The Third Sector in Europe

Prospects and challenges

Edited by Stephen P. Osborne

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The Third Sector in Europe

The role of the third sector within European society is an extremely topical subject, as both governments and the EU continue to consider the role these organizations can play in providing essential public services. This book presents contemporary research into this emerging area, exploring the contribution of this important sector to European society as well as the key challenges that the sector and its components organizations face in making this contribution.

This volume brings together for the first time a range of challenging perspectives upon the role and import of the third sector for European society from a variety of disciplines – including economics, sociology, political science, management and public policy. Areas covered include the third sector, civil society and democracy, relationships with government, its impact on social and public policy, the growth of social enterprise and of hybrid organizations as key elements of the sector and the future challenges for the sector in Europe.

This book will be of great interest to students and researchers engaged with Public Policy, Public Administrations, Public Services Management, Social Policy and Non-Profit Studies.

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Part I

Introduction

1 Key issues for the third sector in Europe

Stephen P. Osborne

Introduction

The third sector[1] is an ever more important element of the institutional mix in Europe. It has been famously described elsewhere as 'a loose and baggy monster' (Knapp and Kendal 1995). Over the past decade its significance in European nations has been heightened considerably and its import now stretches across a number of significant elements of European society. *Inter alia*, it has implications for:

- the creation and sustenance of civil society;
- the efficient and effective delivery of public services;
- the development of socially responsible businesses and social enterprises;
- the promotion of social inclusion and the regeneration of deprived communities and;
- democratic culture and accountability.

Because of this growing importance, social scientists across Europe have turned their attention to the study of this sector. This has generated a range of research networks dedicated to the third sector. These include, but are not limited to:

- the EMES network of researchers on social enterprise;
- the EGPA workshop on the impact of the third sector on public administration;
- at an international level, the International Society for Third Sector Research (ISTR) and the Association for Research on Non-profit and Voluntary Action (ARNOVA) and;
- at a national level, such networks as the Voluntary Sector Studies Network (VSSN) in the UK.

These are all important research networks, but they do have limitations. The EMES and EGPA networks are unequivocally dedicated to the study of a specific issue, the international networks by their nature have a focus beyond Europe, whilst the national networks are explicitly sub-European in their focus.

The third sector in Europe

This book is intended to be the first stage in the creation of a genuinely pan-European body of research and theory that will explore and analyse the third sector from a manifestly European perspective. This is important for three reasons. First, there is a distinctive institutional arena for the third sector within Europe, and especially within the European Union (EU). Second, many pre-existing models of the sector and its relationship to the state have developed in the US. Whilst many of these are valuable, European society and institutions are distinctive and it is important to develop theory and research that addresses this distinctiveness. Third, the sector exists at the cusp of a number of key issues for European society over the coming decade. As identified above these include the promotion of social inclusion, the enlargement of the EU, the creation and/or sustenance of civil society, and the delivery of public services to local communities. The study of the sector itself will thus also contribute to our understanding of these other issues.

Within this broad area, a number of themes have particular importance:

- Do the concepts of civil society and social capital help us to understand the relationships of third sector organizations to society – or rather do they obfuscate it? Can and does the third sector have a role in democratization in Europe?
- What are the implications of the growth of the third sector in Europe for public policy in general and for issues of social inclusion in particular?
- What role(s) do/should third sector organizations play in the provision of public services – and are social enterprise a core element of this role, or a distraction?
- What are the implications of the *New Public Governance* (Osborne 2006) for the third sector – and does it have implications for the role of the third sector in the co-production and co-governance of public services?
- What is the pattern and import of relationships between third sector organizations and local/central government – and particularly as the latter is engaged in a period of profound reform across Europe?
- Are new forms of hybrid organizations emerging from the third sector as a result of their increasing interpenetration of and by the public and private sectors?
- What is the role of social enterprise in Europe – can it combine a contribution to social policy with one of economic regeneration?
- What are the implications of the growth of the EU for third sector organizations in Europe and especially in the new accession states?
- Does *Voluntary Sector Modernization* (Osborne and McLaughlin 2004) have implications for the resources, internal structure, management and governance of third sector organizations?

In addressing theses themes this volume is thus intended to:

- challenge and test existing models and paradigms concerning the third sector in Europe;
- stimulate the emergence of new evidence and theory about the third sector in Europe;
- encourage the inter-disciplinary study of the sector and;
- provide a critique of existing institutional arrangements across Europe for the interface between the state, the market and the third sector.

