not part of any coherent governmental development concept.

Public service provider third sector organisations do not seem to be actively looking after their own interests either; they seem to accept even disadvantageous conditions and try to maintain their positions implementing various survival strategies (see case study 1). The attitudes of service providers have not developed in a businesslike way yet; reliance on state funds and quotas has remained (see case study 2).

*Case study 1: 'Little town, little money, little control'*

Kek Madar Foundation<sup>39</sup> launched a family-style day care<sup>40</sup> centre in April 2001 as a programme initiative in response to the needs of young mothers in a town of 35,000 people in central Hungary. Although a 1997 law obliges local governments to ensure some form of day care for all children, many are unable to provide that due to lack of resources and capacity. The financing of day care is supposed to rest on three pillars: one-third head state subsidy, one-third local government financing and one-third parental contribution.

In 2002, a few months after launching the first family day care centre in town, Kek Madar managed to convince the local government to sign a service agreement with the foundation and to provide financing. At this time, no one else was offering this service in the town. Kek Madar was in an advantageous position: the service was demanded and the local government had to provide it but was unable to do so, and Kek Madar had very good reputation and good relationship with the officials. Kek Madar's argument was that this style of day care is cheaper for the local government than public nurseries, as there is more motivation for cost efficiency in non-profits and they are able to supplement public funding with money from private foundations<sup>41</sup>. Ever since, although new day care providers have appeared, the agreement has been 'automatically' renewed for 3 to 5 year periods, without any tendering process. Tendering is not a practice for any of the outsourced services, as 'it is a small town, where everyone knows everyone'. Therefore, the local government knows what to expect from various organisations.

Potential competitors, such as for-profit enterprises, have been eliminated by national regulations, which, in order to avoid abuse, made the full state subsidy available only to organisations with non-profit status or church groups as of 2006. Therefore, anyone who wants to start a day care service registers as a non-profit organisation. This is a very distorting mechanism, as it forces potential businesses and social enterprises to play a game and disguise themselves as non-profits.

The obligation for transparency is also minimal on the service delivery side: the local government carries out little monitoring to check on quality. Kek Madar submits only one brief report per year, as the officials trust their professionalism. In exchange, the foundation also tries to be flexible to meet some requests of the local government, if those are not against their philosophy, for example, admitting children from exceptionally poor families

free of charge to parents. Kek Madar admits that this ‘hands-off’ attitude is favourable for them but could allow room for potential fraud or abuse.

Has the organisation become dependent on the local government? Not according to Kek Madar. The organisation is very clear about its ethics during the negotiations and does not accept all the conditions; at the same time it has a diversified programme portfolio with support from several founders. Is this a financially sustainable and worthwhile service to run for Kek Madar? It’s not worthwhile, as revenues don’t cover costs. It is sustainable only thanks to the fundraising effort of the foundation, which fills the gap between costs of revenues. The only reason Kek Madar wants to continue providing this service is that it is very much in line with the organisation’s mission, and they believe that they are one of the best in the country. They have taken care of 82 children since their launch and now function as an accredited regional training centre for family-style day care providers.

#### *Case study 2: ‘Opening social markets without control’*

After enacting the Law of Rights of Disabled People in 1998, new types of services were developed for the disabled, which were integrated into the 1993 Social Act. One of these, called a ‘supportive service for the disabled’, was introduced as a basic social service<sup>42</sup> in 2003. However, its regulation is quite different from the other services at this level.

The service provides transportation for disabled adults living in the countryside to cities where adequate services for them are available. The human and technical infrastructure background is quite simple, since only a car (without any special equipment), a driver and two personal carers (one of them should be the leader) are needed to get a licence. One service provider has to

cover a territory with a minimum of 50,000 inhabitants (the number or proportion of disabled people is not taken into account). The standard set by the government covers working hours (40 hours per week) and does not specify a number of clients. While the central quota received for basic services is always determined by the number of inhabitants or approved beds etc., in the case of supportive services it is a fixed amount per year, regardless of how many clients the services provide for. Another important difference is that, while all the basic social services are available only through contracts with local governments for non-state organisations, supportive services can be established independently from local governments (like social institutions). The situation is further complicated by an ambiguous definition of the term 'disabled' in the law, since among the groups mentioned (such as sight-impaired, hearing-impaired, autistic and so forth) there is an obscure 'others' category, which can include, for example, those elderly people who are physically challenged due to age but not due to disability. This 'others' category is accepted by the regulators as clients, even though there are specialised basic social services (domestic care) already provided for them.

It is not surprising then that setting up such a supportive service became attractive (it looked like easy money) for non-state organisations with some sense of business, churches, for-profit and non-profit organisations, and of course, local authorities (who are obliged to run a service like this). After a few years a growth of supportive services started, and in extreme situations there can be six or seven service providers (often from other cities or from the capital) in a village of 1,000 inhabitants. There were 540 supportive services in Hungary in 2008<sup>43</sup>, of which 14% were operated by local governments, 17% by micro-regions, 15% by churches and the remaining 54% by other non-profit and for-profit organisations. Local governments are usually helpless and often complain that supportive service

providers have the ‘cheek’ to ask for additional support (via contracts) from them. Naturally, there are service providers with specifications and professional commitments in this market. However, this market can be seen as unfair because clients have a weak interest representation potential, and there is poor controlling ‘ability’ on the service.

Although the situation of supportive services and the ‘created’ market hasn’t been highlighted yet, decision-makers have had to realise that there are problems, since regulation will change from January 2009, a cause of worry for service providers. The most important changes will be that the ‘other’ category will be scrapped from target groups, and service providers will have to apply for the support via calls for proposals or bids, which may get them to bring the service closer to real needs. At the same time, we are afraid that these changes disguise mostly fiscal considerations, since standards and control mechanisms will not be specified, and supportive services will continue to overlap with the other basic services.

The situation in Hungary highlights the need for every country to have a strong dialogue between the government and the third sector. It is often too easy for governments to use public service reform as a disguise for cost-cutting. The case study of Kek Madar day care demonstrates the need for surer funding and why commissioning must be improved to recognise the added social value and economic contribution of the third sector. Hungary has a long way to go to achieve this.

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# After the Swedish model: service delivery between two systems

Lars Pettersson

Sweden is often thought of as the primary example of a social democratic welfare state, where a universal eligibility for high-quality social services provided by the public sector has pre-empted the need for a third sector. However, this view of the Swedish welfare state is not only outdated, but a new, independent role in service delivery lies ahead for the Swedish third sector.

## A brief history of the Swedish third sector

The Swedish welfare state that emerged in the decades following the Second World War offered an entirely new model for Swedish citizens in service delivery, which had high ambitions for both coverage and quality. Social services became an entitlement for everyone living in Sweden during these years and the public sector was the main political instrument for making health, elderly, social and childcare services universally available at no, or very low, cost for the individual user. The third sector continued to provide a small proportion of services in areas such as healthcare but it generally turned to a more indirect role in the welfare state, providing social services complementary to those provided by the public sector and organising large number of grass-roots volunteers for different social causes.

The modern welfare state was, to a large extent, a product of the social democratic governments that dominated Swedish politics from 1932 until 1976, and the Social Democrats had a somewhat ambivalent relationship with the third sector. The Social Democratic Party itself originated from the labour movement and it relied greatly on grass-roots volunteerism and third sector organisations when in opposition to the conservative ruling elites in the early 1900s. The Marxist theories on which they based their early ideology were directed against the state and this political heritage was difficult to disregard, even after the Social Democrats turned to a more reformist type of socialism in the 1920s. At the core of the social democratic ideology was economic equality, and the state soon became a tool in the hands of the Workers' Party in order to reach this goal. Through a political balance of market

capitalism and democratic welfare socialism, they gained wide popular support for delivery of social services by the public sector, and by the 1970s Sweden stood out as the primary example in the world of a social democratic welfare state. The public sector funded all social services and it provided practically all services as an entitlement to all Swedes, who in turn participated in the governing of the service delivery through a well-functioning system of representative democracy.

However, by the 1980s, the unprecedented economic growth that had made the expansion of the public sector possible had slowed down considerably. It was clear that the public sector could not continue to develop the service delivery by itself, which led to a greater willingness to consider the third sector as an alternative source of innovative practice and, in some areas, as an additional supplier of services to meet an ever-growing demand.

The universal public funding of all social services was never in question since it was, and is, considered essential for preventing economic inequality. A system where the quality of the services is dependent on how much the individual user will pay for it is still considered incompatible with the Swedish welfare state, since it would reduce the public trust in the system which is essential for a welfare state as extensive as the Swedish one. Supplementing of state provision is minimal by both the third sector and the public. Third sector service providers in Sweden have little need to raise additional funds for actual service provision and fees paid by service users in all sectors vary from a strictly symbolic administrative fee for healthcare to a fee representing up to about 10% of the actual cost of childcare<sup>44</sup>.

Third sector organisations were favoured over the profit-seeking service providers when the 'private alternatives' started to grow in numbers in the mid-1980s, but some leading politicians still considered the reintroduction of third sector provision of certain services, such as childcare, as a sign that 'society is giving up on its obligations'. This view has gradually become rarer as

successive legal reforms have led to a continuous growth in the share of services that are provided by third sector organisations as well as for-profit companies. Nevertheless, the public sector still remains the largest service provider today in most service areas. Childcare stands out as the area where the non-public providers have the largest share of the provision and their share is still less than 20% of the total.

The trend today is that the profit-seeking organisations are rapidly expanding their share of provision in all areas, while the third sector organisations are expanding at a much slower pace or, in some areas, not at all. The dominant role of the public sector in delivering public services does not imply that there is no third sector in Sweden, only that it is organised differently to other European countries with a more heterogeneous welfare mix<sup>45</sup>. Sweden is often thought of as the primary example of a social democratic welfare state where a universal eligibility for high quality social services provided by the public sector has pre-empted the need for a third sector. This view of the Swedish welfare state is not only out-dated, but it was probably never true to begin with.

### The Swedish third sector today

Sweden has always had a large third sector with a small majority of the population volunteering at least once a year. The Swedish third sector is traditionally based on grass-roots volunteering, and some studies indicate that Sweden has among the highest ratio of membership in third sector organisations in the world but among the lowest ratio of professionally employed third sector staff. The economic importance of the third sector in terms of GNP is as great as, or even greater than, countries like the United States, the United Kingdom or Germany. The economic significance of the third sector is also growing, as can be seen from Table I.

Table I. Growth in the third sector 1992-2002

	Turnover in billion €	Turnover as part of GNP	Number of employees	% of total Swedish workforce
1992	6.7	4%	110,000	2.5%
2002	13.9	5.3%	121,000	2.7%

Source: *Wijkström and Einarsson 2006*

### The third sector's role in delivering services

The principal authorities with responsibility for supervising, administrating and contracting out services in Sweden are its 290 municipalities. These local political authorities organise on average 31,665 inhabitants each and their size varies between the small municipality of Sundbyberg, a suburb of Stockholm which is less than nine square kilometres in size, and the large municipality of Kiruna in the far north, which is almost exactly the size of Wales. The municipalities have a high level of formal autonomy; they collect income tax and their independence from the central government is established by the Swedish constitution<sup>46</sup>.

However, the central government regularly provides the municipalities with duties and it monitors them to make sure they perform all the basic functions that they are supposed to. This role of the Swedish municipals has been developed over several decades, during which time they were the primary providers of social services. Swedish society as a whole demanded a universal coverage of high-quality social services and the national government assigned the municipalities the task of providing them<sup>47</sup>. It was, in a way, like the national government contracted to the municipalities to provide these services, which illustrates their role as both local political authority and executioner of national policy. For municipals to contract out services to a third party themselves is a relatively new situation and they, therefore, lack clear regulation and established practices in this area. This

inexperience also explains why there is relatively little collaboration across, or even within, sectors when it comes to service delivery. The norm for public sector service delivery has shaped both formal and informal structures for so long that all collaboration between the public and the third sector still stands out as alternative and innovative. There is collaboration between third sector organisations but, because they only constitute a small part of the total service delivery and because the necessary public funding is provided through contracts with individual actors, this collaboration is seldom extended to the actual service delivery.

The manner in which the municipalities employ private operators to perform public services varies between municipalities, but there are a few typical procedures, of which simple contracting out is not the most common. Contracting of this type is typically used for areas where the individual services are very costly, such as healthcare and institutional elder care. The reason for this is that neither public nor private service providers can afford to maintain vacant places at their facilities; they need to know that there actually is a demand for the services. This is an especially important explanation since all or most social services in Sweden are primarily paid for by the public sector and not the users themselves.

Another way of contracting private providers of social services resembles the method proposed by the new legislation described above. It is now already possible for municipalities to merely grant permission for the establishment of new, private services and then pay the provider according to its number of users. This is a model used for pre-schools and schools, even if the latter are granted permission from the Swedish National Agency for Education and not the municipals. The provision of childcare and education is more flexible than the provision of health and elder care in the sense that the service facilities can accept a changing number of users and manage short periods with few children while competing with other pre-schools or schools the following semester. This system, therefore, relies more heavily on market

incentives, which may be one reason why the current government wishes to expand this practice to new areas of social services through legislation.

A third way to contract non-public providers of social services is through short-term, non-binding funding. These arrangements are used when the local, regional or, in some rare cases, national governments want to encourage a certain non-profit service without creating binding contracts for continuous funding. This is a practice in Sweden that it is sometimes used for project-based efforts to reach social goals, such as drug treatment and prevention or aiding the homeless.

Finally, it should be mentioned, with regards to contracting private service providers, that contracting out was, until very recently, highly regulated in certain areas. The best example of this is hospitals; even if there are examples of private for-profit hospitals in Sweden, these were privatised by regional authorities during the 1990s, a move which was heavily criticised by the Social Democratic governments that were in office during the second half of that decade. Privatisation of the management of public hospitals was severely restricted by a law imposed by the central government in 2000, despite the fact that it raised questions about the distribution of power between the regional and national governments in Sweden. An interesting aspect of this law, however, was that it allowed contracting out to non-profit actors, and the majority of the few non-public hospitals that exists today are non-profit<sup>48</sup>. This law has since been withdrawn by the current, centre-right government.

There are, in other words, not only significant differences between how different services are contracted out, but also between practices in the 290 municipalities. The choice between the different methods for contracting out that are presented here is in part dependent on the political majority that rule the different municipalities. The Social Democrats generally favour what they call 'democratic control' over the provision of social services,

while the centre–right parties consider freedom of choice for the individual users a great value in itself. The relatively large degree of independence for the Swedish municipalities offers possibilities for significant variation between them on issues such as the contracting out of social services and there are, of course, a wide range of possible factors on the local level that could push municipalities towards one of the different models. The ideological orientation of the political majority is only one of these factors. In light of this, the proposed law for the customer-orientated contracting out of social services should be seen as an attempt to offer freedom of choice on more locations in a more coherent manner.

## Towards a market

The public market for social services in Sweden is new but growing rapidly. The traditional model for service delivery has gradually been replaced by a market model based on the freedom of choice of individual users, rather than collective goals for the whole of society. There are already signs of the public markets becoming more mature, and the new legislation and the agreement described here are among these. This maturity can also be seen through the consolidation of providers in service delivery, which has raised concerns that the market could become oligopolistic if the political and legislative powers do not adapt swiftly enough to the changes.

## New legal frameworks

One sign of this shift in the role of third sector organisations is the government's recent proposal to create a whole new legal framework for contracting out social services, the so-called 'Law for freedom of choice' or LOV (Lagen Om Valfrihetssystem). Until now, the procedure of contracting out services has been regulated by a law for public contracts that was solely based on the principle of the lowest bidder. Establishing contracts with the service provider offering the lowest cost was considered unproblematic when the law was passed in 1992 since the services intended included areas such as rubbish collecting and snow ploughing. The

writing of the law mentions social services like elder and healthcare, both in the old version from 1992 and the slightly modified version from 2007, but it is apparent from the way the legislation is drawn up that the contracting out of social services is considered highly marginal compared to contracting out in areas such as construction and urban development.

The legal regulation can only be described as loose, especially considering the economic significance of social service contracts, which has led to a situation with low levels of predictability and stability in the service market. The norm for social services is still that they are provided by the public sector, even if the social service area is emerging as a field with significant contracting out, both in terms of the economy and individuals concerned. This development calls for a process that takes aspects besides the lowest bidder into consideration, which is what the new legislation is supposed to provide. The proposed law obliges the Swedish municipalities to certify all service providers that fulfil some basic criteria and then inform the public about the full range of available providers. It will be up to individual users to pick the provider that they favour based on both personal requirements for economy and quality. All services will continue to be paid for by the public sector but its political control will be greatly reduced since the choice of which provider will get the contract is left to the individual user of the services. This entirely new way of offering services allows a greater diversity as well as a basic level of quality assurance and democratic control of the overall service provision.

The need for new legislation is not only motivated by the previous lack of competition and its implications for service quality, but also because the previous routines for contracting out social services greatly favoured large corporations, which explains why the for-profit actors are gaining ground in the private sector. The contracting size from the service deliverers must, according to the old legislation, be so extensive that most small-scale caregivers cannot meet these, or at least they take a great financial risk when

submitting a proposal. Another problem with those rules is that the application time for proposals is so short that only organisations with a lot of resources can manage to submit them in time. Proposals can also be dismissed on the basis of technicalities or mistakes, which are more likely to be made by a small organisation with limited resources. The short binding time for contracts between the municipalities and the private care-giving organisations is also said to put small third sector organisations at a disadvantage since they are more dependent on single contracts, whereas the large actors have several contracts running at any given time.

### The way forward: a new dialogue

To avoid these kind of marginalising effects in the third sector, the government and a coalition of 90 large third sector organisations have written an agreement that draws up the general, as well as some specific, principles for the relationship between the public and third sector. The lengthy document was presented as a proposal for legislation in the spring of 2008. The proposed agreement contains many guidelines that are manifestations of already established practices, such as the use of third sector organisations in reference groups for new legislation. It also includes several new arrangements that are expansions of the third sector's formal responsibility and also, to a lesser extent, their actual responsibility.

This document formally defines and establishes the role of the third sector in Swedish society, which is a substantial step forward for the Swedish third sector organisations that previously only functioned in whatever areas the public sector had not yet encompassed or, as has been the case in the last two decades, in areas where the public sector can no longer maintain universal coverage, such as long-term care. The aforementioned law regarding contracting out and this new agreement may signal a new independent role of the third sector, held in its own right.

The third sector in Sweden seems very large in comparison to that of other countries, yet its providers of social services are still few and small. Nonetheless, the third sector is moving into the delivery of social services but at a much slower pace than for-profit organisations, partly due to the inexperienced institutional arrangements that have not yet adapted to a greater diversity of service providers.

Sweden is in a transition phase between a traditional welfare model based on the public sector and a still largely undefined model characterised by a diverse welfare mix and, most likely, continued universal public funding. The rules of the old model are disintegrating and the new ones are not yet in place – a kind of laissez-faire situation that will favour financially strong actors in the for-profit sector. There is no way back to the welfare state of the 1970s and the road ahead is still uncertain. The reforms presented here may indicate a future Swedish welfare state where the third sector has an important and established role in public service delivery. It is up to the third sector in Sweden to make that happen and it is certain that their peers in other countries, such as the UK, will be an important source of inspiration in helping them make this change.

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Chapter 7

# The UK third sector: an innovative experience

John Craig

## Strengthening third sector innovation

Stars in the Sky is a London-based dating agency for people with learning difficulties. The enterprise grew from one woman's desire for love. Haringey Association for Independent Living (HAIL) gave Lolita lots of things she needed, but what she really wanted was a man. With her friend Pauline, and the support of HAIL's Lydia Jones, she established Stars in the Sky.

Stars in the Sky might be a good story, but it's an even better idea. Too many public services end up as sticking plasters for social isolation, failing to address their quality of life head on. HAIL is doing just that. They are part of the third sector service delivery agenda, but they are much more than instruments of delivery. They are helping third sector organisations to develop radically better services for the future. Indeed, they are doing something that the state could never do – helping people to find love<sup>49</sup>.

This kind of innovation must be at the heart of the third sector's role in public service delivery. The sector's work to find new solutions to difficult problems is vital in helping services to become more efficient and effective and to respond to people's changing needs. More than that, innovation can help third sector organisations combine their roles as independent campaigners and as partners of the state in delivering services.

To strengthen third sector innovation, we need to build a stronger shared understanding of the innovation problem and to develop solutions within both the third sector and public sector. This is one very powerful way in which the state and civil society could learn to work better together, to the benefit of both.

## Campaigning and delivering

Before addressing the problem of innovation and looking at some solutions, it's worth pausing on the potential significance of innovation to the broader position of the third sector. The place of third sector innovation in our public services is a test of ministerial rhetoric about how much they value third sector

organisations in and of themselves. If we get it right, it can help to resolve the tension in organisations that are independent of government but still delivering for government.

Over the last five years, the involvement of the third sector in public services has grown against a theoretical backdrop of public choice and new public management. The third sector was consistently important as a source of much-needed diversity to a mixed economy of provision. Indeed, there was a danger that the third sector was simply of instrumental value – the politically acceptable face of public service reform. This is evident in the recent work of the Charity Commission, which raises worries about mission creep and losses of independence<sup>50</sup>.

However, today, while third sector organisations report that they feel their business models and culture being pulled towards those of the public sector, something else is happening. There is now a countervailing force acting on public services, pushing them to become more like the third sector. Public services are being challenged to learn from charities and social enterprises about how to build community cohesion, engage disadvantaged people and respond flexibly to their needs.

As a result, the two sectors need one another more than ever. While the third sector has long looked to the public sector for finance, now the public sector recognises that without the third sector, public services cannot get the job done. This new equality is an opportunity at least to build greater maturity into the relationship between society and the state. Not only does the third sector know it needs to hold on to its mission and independence, but government increasingly sees that too. We all need organisations like Stars in the Sky, with both the independent credibility needed to run a dating agency and the innovative capacity to get the job done.

## Clarifying the innovation problem

In order to strengthen the third sector's role as an innovator in public services, we first need to develop a much clearer shared picture of the innovation problem. There are two issues to be resolved here: the weak understanding of innovation in the public sector and the very different context of innovation in the third sector.

In the public sector, helping innovations to develop and grow is often presented simply as a challenge of delivering policy or rolling out successful programmes. Both of those ideas gloss over just how difficult this is. Rolling out a public programme is no less complex and challenging than growing a business or building a social movement without the reduced risk of failure.

Strategies for spreading innovation in the public sector often fail to acknowledge the scale of the challenge. For example, the public sector often seeks to spread innovations as information. Central agencies and research centres tend to seek to spread innovation to professionals by telling them or asking them. The problem with telling is that it is a weak model of learning – it can be hard enough to recognise a research report on one's own practice, let alone to reproduce someone else's practice on that basis. The problem with asking is that it's a weak model of change – professionals may be interested to hear stories about work happening in a neighbouring city, but they are unlikely to see why they should change their working practice as a result.

In this context, the risk is that the role of third sector innovation will remain weak because there is simply a lack of enabling conditions in the public sector. It can be hard for the public sector to recognise the value of third sector innovation or to know what to do with it when they do. In part, third sector innovation practice depends on progress in public sector thinking.

However, the challenge is also to build a shared understanding of innovation that acknowledges the very different context of innovation in the third sector. The problem here is that the public

and third sector's experiences of innovation are very different. If you talk to public servants about innovation, their concern is that they are not allowed to innovate. They tend to feel hidebound by the 'fly-by-wires' to central government that restrict their freedom to experiment and learn. In the third sector, on the other hand, staff certainly feel allowed to innovate; their worry is that they are not supported to innovate. They feel that public services are all too happy for the third sector to hold alone the risk of innovation, and they point to a lack of a safety net should they fail.

We need to solve both of these problems together. The public sector can benefit from the third sector's greater freedom to innovate, if only it could provide some support and security in return.

Most importantly, the public sector needs to take seriously the idea that third sector innovation must be a sustainable business. In the public sector, which is dominated by monopoly providers, the established way for innovations to spread is for them to be given away. However, third sector organisations exist in crowded markets where this kind of gifting of innovation is often not possible or attractive. Third sector organisations may equally wish to grow their innovations by partnering with other organisations, monetising them through approaches like franchising or simply by growing their own businesses.

As a result, while public sector infrastructure is populated with research units, centres of excellence and conferences, much of this does very little to support or sustain third sector innovation. Third sector innovators need to be supported to develop, evaluate and grow their own innovations in ways that are sustainable for them.

### Creating honest brokers for the third sector

A shared understanding of the problem of innovation would be a start, but the real need is to develop solutions. To strengthen third sector innovation, we need to change the incentives acting on

both third sector organisations and public servants. In the case of the third sector, improvements to innovators' access to both supportive intermediaries and investors are needed.

This is the challenge taken on by Innovation Exchange, of which I am the first permanent director. Innovation Exchange is run by a consortium of the Innovation Unit, ACEVO and Headshift, an internet company, and is primarily funded by the Cabinet Office. Its work so far shows what is possible and where the greatest opportunities may lie.

The third sector is teeming with great ideas, but too few of them change the world. Innovators, investors and commissioners often lack each other's phone numbers and the capacity and incentive to collaborate. As a result, innovations get a start, but struggle for the connections and resources to sustain or scale. Innovation Exchange exists to tackle this problem, bringing people together to grow third sector innovation.

The Exchange's task is not to preach innovation to the converted but to support innovators to develop and grow their work. For the third sector, for too long the problem has been that novelty has been rewarded while sustained innovation has been neglected.

Innovation Exchange is a standing critic of this approach. Where grant-makers have tended to focus on the supply of good ideas, the Exchange focuses on real opportunities for innovation. By opportunities for innovation, we mean areas where there is not only a supply of great ideas in the third sector, but also real demand from potential collaborators and supporters, including citizens themselves. It is where there is common ground among, for example, innovators, investors and commissioners of public services that there is a real opportunity for developing and sustaining innovation. So, rather than focusing on innovations that we might ideally wish for, Innovation Exchange focuses on innovations with a real chance of meaningful success.

In an attempt to realise this dynamic kind of support for innovation, Innovation Exchange frames its role as that of an honest broker<sup>51</sup>. It focuses on performing three functions:

- Surfacing opportunities for innovation;
- Helping innovators, investors and commissioners to connect around them;
- Actively supporting groups to collaborate, develop and grow innovation.

Each of these roles can do a great deal to strengthen third sector innovation. Surfacing opportunities may seem trivial, but it may actually prove to be the most important role of all. For third sector innovators developing a fledgling product or service, it can be really difficult to know whether they are running down a blind alley or pushing at an open door. It is really hard for a single organisation to know whether their work is what the world's been waiting for. By helping to clarify some innovation priorities for the sector in particular fields, Innovation Exchange is beginning to focus energy and prevent wasted effort.

Helping innovators, investors and commissioners to connect around opportunities for innovation is also vitally important. Innovation Exchange is doing this both through successful events such as its Festivals of Ideas, as well as online, through its new website<sup>52</sup>. This work is already sparking connections that strengthen innovation and draw new resources into the third sector.

Lastly, it is important for Innovation Exchange to work closely with some of the best innovations it is able to identify, helping them to collaborate with investors and commissioners and learning with them about the other challenges that they encounter. We are doing this through our Next Practice programme, which includes access to a £200,000 NESTA Innovation Exchange Fund<sup>53</sup>. This programme will enable innovators to develop, evaluate and grow their work.

Having built Innovation Exchange around the issue of market failure rather than institutional failure, it has been really important to focus its work on the right markets. Its first two areas of focus are the issues of independent living and excluded young people – areas of high political priority and market opportunity where there is significant third sector presence and a real need for innovation. However, for all that, we believe these are areas where without the work of honest brokers like Innovation Exchange, some opportunities for innovation could be missed. We hope that with our work, alongside that of many others, there is a significant chance to make a lasting difference to the lives of young people and the opportunities for disabled people to live independent lives.

### Improving public sector acoustics

However, while this modest progress may be important, the problem of third sector innovation cannot be solved by the third sector alone. Arguably, the greatest break on third sector innovation is the nature of the demand from the public sector.

In the years immediately after 1997, much of government policy in relation to the third sector focused on giving them a voice. However, in the case of public services, while third sector innovators are vocal, the acoustics are poor. Structural barriers all too often mean that demand for third sector innovation is low. Whether as a receiver, partner or purchaser, public services systematically undervalue innovation, from whichever sector it comes. And this has been the experience of Innovation Exchange – the greatest challenge we face is that of systematically engaging commissioners of public services in third sector innovation.

Why is this? The prevailing approach to public service reform seeks to raise standards through a mixture of competition through quasi-markets, top-down pressure, lateral networks, devolution and transparency<sup>54</sup>. As a result, information and incentives are focused on comparative institutional performance. On its own, this approach can limit innovation rather than encouraging it.

Government can change this by seeking to focus public services as much on competition between ideas as on competition between institutions<sup>55</sup>.

Competition between institutions tends to focus attention on the best institutions whilst the rest seek to play catch-up. However, a focus on best practice can often mitigate against the development and spread of next practice<sup>56</sup>. Evidence from the private sector suggests that those organisations that perform best do not always innovate best, because their incentives to innovate are weaker<sup>57</sup>. Equally, ‘the most innovative authorities aren’t usually the most competent but rather those with the most need to innovate – in the second or third quartile of performance’<sup>58</sup>.

In contrast, James Surowiecki has helpfully synthesised the literature describing the characteristics of the innovation systems that generate innovation through competitions between ideas<sup>59</sup>:

- Aggregation – some mechanism exists for turning private judgments into a collective decision.
- Diversity of opinion – each person should have private information even if it’s just an eccentric interpretation of the known facts.
- Independence – people’s opinions aren’t determined by the opinions of those around them.
- Decentralisation – people are able to specialise and draw on local knowledge.

If government can build these qualities within the public sector, it will create stronger demand for innovation from the third sector.

For example, where the public sector does identify new ideas, how good is it at aggregating them? One solution, for instance, to this aggregation problem is oligopoly<sup>60</sup> – innovative systems tend to contain a small number of large organisations and a large number of small organisations. Just as patents from small firms are ‘twice as likely to be among the top 1% of patents subsequently identified as having high impact’<sup>61</sup>, work on market development in

areas such as children's services<sup>62</sup> has emphasised the importance of larger 'chains' for scaling up this innovative practice. These large organisations make possible the kind of 'franchising' recommended ten years ago by Charles Leadbeater in *The Rise of the Social Entrepreneur*<sup>63</sup>.

However, in public services, key services are divided into 25,000 schools or 10,700 GP practices, none of them of any significant size<sup>64</sup>. As a result, they lack the resources and the incentives to seek out great third sector innovation and take it to scale.

Equally, how good is the public at enabling real diversity? For example, while schools may specialise in different subjects, how many really different approaches to learning or organisation can we find across the education system? In truth, across many public service systems, income is driven by inflexible expectations about costs based on simple head counts, so that there is only one route to success. In education, for example, schools feel pressure to focus on pupils who will achieve the best exam results at the lowest cost, 'cream-skimming ... the least costly to treat or most able to learn'<sup>65</sup>. As a result, while poor literacy, supporting transient pupil populations or helping students facing multiple disadvantages are all key challenges for the whole system, it is difficult to find a school that specialises in tackling them.

Alongside work to support innovation in the third sector, we need to continue working to ensure that the public sector is a powerful partner and customer for innovation.

### A chance to harness collective wisdom

At Innovation Exchange, our pitch to the third sector is simple: 'don't give your idea away, but don't keep it to yourself'. Learning to strike that balance will be at the heart of strengthening the role of third sector innovation in public service delivery. It can help third sector organisations both to retain their campaigning zeal and to deliver highly effective services to citizens. In turn this can help equalise the relationship between civil society and the state.