In drawing together this collection it is important to highlight three points. First there has been no attempt to impose one definitive definition of the 'third sector' or 'third sector organizations'. A distinctive element of European experience is its diversity and this is reflected here, offering the reader the opportunity to draw their own conclusions. Second, inevitably the chapters below address cross-cutting themes, if from slightly different perspectives. This allows some triangulation of our knowledge of the third sector in Europe. Finally this volume is intended as a starting point for the development of a distinctive European body of theory and knowledge on the third sector. It is intended to stimulate debate rather than to provide the final or ultimate statement.

Following on from this introductory chapter, therefore, this collection is grouped around eight themes arising from the above discussion. The first three chapters address the relationship between the third sector and civil society, social capital and democracy. Jenei and Kuti examine the nature of 'civil society', its relationship to the third sector and place this relationship at the heart of the development of the transitional nations of Eastern and Central Europe. Wollebaek and Selle then provide a critique of the concept of 'social capital' in European experience, contrasting the socialization perspective on it with one from institutional theory. Finally in this section, Balogh offers an important empirical exploration of the role of the third sector in the democratization process in Romania.

In the Part III, attention is turned to the third sector and public policy. Lars Skov Hendriksen and his colleagues offer a detailed empirical examination of the capacity of the sector to engage in public policy objectives in Denmark. Marthe Nyssens then introduces the concept of 'social enterprise' and asks what contribution such organizations can make to the social inclusion agenda in Europe. The concept of social enterprise is returned to below.

Part IV of this book follows on to deepen our understanding of the important role of the sector in delivering public services. Brandsen provides a meta-theoretical perspective on this role. Nemec then offers empirical evidence about trends in Slovakia before Osborne and Chew dissect one classically espoused attribute of the third sector in providing public services: their innovative capacity.

Part V develops this debate, by an examination of the concept of co-production. Pestoff provides a Scandinavian perspective on this, based on

Swedish experience, whilst Manfredi and Maffei offer a Mediterranean one, rooted in Italian experience.

Part VI moves on to the perennially significant and over-arching issue of relationships between the third sector and government, in its widest sense. Göymen, Fric and Randma-Liiv and her colleagues offer three perspectives on this relationship, from a Turkish, Czech and Estonian perspective.

Part VII presents a further emerging concept that is being used to make sense of the third sector in European society – that of 'hybrid organizations' where the third sector interacts at an organizational level with the public and private sectors. Evers introduces this concept and explores the challenges it offers to third sector theory in Europe. Honingh then provides a contrasting empirical analysis, exploring the impact of hybridity upon managerial roles in the third sector in the Netherlands.

Part VIII returns to the social enterprise perspective introduced earlier, with Vidal and Ziomas offering contrasting experiences from Spain and Greece, respectively.

The concluding section contains two papers. First, Jegers considers the implications of this changing European context for the third sector for their internal management, from a distinctively economic perspective. Finally Kiviniemi draws together the state of our knowledge and sets out some key research questions to develop further our knowledge of the third sector in Europe.

Notes

1 A range of terms are used to describe this sector, including the third sector, the voluntary and community sector, the non-profit sector, the social enterprise sector and civil society. Each of these has a distinctive conception of the sector which will be explored in this volume. In this introductory chapter, the term 'the third sector' will be used to describe the subject matter of this volume, without prejudice.

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Part II

Civil society, social capital and democracy

2 The third sector and civil society

György Jenei and Éva Kuti

The definition of civil society

The very essence of the modern usage of the term "civil society" was to demarcate a clear distinction of state and society and was conceptualized by the German philosopher, Georg Wilhelm Friedrich Hegel in his *Elements of the Philosophy of Right*. In his "triad" concept, civil society was distinguished from the macro community of the state and the micro community of the family. The term civil society, however, has a long history. It is definitely older than the modern world. In ancient Greece, for instance, "civil society" was closely connected with the Aristotelian notion of an ideal way of life.