That is a prize worth having. For all its diversity and colour, how fantastic would it be to harness the collective wisdom of the third sector to crack some of society's biggest problems?

*John Craig began work as the first Director of the Innovation Exchange ([www.innovation-exchange.org](http://www.innovation-exchange.org)) in January, 2008. Innovation Exchange supports innovation in the third sector and has two areas of focus; excluded young people and independent living. The Exchange helps innovators, commissioners and social investors to develop leading edge projects. Previously, John worked at the think-tank, Demos, and at the Cabinet Office.*





Chapter 8

# Australia: a blueprint for change?

Stephen Bubb

Whenever there is rapid economic and social change in a society, there is inevitably a challenge for existing third sector organisations to respond to it. Having established itself as a significant provider of public services in Australia following the country's extensive public service reform, the third sector now faces pressure to restructure and to tackle its inefficiencies.

With our growing role in public service delivery here in the UK, the experience of Australian third sector organisations may be seen to hold important lessons for British third sector leaders – a potential ‘blueprint for change’. Indeed, Australia has long been seen by policy makers here in the UK as a template for public service reform. However, Australia's differing social and political contexts must first be recognised and taken into account before making such comparisons.

### Australia's third sector

There are an estimated 700,000 non-profit organisations in Australia, many of which are small and depend on voluntary commitment. About half are thought to be incorporated and about 35,000 to employ staff.

It was estimated in 2007 that the sector had a turnover of some \$AUS 50 billion, employing over 700,000 people and involving 5.5 million volunteers. As yet, Australia has not conducted an accurate assessment of the third sector and its impacts. However, the Australian Bureau of Statistics will soon be conducting a survey of non-profit institutions on a biennial basis so that there will be a robust evidence base for the sector<sup>66</sup>.

Key areas of third sector engagement include:

- Community and welfare service organisations;
- Health non-profit organisations;
- Religious institutions;
- International aid and development organisations;
- Education non-profit organisations
- Environment and animal welfare groups;

- Sporting and recreation groups;
- Arts and cultural organisations.

## Stand and deliver

In the past twenty years, a major theme of government policy in Australia has been for third sector organisations to deliver a significant share of public services. This has been advanced through competitive tendering processes as part of Australia's adoption of a new public management and national competition policy.

Australia has long provided a template for public service reform across the globe. A particular area that has captured the imagination of policy makers here in the UK has been its outsourcing of employment services. Indeed, when ACEVO was celebrating its twentieth anniversary reception last year at No.10, the then Prime Minister Tony Blair mentioned to me his interest in the Australian model, which had really impressed him in terms of what it had achieved and how much it showed the potential role for the third sector in service delivery.

Indeed, Australia has reportedly reduced the cost of job placements by half. A recently released report produced by the Policy Exchange estimates that if the Australian model for employment services was introduced to Britain, it could lead to a reduction of £1 billion a year in Britain's welfare bill<sup>67</sup>.

### Employment services in Australia

In the 1996–7 budget, the government announced that its old Commonwealth Employment Services (CES) was to be shut down and replaced by a new purchaser-provider model. This model consisted of a single statutory authority, Centrelink, working with several hundred non-governmental employment agencies organised as a 'job network'. In this system, Centrelink is the first point of entry for anyone seeking unemployment assistance: at one of its Customer Service Centres, the job

seeker is assessed, registered and then referred to a job network service provider.

The premise was that job network providers should compete for referrals and be paid by results. Fees-for-service would be paid by the Department of Education, Employment and Workplace Relations when a job seeker was taken on by a job network provider, and outcome payments would be paid when a job seeker was successfully placed in a job. Different levels of payment are made to the job placement agency depending on the circumstances of the job seeker, for example, whether or not they are long-term unemployed.

The structure of fees and payments has been revised over time as the Australian Department of Education, Employment and Workplace Relations' policy priorities have shifted between rewarding simply the obtainment of employment to rewarding long-lasting placements with sustainable results.

## Translating the Australian model

The UK government currently delivers some 'welfare-to-work' programmes through private and voluntary sector providers in a £1 billion market. The role of such contractors has expanded as they deliver more complex case management services. Further change is envisaged with the implementation of the Flexible New Deal with specialist return to work providers paid according to their performance in generating sustained job outcomes. The introduction of payment-by-results has led to obvious comparisons with Australia.

The market model in Australia is not perfect. In reality, the employment service market is currently dominated by private sector players, with only two charities, Mission Australia and the Salvation Army, playing significant roles. It is estimated that the

private sector has 50% of Australia's publicly funded job brokerage market, with the Salvation Army having 10% of contracts.

The 'choice' aspect of the market-based system has had little impact. Claimants have not acted like customers in a real market due to lack of information and a restriction of choice. Originally, it was conceived that the job seeker would choose his/her own job network service provider. However, it has become apparent that most are allocated a provider through the automated referral system<sup>68</sup>. In addition, once a job seeker chooses or is assigned a service provider, they are unable to change. Choice and competition are also additionally limited when some areas are unable to support more than one provider.

In Australia, there have been accusations of providers 'creaming' service users – concentrating on the job seekers that were the easiest to deal with and leaving the hardest to help to simply fall off the map. It has also been suggested some providers keep clients deliberately on benefits until they can be classed 'long-term unemployed', so organisations receive the higher fees that are applied when the long-term unemployed are found work.

## Our future

Payment by results will be an important lever for change within welfare-to-work markets the UK sector. Accompanied by its corollary of outcomes-based commissioning, payment by results should give the sector the freedom to innovate and to become more visible in employment service provision.

Many third sector organisations in Australia now receive the majority of their funding from government. This has impacted on the character of the sector. Third sector organisations have had to come to terms with changing patterns of funding and a more rigorous accountability for outcomes. Many have adopted practices from the private sector in order to adapt to this new environment – for which many of them have had little training.

Despite their greater role in service delivery, many of the problems currently encountered by the UK third sector under competitive tendering practices are still experienced by the Australian third sector – such as a lack of sustainability and access to policy-making processes, and balancing the need to maintain independence and autonomy.

Despite incremental improvements, the biggest proportion of sector funding is still short term and directed away from core costs. This is rendering longer-term organisational planning and proper investment extremely difficult, and results in problems of poor information systems and limited professional development. The cost of securing funds is high, with senior management spending large proportions of their valuable time securing operating income, rather than managing their organisations. Much of the sector is operating in a ‘survival’ framework, which not only affects individual organisations, but has also created a fragmented sector, struggling to work strategically or in unison with others.

There have been efforts by government to help increase the capacity of the Australian third sector. In 2004, the Howard government created and funded Non-profit Australia, an organisation whose purpose was to build the capacity of the not-for-profit sector. Yet concerns were expressed within the sector that this organisation failed to achieve its aims, as they were imposed from above, and not from sector itself – hence failing to address the deeper institutional barriers which hindered third sector engagement in public service delivery.

In 2005, the Giving Australia report was commissioned by the Prime Minister’s Community Business Partnership in order to assess how to increase capacity within the sector. The report identified three key areas which it was necessary to improve – financial resources, knowledge and expertise.

## ‘Gagging’ the sector: the Howard government and the role of advocacy in the Australian third sector

The new Rudd government has been vocal in its criticism of the previous treatment of the third sector in the hands of the Howard administration. Deputy Prime Minister Julia Gillard said the not-for-profit sector had been operating in a 'climate of fear' under the Howard government.

‘When we consulted with the not-for-profit organisations in the run up to the federal election they did say to us they were concerned what these clauses meant. There was a climate of fear that meant they were anxious about speaking out and advocating for those that they worked with.’<sup>69</sup>

Ms Gillard made the above comment in an interview with national newspaper the Australian, in which she revealed that the current government had banned the use of Australian Workplace Agreements by the public service and ministerial offices, except where it was unavoidable. Labor has promised to scrap these clauses in future contracts and review all existing agreements with a view to eliminating the so-called ‘gag’ clauses.

In recent years, many third sector organisations with an advocacy role have argued that their funding relationships with government have hindered their capacity to criticise that government effectively, and hence to advocate effectively for their clients. Many purchaser-provider contracts that were drawn up between the Howard administration and NGO service providers included the provision that a third sector organisation must not speak publicly without first receiving the relevant approval from the department concerned. These 'gag clauses' were a mechanism which some have argued were intended to reduce public comment, and hence criticism, of the Howard government.

The time under the Howard government also saw third sector organisations experience a definite shift away from being funded for their core activities to being funded for specific projects or

outcomes. Already facing a tightened financial situation, less discretion for organisations on how they could spend the funds received meant organisations were often dissuaded from pursuing advocacy aims.

## Building partnerships: a Compact for Australia?

As already noted, recent decades have not always seen a blossoming relationship between the government and the third sector in Australia. The current government, particularly with regards to its new social inclusion agenda, is now working hard to improve on the partnership between the government and the sector.

### *A new role for the sector: Labor's social inclusion agenda*

Improving the capacity of the sector to deliver social change has become even more important in the current political climate. In July 2007, the then deputy Labor leader and shadow minister for social inclusion, Julia Gillard, outlined Labor's agenda for social inclusion in Australia:

A Labor Government will adopt social inclusion as an objective and organising principle of the nation's social and economic policy. This will involve investing in Australians and their communities to ensure that economic prosperity benefits all Australians and does not leave behind the disadvantaged.

As such, the Rudd government has signalled that it is very keen to enter into a Compact with the sector. As Ursula Stephens has commented to me, 'since we've come to government in November 2007, we've flagged to the sector very clearly we want to do this'. The government has asked the Australian Council of Social Service, a third sector membership body, to consult third sector organisations and the people who use them about a Compact and to prepare a report for the government and the sector. The two key areas that a national level Compact would seek to address in Australia are the problems the sector experiences with funding and the recognition of the independence of the sector.

There is currently no national-level Compact present in Australia, but similar written agreements have recently been signed in five jurisdictions: Australian Capital Territory, New South Wales, South Australia, Queensland and Victoria. For example, NSW prepared the Working together for NSW agreement in June 2006 and the ACT developed the Social Compact: A partnership between the community sector and the ACT government in 2004. However, unlike the UK experience, no government agencies or offices have been established to provide support for these agreements.

The experience of Australia reminds us here in the UK how important an agreement such as the Compact can be for improving the relationship between the third sector and government. Particularly when a society is undergoing reform in its public services, structural agreements like the Compact help make clear the oft-blurred roles of government, the third sector and the individual, which are often the result of such social change.

### *Our choices*

The situation in Australia only underlines what an important mechanism the Compact is for the UK. It is up to the third sector here in the UK to maintain that support.

There is a general sense amongst our membership in the UK that the Compact is too easily ignored. There is the feeling that, without statutory powers and sanctions, the Compact can only work with sympathetic authorities – who, of course, are the only ones who do not really need it. This is becoming a growing problem, and one which is leading to mounting cynicism and frustration in the third sector.

The situation in Australia shows how important it is for the Compact to be more than just rhetoric. When ACEVO surveyed its membership in April 2008, 96% of them agreed that the Compact needs more ‘teeth’; most of our membership support statutory powers for the Compact Commissioner. ACEVO is working hard to achieve this aim.

## Blueprint for change?

Making the effort to look beyond our initial differences shows vital similarities exist between the Australian and British third sectors. Australia has seen exciting change in welfare-to-work and looks set to see further exciting change with regards to the introduction of a Compact – on both fronts we have a lot to learn from the Australian third sector, and here in the UK, third sector leaders should watch and draw lessons for future successes and failures. What is surely certain is that inspiring times lie ahead<sup>70</sup>.

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# Public service reform and the third sector in the USA

Seb Elsworth

It may come as a surprise to a European audience to discover that, in the context of public services, there are many more similarities than there are differences in the respective relationships between third sector organisations and government in the United States and the UK.

The perception of the USA as a land with no public healthcare and a small state ideology belies the hugely complex and sophisticated interactions between federal and state governments and third sector providers. Vast swathes of human services are delivered by non-profits funded by government in one way or another, and the complementarity that is evident between the public and the third sectors in the UK is equally present in the US.

Third sector providers in the US face many challenges of poor funding, all of which will be very familiar to a UK audience, although there is less of a co-ordinated lobby to address them. However, very pertinent and timely lessons can be learned from the US experience and the expansion of fee-based programmes, such as Medicaid, and their growing predominance over grants and contracts. The response of third sector organisations to this changing funding regime over the last few decades should be understood by leaders of the third sector in the UK, in particular with regards to the widespread introduction of individual budgets in social care and other areas of public service provision. Moving from managing a few relationships with commissioners to directly managing many relationships with service users, each in their way a commissioner, required organisations to invest heavily in new functions and processes such as marketing and invoicing.

Many commentators point to the sector being in danger of losing its distinctiveness as a result, with professionalism looking too much like commercialism. However, many non-profits are responding well to this challenge with new efforts to demonstrate community benefit, evaluate outcomes and strengthen leadership and governance.

This chapter will explore these themes in the context of what chief executives in the UK and Europe can learn from the experiences of peers in the US. Firstly, we will begin with a brief history of the relationship between third sector organisations and government at both federal and state level. Secondly, we will look at the current state of that relationship, the challenges, the responses to those challenges, and the public discourse surrounding it. Thirdly, we will explore in more detail the growth of fee-based programmes, and the impact which they have on the way that the sector operates and is structured. Fourthly, we will examine the ways in which the sector is responding to those changes through demonstrating community value and impact assessment and finally we will evaluate the lessons for leaders in other countries.

## The late twentieth century

As Steven Smith recounts, some state funding for third sector organisations to deliver services to the deserving poor can be seen as far back as colonial times<sup>71</sup>. However, even by 1914 there were a number of states which were not funding any third sector organisations and even through the 1950s it was the exception rather than the rule. Rates were kept deliberately low and philanthropy was expected to meet the need, the United Way (formerly the Community Chest) playing a big part in that<sup>72</sup>.

Between 1965 and 1970, federal funding on social welfare almost tripled, driven by increased concern over the quality of care, and a number of programmes including the Ford Foundation's Grey Areas project and the Office of Economic Opportunities' War on Poverty<sup>73</sup>. The growth in federal funding rapidly exceeded that of state funding and by 1980 it comprised 65% of total government spending on social welfare. At the same time came legislative incentives for states to purchase services from independent providers, and by 1976 49% of state spending on social services was purchased. Grants and contracts were used by public officials to control costs, and to drive up service standards and performance. There were also federal grants and

loan subsidies to support the growth of more third sector hospitals. Steven Smith sees the 1960s and 70s as the period when 'Non-profit agencies became agents of government in the expansion of the American welfare state'<sup>74</sup>.

The years of 'Reaganomics' saw a desire to curtail federal spending on social welfare, based upon an assumption that philanthropically funded third sector organisations would fill the gap. However, it appears that Reagan did not appreciate the extent to which third sector organisations were already an integral part of publicly funded welfare provision. Dramatic cuts would harm the very organisations that were expected to provide the solution. In fact, state and local spending on social welfare continued to rise, and more and more organisations were able to access funding through federal programmes such as Medicaid.

However, the 1980s were difficult years for third sector service providers. Reagan's reforms coincided with a significant period of de-institutionalisation, resulting in an increase in demand for welfare services. Salaries for staff declined in real terms and organisations faced serious funding challenges. Tax exemptions were also under threat and many third sector health insurers lost their tax exemption in 1986, forcing some to become for-profit enterprises. The financial health of social welfare third sector organisations was increasingly bound up in the health of the federal and state governments' coffers. There continues to be rapid growth in the numbers of social welfare third sector organisations and with limited government funding many will struggle to survive.

The last 25 years can be characterised as overseeing a trend from grants to tightly defined contracts and to fee-paying reimbursement schemes such as Medicaid and Medicare. In the case of the latter model, providers are retrospectively paid a set fee for delivering a certain unit of care to an individual. It is this

evolution which has had a profound affect on many third sector organisations in the US and the environment in which they operate, and from which third sector leaders in the UK can learn. However, before we look in more depth at the consequences of the trend towards the reimbursement model, it is worth briefly assessing the broader relationship between government and the third sector in terms of the funding of public services.