Today, there are many definitions of civil society. Perhaps the working definition from the London School of Economics Centre for Civil Society provides a relevant orientation:

> Civil society refers to the arena of uncoerced collective action around shared interests, purposes and values. In theory, its institutional forms are distinct from those of the state, family and market, though in practice, the boundaries between state, civil society, family and market are often complex, blurred and negotiated. Civil society commonly embraces a diversity of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power. Civil societies are often populated by organizations such as registered charities, development non-governmental organizations, community groups, women's organizations, faith-based organizations, professional associations, trade unions, self-help groups, social movements, business associations, coalitions, and advocacy groups.
>
> (http://pages.britishlibrary.net/blwww3/3way/civilsoc.htm)

Moreover, in the EU member countries, the current definition has two types of historical background. On the one hand, in Central and Eastern Europe (CEE) in the 1970s and 1980s the term was used by oppositional movements and their intellectual leaders (Havel, 1985; Konrád, 1984; Michnik, 1985) in order to express their criticism of the ruling totalitarian or authoritarian political system. In this context, the very existence of horizontal social structures, or "small

circles of freedom" (Bibó, 1986), was an expression of society's antagonism towards autocratic political regimes. This moral resistance to totalitarian oppression had potential for important civil society initiatives, even under the conditions of limited political freedom. In the longer run, horizontal social structures were supposed to develop to the detriment of vertical social structures, thus creating a society built from the bottom up, and in which some control could be gained over policy makers. This vision of the development of civil society had an impact on political thinking far beyond the borders of the Soviet bloc.

Ostensibly, in the state socialist system a third sector simply could not exist independently of the ruling state ideology. Despite this ostensible pre-condition, numerous groups, including mainly membership groups, closely related to so-called "mass organizations" existed. There were many member-serving clubs that fulfilled functions similar to those of voluntary associations in market economies, particularly in the fields of sports, culture and recreation (Jagasics, 1992). These organizations provided goods and services for their members as well as for a limited public. The same holds true for quite a number of clubs funded and run by state-owned enterprises.

After the collapse of the state socialist system a new phase in civil society activism began. In the new political system, local activists used their newly won freedom and the number of clubs and voluntary organizations mushroomed, particularly in those fields which had not previously been tolerated by state ideology (Kuti, 1996). Cases in point are activities associated with formerly unmet specific needs for educational, health or social services, and with new social movements such as environmental, pacifist and solidarity groups. Besides the member-serving organizations and clubs engaged mainly in recreation, sports and culture (e.g. hunting associations, football clubs, folk art associations, etc.), there also emerged service-providing nonprofit organizations (e.g. foundation schools and kindergartens, nursing homes, etc.) and advocacy groups principally pursuing political objectives (e.g. organizations protecting and representing the interests of ethnic minorities, the physically disabled, victims of political oppression, etc.).

The motivation behind the establishment of the numerous nonprofit organizations in the early 1990s was mainly the citizens' desire to actively influence the development of the new economic and political system, to participate in the decision-making process, to ensure some autonomy, to strengthen the local identity, to control and influence the local authorities, to promote cultural, ethnic, religious and linguistic diversity, to develop local information networks, to educate citizens and to encourage them to behave as citizens. These civil society functions have become all the more important because political transition brought about fundamental changes in all parts of society and the economy, causing a lot of people to lose orientation and feel endangered in the early 1990s. Voluntary organizations and the additional resources (donations, government support, tax advantages) available through them served as lifebelts for numerous individuals. Whether they wanted to protect themselves or to seize

new opportunities, citizens had to form alliances, action groups and advocacy organizations.

Voluntary organizations have also played an important role in the process of social restructuring. People changing their social and economic positions often feel that they have to leave their old organizations and find (or establish) new ones where they can meet the members of their new class. Membership in voluntary associations, participation and volunteering are essential elements of their status-seeking behavior (Collins and Hickman, 1991).

In the traditional EU member countries on the other hand, the term "civil society" has had a different and more complex historical background. The origin of the term can be found in the early liberal writings of the nineteenth century, such as those of Alexis de Tocqueville. He emphasized that the role of civil society in a democratic political system is crucial. Moreover, he pointed out that the stability of democracy is dependent on the strength and dominant impact of civil society.

The dominant role of civil society was reinforced from the 1970s onwards and was connected to the shift from representative democracy to a new wave of democratization closely linked to various forms of participatory democracy. Later, the social capital approach emphasized the importance of social coordination. Robert Putnam (1993) stated that the existence of social capital makes democracy work. He brought to the fore the role of social trust, societal networks and civicness in the associational involvement and participatory behavior of the citizenry.

In the 1960s and 1970s a series of movements and intentional communities mushroomed in the traditional EU countries and all around the modern world. They built up alternative housing systems (organized squatting, tipi making, house-sharing "crash pad networks" which were supported by information centers) and alternative travel services were created by car-sharing networks or by hitching. Similarly, alternative social structures were established in a bottom-up way (alternative soup kitchens, free bookshops). For example, in the 1970s a partially self-governing neighborhood was established in Copenhagen. The independent community, with semi-legal status, called "Christiana" emerged when a group of hippies took over an area of abandoned military barracks. The community is still alive today.

Religious and pseudo-religious groups represent special types of societies for alternatives. They provide a framework for the emergence of alternative lifestyles all around the world in the form of ashrams, kibbutzim, Buddhist monasteries, Rastafarians, Hare Krishna movements, Shaker and Amish movements.

All the above enlisted forms of alternative societies and societies of alternatives have one thing in common: they provide special solutions for the political empowerment of civil society. In this form of empowerment, citizens look for tools and methods of taking control of their own lives, turning against the political power of the state and the public sector and against the economic power, the market-type mechanism dominating the private sector.

The definition of the third sector

The term "third sector" covers a lot of different types of organizations. These organizations differ from each other by their founding origins, by their funding resources and by their functions. Generally, they do not like to consider themselves as "third sector organizations". They prefer to be identified more closely with their particular character: i.e. we are a charity or voluntary organization or we have service provision or advocacy functions.

The term "third sector" also has different meanings. In Japan, for example, since the 1980s, the third sector (known as the Daisan sector in Japan) refers to joint corporations created by a joint investment of the public and private sectors. In the United Kingdom, the third sector is considered to be a place between the public and private sectors. Another approach (Evers and Laville, 2004) puts a greater emphasis on the intermediary nature of third sector organizations within welfare pluralism and on the process of "hybridization", the emergence of multi-stakeholder arrangements in the provision of welfare services.

There is tremendous diversity among the third sector organizations and this diversity

> is reflected in many terms used for its description. Each one of the commonly used terms points out a certain aspect of its character: "third sector" (as a sector active between the state and the market), "nonprofit sector", "voluntary sector", "public-service sector", "non-governmental organizations" (internationally referred to as NGOs), "non-state organizations" (i.e. organizations of a non-state character), "charity (humanitarian, philanthropic) organizations", "self-help groups, clubs, organizations", the British term "non-statutory sector" (i.e. not required by law, non-compulsory), or "informal sector", the American term "tax-exempt sector", the French term "économie sociale" (used in France and Belgium, and increasingly, in European Union institutions), or German terms such as "gemeinnützige Organizationen" and "gemeinwirtschafliche Unternehmen".
>
> (Anheier and Seibel, 1990, quoted in Fric and Bútora, 2003, p. 146)

In spite of the diversity of its organizations, some general statements on the third sector can be made. First, the term "third sector" was coined by Etzioni (1973) and it meant a third alternative sector between the state and the market. According to Etzioni, the main advantage of these organizations is in their combination of the entrepreneurial spirit and organizational effectiveness of the business firm with the common-good orientation of the public sector.

Third sector organizations have an "intermediary role" between state and market and they constitute a very specific segment of modern societies. Their special features can be summarized as follows: they obey the non-distribution constraint that exclusively allows re-investment of profits but not their distribution among the members and/or the employees of the organization; they are private organizations, albeit operating within the public sphere and for the

common wealth; voluntary participation is a key feature of third sector organizations. Thus, there is a clear distinction between third sector and communitarian entities, such as families or clans (Priller and Zimmer, 2001).

The incentives and motives of the establishment of these organizations are also different from the motivation behind the creation of public sector and private sector organizations. The central value basis of third sector organizations is reflected in their willingness to serve as vehicles for participation and social integration.

Different disciplines (economics, sociology, political sciences) have different primary foci on third sector organizations. For economists, the non-distribution constraint is the most interesting feature. In accordance with the institutional choice approach, third sector organizations offer an institutional alternative to social service provision by private enterprises or government entities. Sociologists are interested in the potential of third sector organizations to provide avenues for societal integration. They perceive these organizations as bedrocks of social milieus and societal communities and, therefore, as transmitters of values and norms. Political scientists are also primarily interested in the service delivery function of third sector organizations, perceiving them as actors within public–private partnerships, particularly in the welfare domain.