## The state of the union

Many of the aspects of the current state of the 'union' between government and third sector providers will appear very familiar to the UK audience. Most contracting between government and third sector organisations occurs at the state level or below, even if the resources have come directly from the federal government. Most third sector organisations which are in the business of delivering human services get a very large proportion of their income from government in one form or another. Contrary to Reagan's philosophy, philanthropy and, in particular, foundations play a very minor role in funding human services.

Those funding relationships bring a number of challenges:

- Funders prefer to fund programmes rather than core costs.
- Contracts very rarely cover the full cost of service delivery.
- Agreements are rarely for more than a year or two, making long-term investment impossible.
- Funders often pay late causing serious cash flow problems for providers.
- Staff salaries fall behind those in other sectors.
- Third sector organisations find it very hard to access finance for capital investment.
- Funders require excessive levels of reporting, drowning organisations in paperwork and focusing on measuring inputs and outputs rather than outcomes.
- For-profit organisations compete for contracts and services right across the spectrum of human services.

Although these are challenges experienced by organisations right across the third sector, there does not appear to be a clear or co-ordinated narrative at a national level to lobby for changed practices within government agencies. There has not been, for example, a campaign focusing on core costs such as ACEVO's hugely successful Full Cost Recovery campaign. Nor do the merits of public service delivery through the third sector seem to feature as part of a broader narrative on public service reform in the way they have done in the UK over the past ten years.

However, although the debate is not as clear as it has been in the UK, third sector organisations have been co-operating through associations operating at state levels, or specifically within a particular part of the sector. The Alliance for Advancing Nonprofit Healthcare, started in 2003, is one example of the latter. The Alliance exists to provide a voice for third sector health organisations at a federal level, drive up the performance of individual organisations and act as a forum for the sector's leaders. The National Council of Nonprofit Associations is a network of 41 state-wide third sector umbrella groups. Some of those groups, such as those in Maryland, New York and Minnesota, are extremely active in working with the state governments to advocate for the sector's interests. Much of the lobbying at federal level, including that undertaken by Independent Sector, has concerned maintaining and reforming the tax exemption status of third sector organisations. The panel on the Nonprofit Sector, overseen by Independent Sector and bringing together many charities and foundations, was started in 2004 and focused on preparing a series of recommendations for Congress on the oversight and governance of third sector organisations. Attacks on the tax-exempt status of the sector organisations come from for-profit organisations as well as elements of the general public.

Contracting is, of course, only one mechanism for government to support the delivery of services through third sector organisations. The sale of tax-exempt bonds provides a

highly valuable source of finance for organisations to invest in large capital schemes such as the building of social housing provision. Work to define the Tools of Government in its interactions with the sector has been spearheaded by Lester M. Salamon at the Centre for Civil Society Studies at Johns Hopkins University.

Just as in the UK, the general awareness amongst the public of the scope of third sector involvement in the welfare state is poor. However, public trust in the sector has fallen in recent years following a number of high-profile scandals involving the American Red Cross and the United Way. ‘Excessive’ salaries for executives are frequently highlighted by the media and the expectation that services can be provided with no infrastructure forces fundraisers to downplay core costs.

One particular feature of the current relationship between government and the third sector is the use of voucher reimbursement fee payments to fund core human services. The impact of this structure on the sector in the US has been profound and the sector’s response holds lessons from which leaders in the UK can learn.

### Fee payments changing the sector

Steven Smith, in his chapter on government financing of third sector organisations as part of *Nonprofits and Government* published by the Urban Institute, further highlights the shift towards fee income as a major source of revenue for the sector from government. ‘For social and health organisations, the very consequential shift in the past 20 years has been the increase in fee income directly or indirectly from government funds.’<sup>75</sup>

Although it is difficult to tell from the Inland Revenue Service (IRS) 990 forms the exact method of government payment which third sector organisations are receiving, reimbursement fee payments such as Medicaid – the most significant of these and the one upon which we will concentrate in this chapter – have grown

substantially. This shift towards demand side funding has also been seen in other areas of provision such as welfare-to-work services, the Temporary Assistance for Needy Families funds and the Medicare programme, the latter being a federal social insurance programme mainly focusing on the older population.

Medicaid was created in 1965 as a means-tested social welfare programme, its job to provide health insurance for low-income individuals. Medicaid is a mixture of federal and state money, administered at a state level. Prior to the 1980s, service providers would bill Medicaid for the cost of the service they had provided for an eligible individual. This allowed providers to recover their full costs for delivery but without any adequate mechanism for the state to control overall spending on Medicaid. In 1983 this structure was overhauled in an attempt by government to better control spending. A per case standardised payment methodology was introduced for Medicaid, and as we will see this dramatically changed the incentives for providers in the third sector.

However, the federal government's attempts to curtail spending on Medicaid by reforming the payment system failed. The annual spend on Medicaid grew from \$47bn in 1980 to \$142bn in 1998<sup>76</sup>, and the number of eligible recipients grew from 20 million in 1975 to 50 million in 2004<sup>77</sup>. With 60% of hospitals in the US being non-profit it is easy to see how Medicaid is a hugely significant source of income for the sector. However, less obvious but equally significant, is how Medicaid has impacted on other providers in the third sector. The variety of programmes which Medicaid funds has also expanded dramatically beyond just basic healthcare to include services such as preventative healthcare, employment support for the disabled, and mental health services; all areas of very significant third sector provision. Medicaid has been largely overlooked in the story of the growth of government funding of third sector organisations. However, it is 'a central funder for social service programmes throughout the United States, especially through non-profit community based organisations'<sup>78</sup>.

The reimbursement fee model of programmes such as Medicaid leaves third sector organisations with many of the same funding challenges as traditional contracts, although arguably with even less room for manoeuvre. Providers are unable to pass along cost increases to the funder as the standard fees have been set. Fees are very unlikely to recover the full cost of the delivery of the service and will not take account of the added value and quality which third sector providers may offer. The mechanics of reclaiming the fees may be slow, bureaucratic and it can be very difficult to obtain payment for services which have already been provided. The fee model also makes it very difficult for providers to access capital and fund research and development costs.

Perhaps of more interest to third sector leaders in the UK, though, is the way in which organisations have had to adapt to the drivers which the reimbursement fee model has created.

Firstly, the structure of the funding model can put pressures on providers to provide certain services to certain clients. As a means-tested fund, Medicaid has strict eligibility criteria and, as such, providers will only be reimbursed for the treatment of certain individuals. As the fee for a specified unit of service is set, providers will not receive any additional funding to provide service beyond the minimum.

This is well captured in the case of Banchemo Friends Services (BFS) in Washington State. The organisation provides in-home case management and support services for adults with learning disabilities. BFS receives almost 95% of its money from the state in the form of Medicaid payments. Steven Smith outlines the impact upon the organisation:

‘For BFS, the reliance on Medicaid means compliance with complex regulations that restrict the types of clients the agency serves and how services can be provided. Moreover, Medicaid rates have failed to rise sufficiently to keep pace with increased

costs, so the agency is sometimes simply not able to provide the appropriate amount of service to its clients.<sup>79</sup>

There is an incentive for the third sector provider to attract certain clients who are eligible for Medicaid. This is a significant departure from the traditional contracting model, where a government official chooses a provider on behalf of service users, and the users are compelled to use that provider. In this model, each eligible individual is now a commissioner and the third sector organisation must make itself known and attractive to them in order to receive their custom. Rather than forming a relationship with key commissioners, the provider must understand and market itself to each of its potential clients.

A significant increase in the marketing capabilities of third sector organisations is, therefore, one key organisational change which reimbursement fee payment necessitates. This is further stimulated by the need for third sector organisations to stave off for-profit competition. The competition between third sector and private sector organisations in the services that are funded by Medicaid, especially health, is fierce. Some commentators argue that this growth of for-profit competition is a result of third sector organisations failing to respond quickly enough to the growth in demand for their services<sup>80</sup>. There has also been a determined lobby from the for-profit sector to attack the tax exemptions of many third sector organisations, particularly hospitals, and during the 1980s a number of health maintenance organisations converted to for-profit status.

Other organisational changes are crucial in order for providers to be successful at operating in this environment. They must provide efficient intake and throughput of clients through their systems, keep excellent individual records and invoice accurately and on time in order to receive their reimbursement. It is also vital that organisations are able to manage risks effectively as the funding model provides no buffer from service irregularities as a traditional contract may have done.

The consequence for third sector organisations, therefore, is that to the outside world they begin to take on more of the characteristics of for-profit companies. The benefits of scale, which favour private sector provision, also force greater collaboration, consolidation and mergers within the third sector, creating larger organisations. The increased professionalism may result in a greater exchange of staff between sectors. Already the majority of Americans do not know whether their hospital operates on a for-profit or a non-profit basis<sup>81</sup>.

This increased professionalism in the sector should be applauded. However, the challenge is for third sector organisations providing services reimbursed by Medicaid to maintain their distinctiveness from private sector organisations. What is it that justifies their continued tax-exempt status? How do they retain effective community roots? These are challenges for all third sector organisations that must compete with private companies to deliver human services. However, the pressures of the reimbursement fee funding structure force these changes upon third sector organisations especially acutely, in particular through the need to focus on marketing to customers. The way in which third sector organisations have responded to these challenges in the US should be understood by leaders in the UK and elsewhere.

### The sector's response

The basic response from the third sector to the accusation that it is becoming indistinguishable from the private sector is that it is not motivated by profit, that it is value-driven, can reach those in society which other providers cannot and that it offers quality above that provided by the private sector. These are assertions which the third sector in the US is increasingly required to prove with both private sector companies, and some legislators, making attempts to limit non-profit tax exemptions, and greater demands from the public to demonstrate impact and effectiveness.

Many of the associations which represent parts of the third sector have taken it upon themselves to play a role in this

debate. The Alliance for Advancing Nonprofit Healthcare has a raft of material on its website which makes the case for third sector healthcare being in the public interest. It includes evidence that non-profit insurers generally out-perform for-profit providers, it defends the need for non-profit providers to hold reserves, it stresses the importance of good governance and transparency and also presents policy positions on the reform of Medicaid, plus a great deal more<sup>82</sup>.

The justification of tax exemptions and the assertions of distinctiveness from the private sector have become intertwined in the debate about the role of third sector organisations in public service provision, and the sector appeals to its wider community benefit to make the case.

However, it has not always been easy for third sector organisations to make this case. For hospitals in particular, various studies have shown ‘only modest and inconstant differences between for-profit and non-profit hospitals regarding the amount of uncompensated care they provided’<sup>83</sup>. In 1990, a federal government study compared the value of the tax exemptions of third sector hospitals in five states with the value of the charity care they provided. Most, but not all, passed this test<sup>84</sup>. The recently redesigned 990 forms from the IRS will require healthcare non-profits to explain their community programmes which are being subsidised.

Part of the problem is that making judgements about what constitutes charitable work is very difficult and not adequately defined. In 1969 the IRS changed the justification for tax exemption from serving the poor to providing benefit for the community at large<sup>85</sup>. As Gray and Schlesinger point out, ‘no established criteria in law or in the academic literature make it clear which [...] activities are most compatible with a non-profit mission’<sup>86</sup>. Indeed, some third sector organisations which find themselves heavily reliant on funding streams such as Medicaid may find it difficult to resource the community work upon which their tax exemptions depend.

But the sector has taken it upon itself to begin to define the community benefit which it is providing, and seeking to convince funders that they should also resource it<sup>87</sup>. These new definitions, which attempt to widen the traditional narrow definitions of public benefit, include activities such as preventative care and education, building the capacity of communities to respond to social need, providing a voice for the disenfranchised, and research and innovation into new forms of care. The key change then for the boards of third sector organisations is to not focus on a set of activities or services which an organisation provides, but rather to focus on the social needs which the organisation exists to address. This will present many more opportunities for demonstrating community benefit beyond the services which programmes such as Medicaid will directly fund<sup>88</sup>.

The development of strong leadership and robust governance throughout the sector is crucial for organisations in order to maintain this focus on their mission. Leadership development across the sector is patchy, with organisations tending to stay within their particular silos. The executive training provided by the American Society of Association Executives and the Centre for Association Leadership focuses on developing leadership skills within membership organisations<sup>89</sup>. Higher education institutions also provide tailored courses for the development of third sector leadership including those at the Nancy Bell Evans Center at Washington University<sup>90</sup>.

One of the key characteristics of successful third sector leadership is the ability to effectively combine advocacy and campaigning with service delivery. Leslie Crutchfield and Heather McLeod Grant's new book, *Forces for Good*, cites this as one of the six practices of high impact non-profits<sup>91</sup>. Although IRS rules are strict about the proportion of income which organisations can spend on campaigning, and there have been attempts from federal legislators to further restrict the ability of non-profits to campaign, there is room for leaders to be bolder in this arena. Just as in the UK, there is a tendency for organisations to self-censor their

campaigning activity for fear of upsetting funders. Some commentators have also been critical of organisations that focus on lobbying to maintain their own services rather than to achieve broader social change. Encouragingly, Linda Donaldson has demonstrated that there is a positive correlation between the proportion of funding which organisations are receiving from government sources and their advocacy behaviour<sup>92</sup>.

The performance of boards is key to both the effectiveness of the organisation and external measures of accountability and community benefit. Here the evidence suggests that the impact of government funding has not been positive. Dave Renz's research at the Midwest Center for Nonprofit Leadership has suggested that there is a direct correlation between the ineffectiveness of boards and the proportion of income they receive from government. There are a number of reasons for this, which will be all too familiar to a UK audience, but key amongst them has been the changing composition of boards as organisations become increasingly reliant on government funding. Over-dependence on any one funding stream can have detrimental consequences for the independence of third sector organisations and can restrict their ability to fund additional work. Restoring strong community representation on non-profit boards is now a key agenda for the third sector and this brings two advantages.

Firstly it will allow organisations to step up fundraising efforts. Organisations which have adapted to perform well in the government funding environment have left themselves poorly equipped to fundraise. Building stronger ties with the local community through board representation will support this fundraising effort. Secondly, that community representation will allow the organisation to more easily demonstrate its community benefit through community-focused programmes and with a group of strong advocates for the organisation. In addition this may bring other advantages such as an increase in referrals from other clients within the community. Crucial to the success of any

board is a good mix of skills and backgrounds. Community representation is an important part of this mix.

Across the third sector, organisations are making firm efforts to better measure and report on their impact and outcomes. Justifying tax exemptions and competing with for-profit organisations are not the only drivers for this. Government agencies have traditionally burdened third sector providers with bureaucratic reporting requirements, often based on each individual client. These have focused on measuring the things which are easy to count, such as input and outputs, but not on the things which really matter: outcomes. The third sector is now responding to this by striving to produce the evidence which will really demonstrate the value of the sector's work. In addition, foundations and, to some extent, the general public, are requiring organisations to demonstrate their impact. Two interesting trends are at work here.

Firstly, a host of new philanthropists, many made very wealthy at a young age through technology entrepreneurship, are changing the way in which some foundations operate. By applying theories of change and development from the private sector these philanthropists are investing heavily in specific projects with ambitious targets to see broad social change in a short timescale. This so-called philanthrocapitalism is a hot topic of debate across the foundation community in the US and has been criticised by Michael Edwards, author of *Just Another Emperor* and Director of the Governance and the Civil Society Unit at the Ford Foundation<sup>93</sup>.

Secondly, there is a growing number of websites which are reporting to the general public the performance of third sector organisations and are playing a big role in defining the narrative of what makes for a 'good' organisation. Some of these, such as Guidestar, use information provided by the organisations through their IRS returns<sup>94</sup>. Others, such as Great Nonprofits, are more

subjective and provide a forum for the public to leave comments about the interactions, good or bad, which they have had with third sector organisations<sup>95</sup>. In order for this extra degree of scrutiny to be useful for driving performance in the sector, it is vital that third sector organisations lead that narrative on what constitutes a high-performing organisation. Issues such as core costs and infrastructure can easily be neglected when trying to evidence widespread impact.