Third sector organizations (TSOs) are also called non-governmental organizations (NGOs). This is justified mainly in the case of different social groups or associations pursuing matters of interest to their members or to certain social groups by lobbying, persuasion or direct action.

Many NGOs – considering the label too broad for them – prefer the term "private voluntary organization" (PVO) or private development organization (PDO). A 1995 UN report noted that there were nearly 29,000 international NGOs. Among those is the International Red Cross, founded in 1863 and the world's largest humanitarian NGO. In terms of the number of national and local organizations, the United States and India were the forerunners with an estimated two million NGOs.

Non-governmental organizations form a heterogeneous group. As a result, very different typologies have been created in order to classify them. The typology of the World Bank, for example, divides them into *operational* and *advocacy* groups.

The primary purpose of an operational NGO, however, is the design and implementation of development-related projects. One categorization that is frequently used is the division into "relief-oriented" or "development-oriented" organizations. Operational NGOs can also be classified according to whether they stress service delivery or participation; whether they are religious or secular; and whether they are more public or more private-oriented. They can be divided into the groups of community-based, national and international organizations as well.

The primary purpose of an advocacy NGO is to defend or promote a specific cause. As opposed to operational project management, these organizations

typically try to raise awareness, acceptance and knowledge by lobbying, press work and activist events.

According to a more detailed typology, the following types of NGOs exist:

- INGO, or international NGO, such as CARE, RESPECT Refugiados, International Alert, ADFA-India and Mercy Corps;
- BINGO, business-oriented international NGO;
- RINGO, religious international NGO such as Catholic Relief-Services. RINGO is also an abbreviation for Research and Independent Non-governmental Organization;
- ENGO, environmental NGO, such as Global 2000;
- GONGOs are government-operated NGOs, which may have been set up by governments to look like NGOs in order to qualify for foreign aid;
- QUANGOs are quasi-autonomous non-governmental organizations, such as the International Organization for Standardization (ISO), which is not purely an NGO, since its membership is by nation, and each nation is represented by what the ISO Council determines to be the "most broadly representative" standardization body of a nation. Now, such a body might or might not be a non-governmental organization. For example, the United States is represented in ISO by the American National Standards Institute, which is independent of the federal government. However, other countries can be represented by national governmental agencies – this is the trend in Europe.

Duality in the third sector

As we have already noted, third sector organizations – backed and supported by the civil society – have an intermediary position between the state and the market, and between the state and society. But this intermediary position is often threatened by the actions and policies of government and by the private sector as well.

Market type organizations have two kinds of relationships with TSOs: public–private partnership (PPP) and/or sponsoring relationships. In this context, we use the term in its widest sense: sponsoring embraces both disinterested, generous corporate donations to third sector organizations and sponsors' payments related to business interests (e.g. investment in prestige, cause related marketing, etc.).

The main differences between PPP and sponsoring are:

- In a sponsoring relationship, the private donor is not directly involved in policy making.
- Sponsoring is generally connected to special programs with financial needs additional to the already available resources.
- Sponsoring is a direct contact between service providers and foundations established by private enterprises.

(Strünck and Heinze, 2001)

In a sponsoring relationship, the independent position of TSOs is sometimes

limited by the influence of the donor enterprises. There are even more chances for such an influence (though, ideally, mutual) in the public–private partnerships. This collaboration between the public and private sectors whose purpose is to support or provide public services has developed a wide variety of different structures. The actual forms of co-operation and the division of labor between the partners determine whether third sector organizations can play a significant role in developing welfare policy or whether they are simply treated as vehicles of policy implementation.

Governmental policies also can decrease or increase the independence of TSOs. For example, when US President Ronald Reagan cut back government spending on welfare issues, top civil servants pressured TSOs to deliver more social services. The consequence was that large private independent foundations came together to take action against the neo-liberal revolution and tried to protect at least the bare minimum of the welfare state (Anheier, 2005, p. 301–327).

Third sector organizations have to face similar challenges in the CEE countries as well. Not having strong and large independent foundations, CEE third sectors are quite vulnerable (Osborne *et al*., 2005). Their problem is not simply how they can resist if the government makes efforts to limit their independence. TSOs also need to convince the government that their contribution to the development of democracy and service provision is crucial, and thus they deserve public support.