Others, including academics and think-tanks, are taking a more thoughtful and systematic view of defining outcome measurement, although it is still early days in terms of the development of a comprehensive framework. The Urban Institute is leading the field with the development of guides to outcome measurement. The Institute has focused on outcomes and indicators appropriate to 14 areas of third sector activity, and the end result of the project will be a common framework for impact reporting. The aim of the project is for organisations to improve their outcome-monitoring processes or improve their existing systems<sup>96</sup>.

By focusing on demonstrating community benefit in innovative ways, developing strong leadership and governance, and improving impact reporting and measurement, organisations can strike the balance between delivering highly professional services which effectively compete with the private sector while retaining their distinctive non-profit characteristics.

### The lessons for third sector leaders

It is not entirely accurate to compare US fee systems such as Medicaid with the introduction of individual budgets in the UK. The genesis of each is very different and Medicaid's structure was never designed to empower service users as individual budgets are. However, the impact which the payment mechanisms will have on the providers is likely to be very similar and organisations in the UK can learn much from the impact of Medicaid on third sector organisations in the US.

The introduction of new systems and processes to manage the direct relationships with customers will require significant investment and planning on the part of third sector leaders. It may also require new skills on behalf of leaders and managers as new relationships will need to be forged and success will no longer simply be dependent on building relationships with a small number of commissioners.

The challenge then for leaders in the UK will be how to make these organisational changes without compromising the distinctive added value of the third sector. Maintaining a diverse spectrum of income streams will, of course, be a crucial part of that, and the Income Generation National Support Service will be leading this agenda. Equally important will be the ability of organisations to understand their cost base in order to calculate an accurate pricing model for their services. The continued development and implementation of the Full Cost Recovery programme will be central to this.

Satisfying public benefit criteria should be easier for third sector organisations based in the UK than it will be for US counterparts as the scope of public benefit is broader and better defined in the UK. The continued focus on developing strong leadership and robust governance to ensure that organisation retain their focus on their missions must be a priority for the sector, and must be appropriately resourced. The sector and its leaders must strive to remove the barriers to recruiting the best trustees and make the case to boards and potential external sponsors to support professional leadership development.

Finally, leaders must be mindful of how their outcomes are being understood and reported in the public domain and seek to influence this process. Making concerted efforts to develop and enhance their own performance measurement and impact reporting will be key to achieving this.

The similarities between the third sectors in the US and the UK run deep. Third sector leaders should continue to strive to broaden their horizons and learn from peers all over the world to anticipate and rise to the opportunities and challenges they may face<sup>97</sup>.

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*Before joining ACEVO, Seb was an executive trustee of Leeds University Union, the UK's largest students' union, for two years where he led a governance review process which has had a national impact and helped bring the student movement firmly into the modern third sector.*





10



Chapter 10

# Transforming public services: lessons from Canada

Catherine Deakin

Public service reform in Canada and the UK are implicitly linked. Both welfare systems grew out of the UK Beveridge report of 1942, and Canada's historical connections to the UK still resonate within their third sector. But among these similarities lie inherent differences. Canada contains a large, professionalised third sector which is extremely well established in the area of public service delivery. Leaders from across Europe can learn a lot from the Canadian example.

## Is bigger better? The third sector in Canada

Canada is interesting as a point of comparison because of its sheer scale. The size of Canada impacts significantly on the challenges it faces.

Canada has one of the largest non-profit and voluntary sectors in the world, second only to the Netherlands. On an organisational level, the third sector in Canada tends to be larger and more professionalised. The top 1% of organisations command 60% of all revenue. Almost three quarters of all volunteers are engaged by the 6% of organisations whose volunteers number over 200. Generally, the larger the organisation, the more likely it is to be growing and reporting increased revenues. This has implications for smaller organisations in Canada which run the risk of being increasingly marginalised.

On a geographical level, the size of Canada has implications for both the way relationships are formed between third sector organisations, and for the relationship between the third sector and government.

Canada is divided into four tiers of government: city, province, national and federal. As a decentralised federation, this offers the third sector multiple points for engagement. Historically, government has been the most important funder of the non-profit and voluntary sector. Direct government funding to the sector accounts for roughly 60% of total sector revenue<sup>98</sup>. Funding varies by area of activity. Hospitals, universities and colleges and social service organisations tend to depend more on government funding. The largest funding contribution to the

third sector comes from provincial government and this is where the majority of third sector engagement with the government is found. The third sector also engages with the federal government but it is at the provincial level where focus on service delivery tends to lie – for example where health, education and social services are commissioned.

Non-profit and voluntary organisations play a substantial role in the Canadian economy. The size of both Canada’s core and overall non-profit sector exceeds that of certain key industries. Revenue currently totals over \$100 billion. Although a large proportion of this is attributable to a relatively small number of hospitals, universities and colleges, the remaining organisations still report a collective revenue of \$75 billion. Canadian non-profit and voluntary organisations are also significant employers, employing 12% of the country’s economically active population, compared to 9.8% in the US<sup>99</sup>.

## An alternative mechanism for delivering public services? The history of the Canadian voluntary sector in public service delivery

The third sector’s role in providing public services is well established in Canada. Health and social care service delivery is an area in which the third sector is doing particularly well, often being described as better than government provision. What lessons does this hold for the third sector across Europe?

Alongside understanding the impact of geography upon the characteristics of the Canadian third sector, it is also necessary to understand the historical and political context that has shaped and contributed to the present role for the third sector in the area of public service delivery in Canada.

*Key events in the history of third sector–government relations in Canada*<sup>100</sup>

- 1943:** The Marsh Report on social security articulates the purpose and rationale for a social welfare state, which triggers a corresponding growth in registered charities.
- Early 1960s:** The ‘Quiet Revolution’ in Quebec sees the massive secularisation and state control of health, education and social services.
- 1967:** All charities are required to register with Revenue Canada for the first time, giving government a means to control registration and monitor the growth of the sector.
- 1974:** The national advisory committee on voluntary action is formed and identifies a substantial number of voluntary sector–government relations issues. The Coalition of National Voluntary Organisations, the first umbrella coalition for the voluntary sector in Canada, is formed.
- 1978:** Revenue Canada issues Information Circular 78-3 to clarify ‘political activity’ and while subsequently withdrawn, it becomes the basis on which charities are regulated, including their eligibility for registration and ability to engage in political activity.
- 1995:** The Voluntary Sector Roundtable establishes the Panel on Accountability and Governance in the Voluntary Sector (the ‘Broadbent Panel’).
- 1999:** A five year, \$94.6 million Voluntary Sector Initiative is launched.
- 2001:** The International Year of Volunteers leads to the signing of the Accord between the government of Canada and the voluntary sector. Two codes of good practice and selective voluntary sector–government initiatives follow.

Canada has obvious historical connections with the UK. Indeed, Canada's modern-day welfare system is based on the UK's Beveridge Report of 1942, which set out plans for a welfare system in the UK:

'The Beveridge Report not only tapped the core of Canadian aspirations for a post-war world, but it also addressed with unaffected simplicity and directness, the anxieties engendered in urban-industrial employment, the costs associated with illness and disability, and of penury of old age or retirement.'<sup>101</sup>

As the number of voluntary organisations grew after the Second World War, so did their reliance on government funding. The traditional voluntary and non-profit sector remained active, albeit somewhat disconnected from the government's core social policies until the 1970s. In 1974, the Secretary of State took two steps to try and boost the capacity of the voluntary sector in Canada – firstly by creating a national advisory council on voluntary action, and secondly by supporting the foundation of a coalition of national voluntary organisations.

### 1980s: 'the tragic process of Swedenising Canada must come to a halt'

The 1980s saw Canada experience a dramatic U-turn in the growth of social welfare expenditure. At the same time, the economic growth that had fuelled the welfare state was slowing down and the Canadian welfare 'bubble' had burst. Canada had experienced a neo-conservative shift of responsibility for public service delivery, with the government devolving duties to both the for-profit sector and the third sector. The move towards shrinking the Canadian welfare state was summarised by Brian Mulroney:

'The tragic process of Swedenising Canada must come to a halt ... I am a Canadian and I want to be free, to the extent reasonably possible, of government intrusion and direction and regimentation and bureaucratic overkill ... the role and

purpose of government policy will relate primarily to how we can nurture and stimulate the Canadian private sector'.<sup>102</sup>

This had significant implications for the Canadian third sector, which was experiencing a situation where it faced increased demand for its services whilst experiencing agency closures, downsizing, loss of volunteers, removal of core funding, and state interference in its internal work. This was also a time of heavy monitoring of the sector by government – all contributing to significant pressure for the third sector.

### The 1990s: Canada and the UK's third way

Within two years of its return to power in 1993, the Liberal government continued to cut grants, increase the contracting of services, introduce more targeted funding and continued to devolve government responsibility within the welfare system. Previous Conservative cuts to government spending continued, but whilst the Conservatives had implemented cuts across the board, the Liberals preferred to use selective cuts, particularly to advocacy groups. Liberals saw the value of the third sector 'as a means to deliver services rather than as an expressive voice for policy advocates.'<sup>103</sup>

The pressure experienced by the third sector since the 1980s was growing. In order to address this, a voluntary sector round table was created by the government in 1995. This unincorporated body of representatives from national voluntary bodies was established in order to 'strengthen the voice of Canada's charitable voluntary sector' and further the state–sector relationship<sup>104</sup>. However, in many ways the round table was symptomatic of the problems affecting the sector as a whole – knowledge of it among the sector was poor and it continued to support the government's aggressive accountability and efficiency regime which had had such consequences for the third sector. The Broadbent report, which was the end result, emphasised the need for reform in voluntary organisations mechanisms of governance and accountability.

## A new dialogue?

Development of the role of the third sector in public service reform in the late 90s ran more or less simultaneously with the development of the ideology of ‘the third way’ in service delivery by New Labour in the UK. There was a new mood of collaboration, initiated by the Liberal party in its 1997 election manifesto. 2000 saw the government of Canada commit over \$94 million for five years for the Voluntary Sector Initiative, covering the establishment of an accord with government, capacity-building measures, production of a national survey of giving, volunteering and participating, and the introduction of regulatory measures.

The Canadian Accord, which was based on and is similar to the Compact established in the UK in 1998, is a policy agreement that outlines a framework and processes for a mutually desirable relationship between government and the third sector, including a shared vision of civil society and a desire for collaboration and partnership.

In 2004, the government of Canada announced \$132 million to support the social economy in three main areas:

- Capacity-building – \$17 million over two years to the regional development agencies (RDAs) for the strategic planning and capacity needs of community economic development and social economy organisations.
- Financing – \$100 million over five years to the RDAs to improve access of social enterprise to capital and financing.
- Research – \$15 million over five years to support community-based research on the social economy through the social sciences and humanities research council.

## A warning and an opportunity: commissioning in Canada

Looking to Canada today, it is easy to see the importance of the work organisations such as ACEVO have done and continue to do regarding surer funding and cost recovery for the third sector. The ability of the non-profit and voluntary sector to fulfill its important

role in Canadian society continues to be undermined and eroded by funding strategies that are intended to increase accountability, self-sufficiency and competition.

Many organisations that survived the government funding cutbacks of the 1990s are now financially fragile, as they are dependent on a complex web of unpredictable, short-term and targeted project funding. Even in areas such as health and social care service delivery, where demand is high for third sector involvement, it is clear that, although there is increased funding, it is not adequate to cover costs.

The practice of full cost recovery varies significantly from state to state. Cost recovery is slightly better at federal level, but this is because federal government requires larger contracts and hence deals with those larger organisations that will have better capacity to cover costs.

Funding is increasingly target-focused and project orientated, which is having a significant impact for third sector organisations in areas such as strategic vision and infrastructure. Much third sector organisational time is now devoted to chasing short-term sources of funding, often at the expense of the organisations' mission and core activities. Unstable and short-term funding undermines the ability of voluntary organisations to plan for the future. Short-term funding contributes to the employment instability that plagues the Canadian third sector, which in turn forces organisations to spend a lot of resources on constantly recruiting and training new staff. Unstable funding also makes it difficult for organisations to present working in the sector as a viable career choice for trained professionals. Maintaining a skilled and capable workforce is an essential challenge to every third sector leader. Canadian non-profit and voluntary sector organisations in particular seem to face human resource issues.

## Accountability: judging on results, not the size of our halos

Heightened financial restrictions and strict accountability have led the third sector in Canada to develop a strong sense of their own metrics with regards to delivering public services. As Kim Mustard commented, ‘we are judged on results, not on the size of our halos’.

Canada has experienced a series of sponsorship scandals in the last decade. In 2006 the Blue Ribbon Panel on Grants and Contributions submitted a report, ‘From red tape to clear results’, to the federal government with recommendations on how to streamline the grants and contributions process and still maintain accountability. In recent months, the federal government has released an Action Plan to implement some of these recommendations.

The general public in Canada are telling the sector what they want to know in increasing detail – how it spends its money and what activities we undertake. The sector cannot become complacent with the public’s trust, but rather should inspire confidence by operating as a professional, modern and accountable third sector.

## Advocacy chill: learning lessons of who we are as a sector

Another key issue for the Canadian third sector is how the government engages with it in the sphere of public policy. The issue of advocacy is a large one for the sector. Already established service deliverers, Canadian third sector organisations are in the process of re-articulating what they can achieve and pushing the boundaries in terms of what they can do.

However, recent regulatory and funding constraints have created a ‘chill’ in the public policy dialogue between the government and third sector. The strict criteria used by Revenue Canada in granting charitable status have significantly shaped the

definition of the non-profit sector. Currently, Revenue Canada dictates that only 10% of all work done by a charitable organisation can be specifically advocacy orientated. As such, some Canadian organisations are afraid to advocate, as they may be denied charitable status, which has tax benefits and is an income source.

## An emerging idea of sector

It is apparent that the sector in Canada is still looking for its collective voice – a mouthpiece through which the issues affecting the sector as a whole can be articulated. Deirdre Freiheit comments, ‘you can have the policy information, but if there is no structure it becomes very difficult to do something – for example we still struggle with one-year contracts, despite the wealth of information pushing for longer term funding.’ The third sector remains without a political will or the power to really push an agenda.

Whilst organisations such as Imagine Canada are working to facilitate the dialogue between the government and the third sector, there are significant challenges to doing so. High-profile budget cuts in 2006 and subsequent funding decisions were hard on umbrella organisations. Any efforts also continue to struggle against the geographical reach and the sheer diversity of the sector.

The third sector remains segregated within its silos, resulting in its collective voice remaining weak. The service-expressive divide within the voluntary sector has more serious implications for the voluntary sector as a whole. The size and presence of service organisations within the voluntary sector mean their issues dominate the agenda.

Structures intended to improve dialogue between the sector and government, such as the Voluntary Sector Accord, have not always achieved their full potential. Following on from the Voluntary Sector Initiative, some third sector leaders set up a Voluntary Sector Forum – focusing on the implementation of the Accord, codes of good practice, regional policy development and capacity building events.

## Where next for Canada?

### *Embracing infrastructure organisations and developing the workforce*

The situation in Canada highlights the important role that national infrastructure organisations play in ensuring charities and non-profits can work effectively with and alongside government and can continue to meet the needs of their users. Canada's charities and non-profits, particularly smaller organisations, would benefit from services and information made available to them through national infrastructure organisations.

A collective voice is also vital particularly when evidencing the impact of our work. Until the sector has a strong message, demonstrating our added value in areas such as the delivery of public services, its legitimacy will continue to be defined by the transient governments in power.

With a significant role in service delivery, the Canadian third sector now needs a skilled workforce to sustain and improve upon this growth. The UK third sector faces similar concerns. Unless capacity and skill deficits are addressed, the sector will continue to struggle to step up to the challenge of more delivery. Canada holds a wealth of knowledge for third sector leaders here in the UK about how to rise to that challenge<sup>105</sup>.

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*Prior to ACEVO, Catherine gained experience of the third sector in the UK working for the health charity Diabetes UK. She continues to volunteer extensively for charities.*





Chapter 11

# The third sector and public service reform in Japan

Professor Fusao Ushiro

Perhaps nowhere else in the world can we see such a clear example of the impact of public service reform on the voluntary and non-profit sector as in Japan. Playing an increasingly important role in Japanese society, the voluntary and non-profit sector's growth is both a response to the changing nature of this society and to political and social trends that have encouraged the Japanese government to see this sector as a potential provider of public services.

In this section, Professor Fusao Ushiro, a leading academic and authority within the third sector in Japan, examines the growth of the sector, the impact of public reform and explores the challenges that lie ahead for Japanese third sector leaders.

## The development of public service reform

Public service reform in Japan has come quite late compared to trends seen internationally. Developments really began with the reforming administrations of Prime Ministers Hashimoto (1996–8) and Koizumi (2001–06). These developments have occurred alongside reform to the existing systems and the enactment of new laws for the third sector.

To understand these reforms, it is important to note that historically the government in Japan has not always supplied public services directly but often financed the delivery of public services by private operators. However, these private operators entrusted to provide public services were only quasi-private operators and under a substantial level of control by the government. This had significant implications. Until now the public service market has been quite closed and uncompetitive, and heavily regulated by the government.

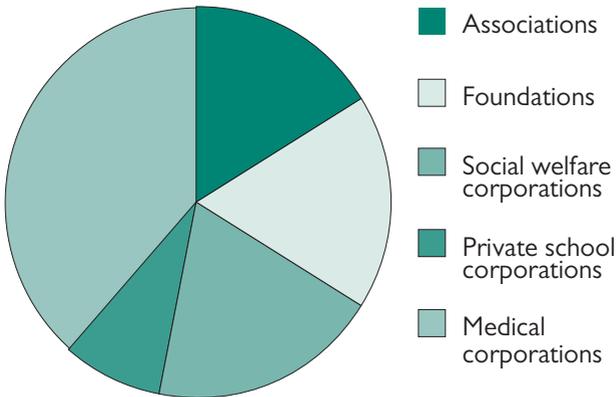
The recent reform of public services in Japan has involved the government not only moving from directly supplying public services (such as railways and postal operations) to financing their delivery by private operators, but also easing its control over private operators. There has also been a stronger emphasis on the

### *Timeline of public service reform in Japan*

- 1997: A contract system for nursery schools is introduced under the wide-ranging reforms of the Children's Welfare Act.
- 1998: Promotions of Specified Non Profit Activities Act (NPO Act) is established and enacted.
- 1999: Private Finance Initiative Act is enacted.
- 2000: Social Welfare Services Act is significantly reformed becoming the Social Welfare Act. The 'Measures System' is abolished and a system based on contracts for welfare services users is introduced.
- 2000: A public care insurance system for seniors is started.
- 2002: Special Zones for Structural Reform Act are established.
- December 2002: 'Second Report Regarding Promotion of Regulatory Reforms' issued by the Council for Comprehensive Regulatory Reforms presents the principle that 'the public sector should not do what the private sector can do.'
- 2003: A payment system of expense of assistance for disability welfare services is started.
- June 2003: Designated manager system is introduced under reforms of the Local Autonomy Act.
- December 2004: 'First report in relation to the promotion of regulatory reforms – "Achieving a private led economy" through opening the government made markets to private,' is issued by the Council for the Promotion of Regulatory Reforms and Opening to Private, and proposes the enactment of the 'Market Testing Act' in 2005.
- May 2006: Market Testing Act is approved. Article 34 of the Civil Code in relation to public interest corporations is withdrawn and new laws in relation to public interest corporations are approved (public interest corporation reforms).

importance of transparency and competitiveness in the public service market. It is important to emphasise the close connection that exists between the increasing autonomy of third sector organisations from government control and public service reform.

The term Non-Profit Organisation (NPO) became popular in Japan when the activities of volunteers and NPOs became the focus of attention after the Kobe earthquake in 1995. The term NPO is often used to specifically designate NPO-incorporated organisations. However, within the Japanese system there exist various types of NPO corporations supervised by the authorities that have been established for various sectors, including foundations and associations regulated by Article 34 of the 1898 Civil Law as well as social welfare corporations, private school corporations, medical corporations, and so forth.



*From 1996 to 1998, the number of such bodies amounted to: 12,743 associations, 13,532 foundations, 16,005 social welfare corporations, 7,620 private school corporations and 29,192 medical corporations. At the end of May, 2008 specified non-profit corporations numbered 34,719.*

## The Japanese model of ‘Big Government’ and its neo-liberal reform

The reform of big government and the welfare state is progressing internationally and Japan is no exception in this regard. However, it is necessary to recognise that the scale of the Japanese government before reforms was, alongside the USA government, smaller than in other developed countries.

If we look at the percentage of general government expenditure as a proportion of GDP in 1980, the average for the 17 OECD countries was 43%. However, for the USA it was 31.4% and for Japan 32%. In the same year, the percentage of government employees as a proportion of overall employees came to an average of 17.5% for OECD countries, but was 15.4% for the USA and 6.7% for Japan.

Lester Salamon<sup>106</sup> asserts that the relatively ‘small’ government in the USA is a ‘third party government’ system. In other words, the government plays a role in supplying funds and policies, but the role of actual operators follows a formula of consignment to other institutions – the states, local governments, universities, hospitals, NPOs, banks, the business world and so on. It is believed that this formula is a product of the tension between the desire for more public services and the strong, grass-roots suspicion of government organisations in American society.

The reason for Japan’s relatively small-sized government can, in fact, also be explained by the same mechanism. Michio Muramatsu claims that in Japan a ‘maximum mobilisation system’ emerged so that the Japanese central government could achieve, with limited resources, the national ambition of catching up with the developed countries of the West. The most significant characteristic of this system was that local governments, many kinds of private non-profit corporations, traditional community organisations such as neighbourhood associations, crime prevention associations, as well as business organisations with membership made up of companies,

acted as the ‘arms and legs’ of the central government and performed a great number of functions.

The major contrast between this situation and that in the USA lies in the relationship between the central government and regional governments, and between the government and private organisations, with the latter party in both relationships being subordinate to the former in Japan. This is the opposite of the suspicion felt in America towards government organisations. Japanese society has a strong tradition of revering the authority of the government and regarding private authority to be inferior.

The scale of the Japanese government was small, but by using private bodies, most of which were NPOs of some form, the government was able to fulfil the role of ‘big government’. Despite its small size, the degree of regulation by government over private sector activity was large, meaning that functionally it acted as a ‘big government’. The regulation of private sector activities by government was represented by the regulation of NPOs and the regulation of private enterprises through business organisations, which were registered as public interest corporations.

Japan’s big government was unique in this way. The neo-liberal reforms that Japan underwent not only consisted of privatising government services and state enterprises, but also placed importance on making local governments and private bodies (quasi-governmental NPOs) that had been subservient to government independence, as well as easing and eliminating government regulation of private sector activities. It is not coincidental, then, that Prime Minister Koizumi’s two major slogans were ‘from the government to the private’ and ‘from the centre to the local’.

When we consider this, it is natural that when it came to neo-liberal reforms in Japan, the reform through the outsourcing of public services to private bodies and the introduction of

competition progressed simultaneously with the reform of the NPO system and granting more autonomy to quasi-governmental NPOs. I shall introduce here how the reforms of the public service and NPO system took place in each sector and consider what system and conditions need to be established to enable NPOs to undertake the important role of public service provision and what kind of competence the NPOs themselves require.

## Post-war welfare system and NPOs

The structure of the post-war Japanese welfare system was established by the 1951 Social Welfare Service Act. Through this, social welfare service was split into two categories: Category 1 (operation of retirement homes, disabled facilities, vocational aid for disabled people etc.) and Category 2 (operation of nurseries, seniors' day-service facilities, physically disabled day-service facilities etc.). The only private organisations performing Category 1 operations, which entailed essential public responsibilities, were usually social welfare corporations.

Because of this, Japanese private social welfare service providers became structured firstly around a core of social welfare corporations, then by associations and foundations, and finally with many incorporated organisations and private individuals existing on the periphery. In 1978, there were 24,826 social welfare facilities of all kinds set up. Of these, 64.6% were public and 35.4% were private. About 450,000 employees worked at these facilities and of these 46.7% were working in private facilities. In this way, the role of the private sphere in the post-war welfare system was extensive, but within this sphere the role of social welfare corporations was large. According to data from 1980, about 77% of private welfare facilities were run by social welfare corporations.

One further characteristic of the post-war welfare system was the strong control the government had over social welfare corporations, which were the most important private providers. One important aspect of this control was the provision, under

the Social Welfare Services Act, for strong control by the minister of health or prefecture governors over the steps involved in acquiring corporate status and the activities of corporations. Another aspect was that the provision of welfare services was carried out under a system called the 'Administrative Measures System', whereby many unilateral decisions were made by the government. Under this system, the government unilaterally chose the providing bodies for services, to whom the services would be provided and what level of services would be provided. As a result, the recipients of services could not choose their provider, there was no contract between recipients and providers, and there was no competition between providers.

Instead of this, the recipients could use the services for free or for a partial fee, and the provider was paid a necessary fee for the consignment of 'measures' but this was fixed by the government. Social welfare corporations operated within this framework, carrying out only those services paid for by government within the Administrative Measures System. Autonomous operations as private organisations were mostly absent. Furthermore, even though donations to social welfare corporations were exempt from tax, the percentage of financing from donations was small. In reality, financing was from public funds based on a payment by the Administrative Measures System.

A major reason for the emergence of this Administrative Measures System can be seen in the provisions of the following article from the Japanese Constitution (enacted in 1947) which was strongly influenced by the US Occupation.

Article 89: No public money or other property shall be expended or appropriated for the use, benefit or maintenance of any religious institution or association, or for any charitable, educational or benevolent enterprises not under the control of public authority.

It is believed that the intention of the Occupation was to prevent state support or assistance for State Shintoism or private organisations with ultranationalist ideologies, and to reform the existing ‘government and private in one model’ of social welfare. In other words, the aim was a system modelled on a division of public and private spheres with the government playing the central role in welfare and private organisations providing additional welfare services on top using their own resources.

This model was based on the ‘paradigm of conflict’, which has been criticised by Lester Salamon for seeing NPOs as being in conflict with government and which was an unrealistic ideal for Japan when both the government and the people had depleted resources after the war. In fact, the government could use only private organisations in the provision of welfare services and, in this way, could only provide private organisations lacking in resources with the minimum necessary public funds. In adhering to the provisions of Article 89 by placing private organisations in the position of ‘control of public authority’ to make paying public money to them possible, the Occupation’s intention of establishing independent private organisations gave rise to the opposite type of system. Of course, a major reason for this is also the fact that the Japanese government had a strong desire to place controls over private organisations. The inverted interpretation of the essential intentions of Article 89 became a formidable way of justifying this.

Private organisations receiving public funds needed to be under the ‘control of public authority’ and so the system for government control of NPOs, associations and foundations (1896), existing from the Meiji period was maintained and strengthened. This was done through the creation of private school corporations (1947), medical corporations (1948, 1950), social welfare corporations (1951) and so on.

## Reform of public services through the introduction of quasi-markets

The characteristics of the post-war welfare system began to undergo core reforms around 1990 in response to the changes in welfare needs. This arose from the decrease in births and the rise in the old-age population, changes in family and work patterns, shifts in community structure and other such factors, as well as the crisis in public finances. Although, since 1997, a 'quasi-market' (or voucher) mechanism has been implemented as a solution to maintaining public funding, this mechanism essentially creates competition between a variety of private providers and offers the right of choice to users (provider and user contracts).

### *1. Medical service*

In Japan, the nationwide system of health insurance, in which all of the public are members, was established in 1961. Medical services are provided in a quasi-market system with users paying part of the costs. Medical institutions are divided into public hospitals and private hospitals (public interest corporations, medical corporations, joint-stock companies, individuals and so on), and all hospitals are regarded as 'non-profit hospitals' under the Medical Act, regardless of whether they are public or private.

In 1955, public hospitals made up almost 40% of hospitals and medical corporations made up 20%. Since then, the proportion has been reversed. Currently, public hospitals are superior in high-level medical care but, according to 2006 data, public hospitals have decreased to 18.4% of the total whilst medical corporations make up 63.7%. Public hospitals enjoy an advantage with support from taxes and public assistance. The difference between public and private remains, signifying a need for a fairer competitive environment. Furthermore, the need to recognise the participation of profit-making organisations is also being asserted.

### *2. Education service*

In Japan, compulsory primary and secondary school education is offered usually by public schools under the responsibility of local

boards of education. Tuition fees are free. Schools are designated according to one's address, meaning parents do not select their children's school. There are private school corporations that run primary schools and secondary schools, but the entire tuition fees must be paid for such schools. As of 2003, the percentage of schools that are private was 0.8% for primary schools and 6.3% for secondary schools. 59.2% of nursery schools, where education is not compulsory, are private.

However, recently, as pioneered by Adachi Ward in Tokyo 1995, a system of school choice for primary schools and secondary schools was introduced and is becoming more widespread. According to a Ministry of Education survey in 2004, 14.2% of local governments had introduced a system of school choice for primary schools, 12.6% were considering introducing such a system. 13.9% of local authorities had a system of school choice for secondary schools, and 14.5% were considering introducing one.

In addition to this, 'Community Schools' have been permitted under a 2004 revision to the Local Education Administration Act. In this case, the authority to run a school is invested mostly in the local board of education and is granted to headmasters and the school governing councils created by guardians and local residents. As of 2007, 319 primary and secondary schools have been designated as community schools.

In this way, users can select schools, and flexibility in running schools is being expanded, making for the partial establishment of a system that approximates a quasi-market. However, at the moment only public schools can participate in this quasi-market so consideration is being given to whether the quasi-market should be expanded to include private schools run by private school corporations.

For public senior high schools (the equivalent of sixth form colleges in the UK), users have long been able to choose their

school and there has been broad flexibility in school management, which means that a quasi-market has already been in existence. However, senior high schools select their students via entrance exams, so it is necessary to be aware of the dangers of cream-skimming. This is because differences between the academic abilities of students entering schools can impede competition between schools. Private senior high schools make up 24.2% of the total. These schools receive some public assistance but, as there is a quasi-market which includes such private schools, it is necessary to equalise the conditions of competition between private and public senior high schools.

Universities, too, have a quasi-market much the same as that for high schools, but the difference in tuition fees between national and local (public) universities and private universities has been reduced making it even more of a quasi-market. However, public funds given to public universities greatly outweigh the public assistance given to private universities. The number of private universities amounts to 88.2% for junior universities, and 74.8% for four-year universities. Since 2004, national universities and local universities have been transformed into national university corporations and local university corporations. There is greater flexibility in the running of these universities, which implies a further step towards a quasi-market.

### *3. Welfare service for the elderly*

The post-war welfare system, which was based on the Administrative Measures System that eliminated the right of users to choose and the possibility of competition between service providers (even though many private sector bodies were used, in particular social welfare corporations), began its transformation into a quasi-market in 1997. In June of that year, the Children's Welfare Act was reformed and a mechanism was implemented whereby guardians could choose the nursery school they wanted to send their children to. In December, the Care Insurance Act was enacted to provide care services to elderly people deemed in need of such care through a social insurance mechanism. This

established a 'user centred' system which is based on the choices of users themselves and is aimed at effective service provision through the participation of a plurality of service provider bodies. In this system the proportion paid by users themselves is 10%, with 45% coming from public funds and the remaining 45% coming from social insurance contributions. In this way, it is a typical quasi-market system.