Nowadays, two competing views are of similar importance – especially in CEE. One view sees the third sector as an expression of civil society, rooted in democratic culture (in CEE, an emerging democratic culture) and based on social participation (in CEE, a broadening social participation). According to the other approach, the third sector is basically an extension of the central and local governments; third sector organizations play an important role in the provision of public services (Jenei and Kuti, 2003). A number of country reports (Salamon *et al*., 1999) confirm that this duality can be found among third sector organizations all over the world.

The duality issue becomes much more complicated when the multifunctional character of third sector organizations is taken into consideration. The service provision and civil society functions can be combined even at the level of individual organizations. Non-govermental service providers can also carry out lobbying activities for the interests of their members or of a larger social group. Besides providing their members with some services, voluntary associations can also serve the broader public interest. Even the member-serving non-governmental organizations can be important actors of empowerment, social inclusion and fostering solidarity.

This multifunctionality raises the question of potential conflicts between the different functions and also between the TSOs and their supporters. Donors financing non-governmental service provision are not necessarily enthusiastic about the advocacy work of the supported organizations, especially not if these TSOs are outspoken critics of their supporters' political and business activities or initiators of alternative modernization efforts.

This problem has emerged, quite sharply, in CEE countries, thus a detailed exploration of the financial aspects of duality seems to be necessary.

Financial aspects of duality

Based on the limited statistical data available,[1] Figure 2.1, even in its simplicity, clearly displays that there is a close connection between the third sector organizations' main function and their major revenue sources.

Member-serving civil society organizations (leisure and sport clubs, professional advocacy groups, small local voluntary associations which are not registered as "public benefit" organizations) can mainly rely on membership fees and service income. This means that they are more or less dependent on their members' purchasing power. Neither private donors nor government authorities consider them an important target group.

The service fees, sales and dues can only increase if member serving TSOs manage to significantly widen the scope and variety of their activities and they are able to offer what their members are ready and able to buy. This financial constraint on their activities, along with their need for attracting additional fee income, may easily result in neglecting their civil society functions and moving toward professional service provision, thus attracting less and less donations.

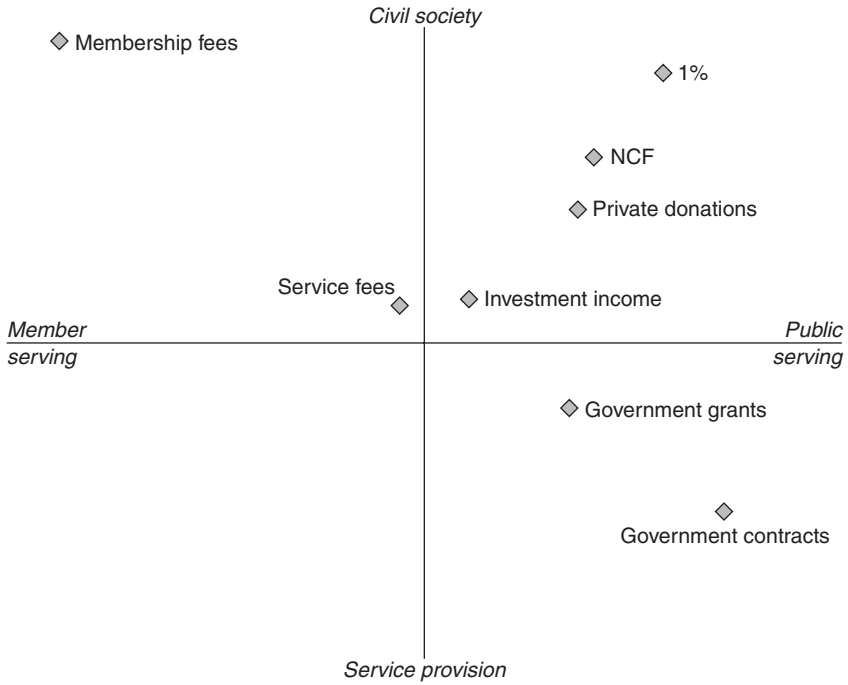

Figure 2.1 Relationships between third sector functions and financing.