The 'Review committee in regard to the reform of social welfare operators' of the Ministry of Health and Welfare, which was set up in August 1997, in a mid-term summary in November proposed the concept of 'the basic structure reform of social welfare'. The 'basic structure' here refers to the post-war welfare system based on the Administrative Measures System. The proposal was for its fundamental transformation. As part of this, emphasis was given to user choice. The committee recommended the use of market principles and the participation of numerous providers in welfare services as a means of respecting user choice and harmonising this with service providers. In line with this, the Social Welfare Act came into being in 2000 as a major reform of the Social Welfare Service Act. This formally established the policy of the basic structure reform of the social welfare system.

One major result of this reform was the public care insurance system which was started in April 2000, based on the 1997 Care Insurance Act. By 2005, the number of users had soared to 3,290,000 (780,000 for institutional services, 2,510,000 for home services). Total costs also increased greatly to 7.1 trillion yen in the 2006 budget. The providers of care services are mostly private sector operators. Among these, various NPOs play a dominant role, particularly medical corporations and social welfare corporations.

For example, in the field of home care service in 2006, the proportions of the numbers of each organisation among all the providers (20,948) are as follows; profit-making corporations 54.3%, social welfare corporations 26.2%, medical corporations

7.5%, specified non-profit corporations 5.7%, co-operatives 3.6%, foundations and associations 1.4%, local government 0.6%, others 0.8%.

Looking at recent trends in the structure of providers, the increase in the percentage of specified non-profit corporations that were based on the NPO Act established in 1998 was the greatest increase for all NPOs. Profit-making corporations also greatly expanded their share.

#### *4. Nursery school service*

As described above, a quasi-market for elderly welfare services was introduced in one batch. Although the nursery school service underwent reforms quite early with amendments to the Children's Welfare Act in 1997, moves towards a fundamentally quasi-market system has progressed more slowly through various steps compared with elderly services, and is not yet complete.

The first reform in 1997 was the deletion of the term 'administrative measures' from the law and the recognition of the right of guardians to choose nursery schools (in the format of an entrance contract). The second reform in 1999 abolished the restrictions on private sector nursery school bodies and set up conditions for a plurality of providers. Nursery school facilities, which had been recognised solely as the ambit of regional governments and social welfare corporations by the guidelines of the Ministry of Health, were opened up to private sector organisations, including private businesses. Furthermore, the minimum intake for small-scale nursery schools was reduced from 30 to 20 children, making it easier to establish nurseries. Also, whereas before it was necessary to own the land for a nursery school, it is now possible to establish nurseries on rented land.

The third set of reforms involved measures to ensure the quality of nursery school services through increased monitoring of nurseries that do not have official approval, and the creation of national qualifications for childcare workers.

Due to the above reforms, the nursery school service has been approaching a quasi-market. However, the following issues need to be dealt with.

Firstly, user choice and competition between nursery schools is restricted due to the fact that local governments still inspect applications from users and decide nursery school enrolment on the basis of their own criteria without recognising the direct contract between users and nursery schools.

Secondly, public funds are not given as direct assistance to users so a two-layered structure exists between approved nursery schools, which get public funding, and unapproved ones that do not, as local governments pay consignment fees to only selected nursery schools. Also, it is difficult for nursery schools to provide a variety of services to obtain additional income.

The resolution of such problems, along with calls for the further expansion of consultation services and temporary crèches run by nursery services with public funding to include full-time housewives (these are now restricted to working women only), have spun proposals for the introduction of a childcare insurance system the same as elderly care insurance. There have also been proposals for a family care insurance that would integrate elderly care and childcare.

The number of private sector nursery schools established by social welfare corporations was greater than the number of public nursery schools just after the war, but the proportion of such schools decreased. In the first half of the 1990s, they accounted for around 35% of the total, but after this the proportion of private sector nursery schools increased due to the increase in private sector nurseries, including business enterprises, and the privatisation of public nursery schools. By 2005, such private nurseries had expanded to around 48%.

## 5. Disabled welfare services

In the field of disabled welfare services, a quasi-market system, consisting of an expense payment system for disability welfare services, was implemented in 2003 for the physically and mentally disabled, in accordance with the 2000 Social Welfare Act.

The expense payment system implies the selection of services by the user from a variety of providers, including private sector operators, in the same manner as the care insurance system, along with the creation of a contract and the purchase of services through ‘expense of assistance’ supplied by the local government and personal funding. The difference with care insurance, which is social insurance, is that the public funds for assistance benefit come entirely from taxes. The state pays 20%, the prefecture or municipality pays 40% and the district government pays 40%.

After this, a new system was introduced in stages from 2006 following the 2005 Support for Self-reliance of Disabled Act. This system expands services to the psychiatrically disabled and has meant the integration at a national level of service user rules, such as the criteria for judging the necessity for assistance, which had been spread and scattered among local governments.

In this way, a greater variety of providers has emerged. According to data from 2006, the proportion of public provider bodies has dropped to under 5%, except in certain special fields, and private sector operators centred on social welfare corporations occupy a large role. It is worth noting that specified non-profit corporations hold an 8–18% share of many fields. Private business operators have expanded to such an extent that they hold an over 40% share in the areas of home-visit and out-patient care.

## From a designated manager system to market testing

The 'designated manager system', introduced by the 2003 amendment of the Local Autonomy Act, is important in terms of public service reforms as following on from welfare reforms. This is a system that opens up the running of 'public facilities', such as roads, parks, culture centres, schools, hospitals and so on, which are provided to the public by local authorities, to a variety of private sector bodies including private companies.

In the 1963 amendment to the Local Autonomy Act, the outsourcing of the management of public facilities was restricted to public bodies, such as local governments, social welfare corporations and neighbourhood associations. However, with the 1991 amendment to the Local Autonomy Act this, this was expanded to corporations funded more than half by local government. In the 2003 reform, this was opened to all private sector organisations. Of course, local governments retain the potential to continue direct control, but when there is outsourcing to the private sector this system is necessary. In such cases, the selection of outsourcers through competition between a number of providers is not compulsory, but the Ministry of Internal Affairs has made it clear that this is what it wants.

According to estimates by the Mitsubishi Research Institute, the outsourcing of child welfare facilities, parks and halls to the private sector, areas where the potential for doing so is high, has a market size of 2 trillion yen for 70,000 facilities. When all 400,000 facilities are considered, the latent market size is 10.5 trillion yen.

In September 2006, 3 years after its introduction, the designated manager system has been applied to 61,565 facilities. In 30% of cases, the designated manager has been decided through open public competition.

Looking at the structures of private sector bodies used as designated managers, the most numerous, at 45%, are semi-public bodies, such as social welfare corporations, residence associations

and so on. After that come foundations and associations, making up 36.2%, and in third position are private companies at 11%. Specified non-profit corporations make up 1.7%.

In May 2006, the 'Public Service Reforms Act' was established and a policy of public service reforms was established under the principle of 'assigning the private sector to do whatever can be done by the private sector'. That is to say, a system was introduced that aims for 'the enhancement of public service quality and the reduction of costs' through the 'appointment of services that can be expected to reflect the creativity and workmanship of private sector operators', with bidding between the government and the private sector or bidding within the private sector.

Even the outsourcing of services called 'administrative dispositions', which could not be outsourced to the private sector because they include the 'exercise of public power', becomes possible when designated as a 'specified public service'.

Services opened to market testing are decided through the 'public service reforms basic policy', which is determined each year by the cabinet government after listening to the aspirations of private sector operators. In accordance with the basic policies of December 2007, 71 services were selected including statistical surveys, registrations, Social Insurance Agency services, services in relation to recruitment, the management of facilities and so on.

In conjunction with this, the number of cases of market testing being applied by local governments is increasing.

In this way, the basic framework has been put in place for outsourcing the delivery of actual public services to private sector organisations. However, whereas private businesses that have been active in the wider market have become noticeably more involved in such services, the response from the various NPO organisations has been quite lacking.

## Can the third sector deliver public services?

As I have described above, quasi-markets have been introduced into Japan for medicine, education and welfare services.

Designated manager systems and market testing mechanisms have been introduced for other public services. All this has opened up a great opportunity for NPOs to take on the role of public service delivery. However, for NPOs to take on a major role alongside private companies and to establish a distinctive position as providers of public services that give ‘added value’ different to private companies, it is necessary to resolve a few issues.

One such issue is the fact that quasi-market systems and systems of outsourcing contracts have not been consistently introduced in Japan into each area, leading to large divergences. Of course, there is a need to make changes to systems according to each specific service area, but creating and formulating common singular mechanisms for quasi-market systems or outsourcing contracts is needed to ensure user selection and competition between providers, and is essential for the provision of effective and high-quality services.

One more issue needs to be tackled from the NPOs’ side. In the process of formulating the mechanisms and rules pointed out above, it is necessary for NPOs as a single sector to become more visible and to take on a more dominant role. However, Japanese NPOs are very much segmented and cannot speak or behave as one sector. This creates a major problem for them.

As I have already pointed out, Japanese NPOs currently play a major part in medicine, education and welfare services. However, the third sector is still segmented into its various silos. Also, each field is monitored by its own ministry, which means that there are hardly any connections or common identity between NPOs in various fields to enable the sharing of problems, the accumulation of power or the ability to put proposals to the government. Objectively, the problems faced by NPOs in each field are common problems, but each NPO is stretched in dealing with its

own field-specific issues. Because of this, the sharing of common rules and formulae in regards to the relationship between government and NPOs and the promotion of best practices in each field is hampered.

For traditional NPOs (other than specified non-profit corporations) there is the challenge of removing their quasi-governmental characteristics by enhancing their independence from the government and strengthening their managerial capacity. In doing so, the segmentation between the fields of medicine, education and welfare can be removed and NPOs can be forged into one sector. An effective foundation for this is the integration of the non-profit corporate systems divided between the different fields into one singular non-profit corporate system.

The new specified non-profit corporations, which started with the NPO Act in 1998, are trapped in 'grass-roots-ism' which believes in small community groups of volunteers because new NPOs inherited civil activism in 1960s, and the 'myth of voluntarism' which considers the proper style for NPOs to be one of actions based on donations and volunteers. This tendency to avoid a relationship with government as outsourcers impedes their growth as organisations and as a sector, especially in the era of public service reforms.

In this way, the issue for Japan now is to construct an NPO sector that has the resources to be independent from government and that also has a social presence. This has to happen in opposition to the current situation that has emerged for NPOs in Japan, where two types of NPO – the traditional NPOs which have financial strength to some extent but have a problem of securing independence from government, and the new NPOs which have strong aspirations for independence but are resource poor – exist side by side.

The relationship between the government and the NPO sector is unique to each country. However, the experience of the UK, where the building of government–NPO relationships is quite evolved, provides a useful model for solving the problems of the Japanese NPO sector as described above. In fact, the Aichi Prefecture Aichi Cooperation Rule Book 2004 was concluded along the lines of the British experience with the Compact. The towns of Nisshin and Tokai in Aichi Prefecture also concluded similar rule books. However, the NPO sector in Japan needs strong infrastructure organisations such as NCVO and ACEVO if it is to progress further along the lines of the British model.

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# Conclusion

The importance of international networking and learning from our peers around the globe is a strong theme emerging from this publication. Focusing only on the experience of one's own country will mean losing out on the lessons others have already learned and the enormous and relevant experience within the global community. What we have found stark is the remarkable commonality in challenges and opportunities which third sector leaders face in transforming public services through their work.

Chief among those challenges are the ways in which third sector leaders and organisations are able to respond to the changing drivers from the state. In each of our national examples it is clear that the method by which the state chooses to engage with third sector organisations plays a huge role in determining the extent to which the third sector can contribute to public service transformation. Most significant of all is the way the state chooses to fund the sector, the issue which ACEVO has been championing for many years in terms of the need for Full Cost Recovery, long-term funding, appropriate sharing of risk and affective and proportionate reporting are global problems for the sector.

It is clear that different countries are at different stages of evolution in the funding relationship between government and the sector. The US, for example, has moved through a regime of grants and contracts and now sees vast swaths of welfare services paid for by a reimbursement fee model, with significant implications for the way in which the sector is structured. In Italy, contracts are still broadly awarded based on price, and we see from Sweden a variety of different models in place. Of course the funding vehicle chosen by government relates to the way in which the market is being developed. Much can be learnt in the UK from the development of the welfare-to-work markets in Australia and

the health and social care markets in the United States. Similarly it is crucial that the third sector is able to respond to the scale at which commissioning is taking place. Examples from France and Hungary show the way the sector has responded to very localised commissioning and therefore the number of relationships which leaders have had to develop.

Equally important as the architecture of the market are the skills which leaders within the sector and within government agencies are able to demonstrate. There are remarkable similarities in the leadership and skill requirements for third sector leaders around the world in order to successfully engage with the statutory bodies with whom they will contract. Skills in negotiation and the ability to invest in building partnerships are all crucial for the sector, and much can be done to share leadership development practice internationally. The need for empathy and the ability to respond to changes in the commissioning and contracting environment are also crucial for third sector leaders. But our international examples also demonstrate the need for skills development by commissioners and government agencies. The stories about how to overcome barriers for innovation in the UK and the establishment of partnerships between different municipalities in Hungary clearly demonstrate this.

Therefore, key challenges for the sector include being able to respond to the architecture of the market and up-skilling the sector's leaders in order to play a fully effective role in delivery. Another lesson we can draw is that the sector is most successful where it works with government to build a strong relationship. The Compact in the UK is exemplary and other countries including Canada and Sweden have replicated it in one form or another, with Australia (and also Israel) looking to do likewise. It is clear that there are significant differences in the sophistication of the relationships between government agencies, local government and third sector organisations. Without the political will for this relationship to be developed, the sector will continue to face difficulty.

Part of that difficulty will come from the perception, clear from a number of different countries, that contracting with government to provide public services can threaten an organisation's ability to campaign independently. There is a perception from some organisations in Australia that this occurred under the Howard premiership. However, as ACEVO has long-maintained, the balance of advocacy, campaigning and service delivery is a mutually beneficial one. And as we can see from the examples of the United States and Hungary, diversifying income streams and avoiding over-reliance on any one funder is critical to maintaining that independence.

Also crucial to the sector's success is the establishment of networks and associations within the third sector. ACEVO and Euclid Network are obvious examples of the importance of this, as are other associations such as, Italy's Forum Permanente Del Terzo Settore, and the federal and state level associations in the United States. The lack of such strong national associations in Japan has hampered the sector's development there.

So the success of the sector in increasing its role in transforming public services depends both on the political will of government and on the way the sector can organise itself. However, it is also imperative that the sector continues to raise its game in a number of key areas. The chapters here have demonstrated the need for the sector to prove the impact which it makes, a challenge which is made clearly in the United States and similarly in France. Equally, driving up governance standards, leadership skills, accountability and performance management will be critical to all third sector organisations around the globe; both as information about our performance becomes more freely available, and as government and the public make greater demands upon us.

This is why ACEVO and Euclid Network will continue to prioritise the development of the sector's leaders. Our shared priorities of developing strong governance and leadership,

increasing the sector's role in social innovation and service delivery, developing the sector's skills and in pursuing sustainable funding are as crucial across the UK and Europe as they are across the globe.

This publication has sought to demonstrate that our challenges are far from unique; rising to them together is an opportunity that is too great to miss.

# About the editors

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# End notes

## Chapter 1

<sup>1</sup>In 1996, the European Commission “initiated a reflection about the role the EU could play in ensuring the provision of high-quality services of general interest”, and in 2004 it published a working paper “highlighting the main elements of a EU approach” to doing so; interest on continuing this work, however, seems to have waned considerably since 2006, when a services directive on SGIs was issued. The commission’s Social Package for 2008 does not address this issue in any depth. Visit: [http://ec.europa.eu/services\\_general\\_interest/interest\\_en.htm](http://ec.europa.eu/services_general_interest/interest_en.htm) and [http://ec.europa.eu/services\\_general\\_interest/index\\_en.htm](http://ec.europa.eu/services_general_interest/index_en.htm)

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<sup>2</sup>G. Marcon, *Le Utopie del Buon Fare, L’Ancor del Mediterraneo*, Napoli, 2004.

<sup>3</sup>M. Ferrara, *Il Welfare State in Italia: Sviluppo e crisi in Prospettiva Comparata*, Il Mulino, Bologna, 1984.

<sup>4</sup>C. Ranci, ‘The Third Sector in Welfare Policies in Italy: the Contradictions of a Protected Market’ *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, Vol. 5, No. 3, 1994. pp. 247–71.

<sup>5</sup>ibid; GP Barbeta, *Senza Scopo di Lucro*, Il Mulino, Bologna, 1996.

<sup>6</sup>A great part of the material in this section is taken from: D. Carrera, M. Meneguzzo, & A. Messina, *Solidarity-based Economy in Italy. Practices for Social Entrepreneurship and Local Development: The Experience of Rome*, Working paper, March 2007.

<sup>7</sup>Servizio Sanitario della Toscana, *Società della Salute*, retrieved 8 September 2008, [www.sanita.toscana.it/sst/societa\\_salute.shtml](http://www.sanita.toscana.it/sst/societa_salute.shtml)

<sup>8</sup>D. Carrera, M. Meneguzzo, & A. Messina, *Solidarity-based Economy in Italy. Practices for Social Entrepreneurship and Local Development: The Experience of Rome*, Working paper, March 2007.

<sup>9</sup>A. Messina and B. Siclari, ‘Verso l’impresa sociale: nuovi decreti del 155/2006’, *Rivista Impresa Sociale*, Vol. 76, January 2008.

<sup>10</sup>L. M. Salamon, ‘Partners in Public Service: The Scope and Theory of Government-Nonprofit Relations’, *The Non-Profit Sector: A Handbook*, ed. W. W. Powell, Yale University Press, New Haven, 1987.

<sup>11</sup>C. Borzaga and A. Ianes, *L’Economia Della Solidarieta: Storia e Prospettive Della Cooperazione Sociale*, Donzelli, Rome, 2006.

<sup>12</sup>For a general overview on the districts visit: [www.retecosol.org](http://www.retecosol.org). For a feasibility study on the solidarity-based economy district in Rome (in Italian) see: E. Lombardi and S. Sirilli, ‘L’altra economia a Roma: Indagini preliminari per uno studio di fattibilità di un Distretto di Altra Economia’, *Rete di Economia Solidale*, [www.retecosol.org/docs/IndPreRoma.pdf](http://www.retecosol.org/docs/IndPreRoma.pdf), 2008.

\* Please Note: All figures according to the Istituto Nazionale di Statistica (National Statistical Institute, Italy: ISTAT), 2001.

## Chapter 5

<sup>13</sup>Based on data from Czech Republic, Hungary, Romania and Slovakia

<sup>14</sup>Toepler, S and Salamon, L (2003) NGO Development in Central and Eastern Europe: An Empirical Overview. *East European Quarterly*, XXXVII, No. 3

<sup>15</sup>Toepler, S and Salamon, L (2003): NGO Development in Central and Eastern Europe: An Empirical Overview. *East European Quarterly*, XXXVII, No. 3, pg.374

<sup>16</sup>The most frequent activities were hobby and recreation (16.5 %), education (14.1 %), sports (12.4 %), culture (11.0 %) and social affairs (8.8 %) in 2005. (HCSO, 2007)

<sup>17</sup>There were 82,600 full-time equivalent paid workers in Hungarian non-profit organisations. However, only about 17% of the NGOs were able to employ people. Most of the organisations

work with volunteers; their number was an estimated 372,000 in 2005. (Központi Statisztikai Hivatal (Central Statistical Office), 2007)

<sup>18</sup>Központi Statisztikai Hivatal (Central Statistical Office)

<sup>19</sup>The entity type 'public utility company' was eliminated in 2006, and although the new form (non-profit company) may provide new opportunities, its regulation has not been completed yet and implementation is problematic.

<sup>20</sup>The number of settlements was 3,194 in 2008 from which the number of cities was 307 (including the capital). <http://www.bm.hu>

<sup>21</sup>Központi Statisztikai Hivatal (Central Statistical Office) 2007.

<sup>22</sup>Központi Statisztikai Hivatal (Central Statistical Office) 2007.

<sup>23</sup>The term 'public service' is rather chaotic in Hungarian laws since there isn't an exact list of them (Bíró, 2005). A new government level committee was established in 2007, lead by an ex-finance minister (Mr. Tibor Draskovics), in order to think about public tasks. The committee expected to see more services handed over by the state to non-state organisations. Unfortunately, this initiative could result only in some indirect opportunities for third sector organisations, since it serves fiscal goals, not social-policy development.

<sup>24</sup>Központi Statisztikai Hivatal (Central Statistical Office) 1996; 2000.

<sup>25</sup>This happens usually with educational institutions or social institutions with residency.

<sup>26</sup>The standards for outsourcing labour market related services (advisory etc.) from governmental employment offices have been under preparation for a year.

<sup>27</sup>[www.bm.hu](http://www.bm.hu)

<sup>28</sup>Tausz, K (2002) The impact of decentralization on social policy. Local Government and Public Service Reform Initiative, Open Society Institute. Budapest.

<sup>29</sup>Government decree, 2004. CVII

<sup>30</sup>Micro-regions were first introduced by the Central Statistical Office in 1994, then they were empowered by different functions by the Act of Regional Development (1996. XXI.) (They became the NUTS 4 – now called LAU 1 – level). Micro-regions' boundaries have been drawn at the central level.

<sup>31</sup>Micro-region civil forums were established by the assistance of micro-regions for some clear goals (as taking part in planning processes) in 2004. The conditions of membership are rather restricted and exclusive, only NGOs working in social and environment fields or regional development can join the forum. Another condition is the territorial scope or influence of NGOs justified by their constitution. They have to cover at least half of the micro-region or population through their activities, which does not fit the reality, since NGOs operating in small villages usually work on a settlement level. That's why usually stronger NGOs with a county or wider level influence can be candidates for all the micro-regions in a county formally (as a prestige), however they don't take part. That makes micro-region civil forums empty formal frameworks without any power.

<sup>32</sup>In this case, NGOs should develop an effective strategy for the negotiations (to be informed about the actual quotas, to build innovative strategies). However, special training for that is not really available in Hungary yet.

<sup>33</sup>Kinyik, M and Vital, A (2005) Közfeladat-ellátás a nonprofit szektorban. (Public service delivery in the nonprofit sector.) Civil Szemle, 2.

<sup>34</sup>Ibid.

<sup>35</sup>A Bíró, E (2005) A K.C.R. dimenzió. A közfeladat-ellátásban való civil részvétel jogi akadályai. (K.C.R. dimension. The legal obstacles of civil participation in public service delivery) EMLA, Budapest

<sup>36</sup>Ibid.

<sup>37</sup>Especially in the healthcare system, where NGO or other non-state participation is the smallest, since all the political ambitions for privatisation (first by public utility companies as NPOs at the end of the 90s, then by for-profits in 2007) failed.

<sup>38</sup>While the first document did not have any legal teeth, the second one has a government decree status.

<sup>39</sup>The mission of Kek Madar is to create economic and educational opportunities for unemployed and marginalised people, providing them with temporary employment, job training and childcare to help them in the transition to full-time employment and independent lives. [www.kek-madar.hu](http://www.kek-madar.hu)

<sup>40</sup>The family-style day care centre is a special form of day care, which is different from nursery of kindergarten: it functions more like a family with many children, rather than a school setting, and can take care of children of all ages from 20 weeks to 14 years. It can be used on ad hoc basis too, for a couple of hours at the time.

<sup>41</sup>This could be viewed as exploitation, as the local government and the state forces non-profit providers to raise additional money for delivering public services.

<sup>42</sup>The Social Act differentiates between two types of social care, as supports in cash and in kind (which can be provided by only the local governments) and social services. Social services have two other types, basic services and day care, which have to be provided by all local governments, and/or social institutions with short- and long-term residential facilities.

<sup>43</sup>[www.fszh.hu](http://www.fszh.hu)

## Chapter 6

<sup>44</sup>The third sector organisations might, however, need to raise funds for indirect costs such as staff training.

<sup>45</sup>The public sector is organised at a local, a regional and a national level.

<sup>46</sup>The municipal income tax varies between municipalities but it is typically around 30%.

<sup>47</sup>Social services like eldercare and non-clinical psychiatric care were transferred from the regional to the local, municipal level of government in the 1980s. Schools were transferred from the central state to the municipals at about the same time.

<sup>48</sup>Several of the non-profit hospitals are relatively old, established before the modern welfare state.

## Chapter 7

<sup>49</sup>See 'The hunt for star turns', by John Craig on Joe Public, [http://blogs.guardian.co.uk/joepublic/2008/04/the\\_hunt\\_for\\_star\\_turns.html](http://blogs.guardian.co.uk/joepublic/2008/04/the_hunt_for_star_turns.html)

<sup>50</sup>Charity Commission (2007) Stand and deliver: The future for charities delivering public services [www.charity-commission.gov.uk/spr/psdevent.asp](http://www.charity-commission.gov.uk/spr/psdevent.asp)

<sup>51</sup>For more on brokerage, see Horne, M. (2008) Honest Brokers: Brokering innovation in public services [www.innovation-unit.co.uk/content/view/448/1023/](http://www.innovation-unit.co.uk/content/view/448/1023/)

<sup>52</sup>[www.innovation-exchange.org](http://www.innovation-exchange.org)

<sup>53</sup>See [www.innovation-exchange.org/next-practice-programme](http://www.innovation-exchange.org/next-practice-programme)

<sup>54</sup>Strategy Unit (2006) *The UK Government's Approach to Public Service Reform – A discussion paper*

<sup>55</sup>Beinhocker, E. (2006) *The Origin of Wealth: Evolution, complexity and the radical remaking of economics* (Random House)

<sup>56</sup>Hannon, V. (2007) 'Next Practice' in *Education: A disciplined approach to innovation* [www.innovation-unit.co.uk](http://www.innovation-unit.co.uk)

<sup>57</sup>Albury, D. and Mulgan, G. (2003) *Innovation in the Public Sector* [www.strategy.gov.uk/downloads/files/pubinov2.pdf](http://www.strategy.gov.uk/downloads/files/pubinov2.pdf)

<sup>58</sup>Hartley, J. (2006), 'Innovation and improvement in Local Government' available at [www.ipeg.org.uk/presentations/bp\\_jean\\_hartley\\_pres.pdf?PHPSESSID=f3f227c19c18b31719e4b0c170ce2489](http://www.ipeg.org.uk/presentations/bp_jean_hartley_pres.pdf?PHPSESSID=f3f227c19c18b31719e4b0c170ce2489), quoted in Mulgan, G. (2007) Ready or Not? Taking innovation in the public sector seriously (NESTA)

<sup>59</sup>Surowiecki, J. (2005) *The Wisdom of Crowds (Abacus)*

<sup>60</sup>Miller, P. and Fieschi, C. (2005) *Scaling Up (Demos)*

- <sup>61</sup>Young Foundation (2006) *Social Silicon Valleys: A manifesto for social innovation*  
[www.youngfoundation.org.uk/wp-content/INNOV0102\\_b145162\\_mulgan.pdf](http://www.youngfoundation.org.uk/wp-content/INNOV0102_b145162_mulgan.pdf)
- <sup>62</sup>Albury, D. (2005) *Market Development in Children's Services: Lessons from other sectors*
- <sup>63</sup>Leadbeater, C. (1997) *The Rise of the Social Entrepreneur*  
[www.demos.co.uk/files/theriseofthesocialentrepreneur.pdf](http://www.demos.co.uk/files/theriseofthesocialentrepreneur.pdf)
- <sup>64</sup>Mulgan (2007) Ready or Not?: Taking innovation in the public sector seriously  
[www.youngfoundation.org.uk/node/576](http://www.youngfoundation.org.uk/node/576)
- <sup>65</sup>Strategy Unit (2006) *The UK Government's Approach to Public Service Reform – A discussion paper*  
[www.strategy.gov.uk/downloads/work\\_areas/public\\_service\\_reform/sj\\_report.pdf](http://www.strategy.gov.uk/downloads/work_areas/public_service_reform/sj_report.pdf)

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- <sup>68</sup>Productivity Commission 'Independent review of the job network', report no 21 June 2002. Available at [www.pc.gov.au/projects/inquiry/jobnetwork](http://www.pc.gov.au/projects/inquiry/jobnetwork)
- <sup>69</sup>Matthew Franklin and Stephen Lunn, 2008, 'Critics in "climate of fear"', the *Australian*, 9 January. Available at: [www.theaustralian.news.com.au/story/0,25197,23025956-601,00.html](http://www.theaustralian.news.com.au/story/0,25197,23025956-601,00.html)
- <sup>70</sup>Much of this article is based on a series of interviews which I undertook with key figures in the Australian third sector in 2008. I must send particular thanks to Senator the Hon. Ursula Stephens, Parliamentary Secretary for Social Inclusion and the voluntary sector and Parliamentary Secretary for assisting the Prime Minister for Social Innovation, and Sue-Anne Wallace, Fundraising Institute Australia.

## Chapter 9

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- <sup>72</sup>[http://en.wikipedia.org/wiki/United\\_Way\\_of\\_America](http://en.wikipedia.org/wiki/United_Way_of_America) on 18 August 2008.
- <sup>73</sup>Smith, *Nonprofits for Hire*, p. 54.
- <sup>74</sup>*Ibid.*, p. 71.
- <sup>75</sup>Steven Rathgeb Smith, *Government Financing of Nonprofit Activity*, in 'Nonprofits and Government: Collaboration and Conflict', edited by Elizabeth T. Boris and C. Eugene Steuerle, Washington DC, 2006., p. 229
- <sup>76</sup>Steven Rathgeb Smith, *Social Services*, in 'The State of Nonprofit America', edited by Lester M. Salamon, Washington DC, 2002., p. 162.
- <sup>77</sup>Smith, *Government Financing of Nonprofit Activity*, p. 223.
- <sup>78</sup>*Ibid.*, p.251.
- <sup>79</sup>*Ibid.*, p. 244-5.
- <sup>80</sup>Bradford H. Gray and Mark Schlesinger, 'Health', in *The State of Nonprofit America*, p. 83.
- <sup>81</sup>The Alliance of Non-Profit Healthcare, *The Value of Nonprofit Healthcare*, on [www.nonprofithealthcare.org](http://www.nonprofithealthcare.org) on 18 August 2008.
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- <sup>83</sup>Gray and Schlesinger, 'Health', p. 77.
- <sup>84</sup>*Ibid.*, p. 78.
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<sup>93</sup>[www.justanotheremperor.org](http://www.justanotheremperor.org) on 21 August 2008.

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<sup>97</sup>Much of this article is based on a series of interviews which I undertook in New York and Washington DC in March 2008. I am hugely grateful for the time and ideas which the following people offered me: Ben Shute (Rockefeller Brother's Fund), Howard Husock (Manhattan Institute), Richard Mollot (Long Term Community Care Coalition), the team at the Center for Civil Society Studies at Johns Hopkins University, Monica Dignam (ASAE & The Center for Association Leadership), Richard Brewster (National Center for Nonprofit Enterprise), Bruce McPherson (Alliance for Advancing Nonprofit Healthcare), Elizabeth Boris (Urban Institute), Robert Buchanan (The Council on Foundations), Pat Read (Independent Sector), and Steven Smith (whom I met in Oxford) from Washington University.

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<sup>100</sup>Adapted from Peter R. Elson, 1987, 'A Short History of Voluntary Sector-Government Relations in Canada', *The Philanthropist*, 21, 1, 36.

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<sup>105</sup>Much of this article is based on a series of interviews which I undertook in 2008. I am hugely grateful for the time and ideas which the following people offered me: Thomas Bergbusch, Human Resources and Social Development Canada; Richard Brunton, Canada Revenue Agency; Peter Elson, University of Toronto; Deidre Freiheit, Health Charities Coalition of Canada; Micheal Hall, Imagine Canada; Theresa Kerin, The Centre for Non-Profit Management; Kim Mustard, The Calgary Chamber of Voluntary Organisations.

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