By contrast, the most important recipients of private donations are civil society organizations serving public interest (voluntary associations and foundations registered as "charitable" or "public benefit" organizations, not involved in large scale service provision, operating mainly in the fields of culture, education, science, social and health care, environment, etc.). Due to the cyclical nature of private contributions, they have some funds to be invested, thus they also have access to a considerable amount of investment income.

Private giving, however, operates from a small domestic base in the CEE countries. Both individual and corporate donors suffer from a very similar problem, that of limited resources. Though surveys of giving (Czike and Kuti, 2006; Kuti, 2005) confirm that the majority of private people and corporate managers are willing to help voluntary organizations and contribute to the solution of social problems, the same surveys and statistical data also show that the actual individual donations are rather small. Consequently, despite its high proportion, the volume of private donations flowing to public-serving civil society organizations is still a relatively low amount of money. It does not cover the costs of activities which, in an ideal case, would let these TSOs fulfill their civil society functions.

This shortage of private contributions raises the question of whether the concentration of government funding in the service-providing segment of the third sector is acceptable. Civil society organizations argue that decades of state socialism did as much harm to organized civil society as to nonprofit service providers, thus CSOs should also be entitled to claim some "recovery assistance" from the government. While this claim is generally considered legitimate, nevertheless, the public-serving nonprofit service providers (nonprofit schools, kindergartens, hospitals, nurseries, theatres, culture centers, etc.) remain the single most important beneficiaries of state funding.

The actual forms of government support to service-providing TSOs are manifold and their system is quite complicated. Beneficiaries can receive state support in many different forms, from several different government agencies and through various mechanisms of distribution. The most important forms of support are:

- Government grants which can be either lump sum subsidies or project-related grants. These grants may come directly from state budgets on the decision of the Parliament, from the central government or ministries, from special government funds (e.g. National Fund for Vocational Training, Labor Force Fund, National Cultural Fund, National Fund for the Protection of Environment, etc.) or from local governments. They can be distributed at the discretion of government bodies, with the help of special boards or expert committees, and through an open competition.
- Per capita government support which relates directly to the number of clients. Its amount can be guaranteed by the budget law but it can also depend on the donor's decision. Per capita state support can be transferred to service providers through the ministries, through public authorities and

through local governments. It can be received (after eligibility has been determined) in the form of contracting out services, and as a result of the decision of government authorities.

Though most forms of government support already existed in the early 1990s, there have been some important changes in recent years. First, project-related grants have become the dominant form of government support, while lump sum subsidies to TSOs have almost disappeared. The shift from general funding to specific project grants has made government support a bit more transparent and more easily available for nonprofit service providers. Second, the importance of service-related per capita subsidies and contracting out services has noticeably developed. Third, competitive bidding has become an important mechanism in the distribution of all kinds of state support. A large part of government grants and contracts are now available through open competition, and thus are mainly available for those larger and stronger TSOs which can prove that they are important partners in the provision of welfare services.

As a consequence, the distribution of public support to TSOs is highly concentrated. The beneficiaries are significantly larger and much more "affluent" than other institutions of the third sector. The government clearly prefers supporting a limited number of organizations which are strong enough to play important roles in meeting public needs, and can be relatively easily held accountable.

This service-providing segment of the third sector is not far from "being propelled to a role as:

- an agent of modernization, able to exert pressure for change over government institutions, and particularly local government, and towards itself being
- a subject of modernization, with consequent challenges for its own governance arrangements and performance management regimes".

(McLaughlin, 2004, p. 557)

This is a serious danger all over Europe, but it is especially important in the CEE region. CEE countries still have to cope with a series of modernization and democratization challenges. They can hardly afford to lose or to weaken civil society actors. If these latter do not get enough private donations and therefore require government support, they have to receive it in a way which does not create dependence on the state. This reasoning has led to the development of two innovative methods of financing: the "1% system" and the "National Civil Fund" (NCF).

These methods, as shown in Figure 2.1, have proved to be quite efficient in channeling government support to civil society organizations without making them dependent on public authorities.

Support but not dependence from the state

The first of the two new support schemes, the 1% system, was originally introduced in Hungary in 1997 with the aim of strengthening civil society, helping its institutionalization and supporting the everyday operation of CSOs without gaining control over them and endangering their independence. The 1% system became well known in the CEE region very quickly. Since then, similar supporting schemes have been developed in Lithuania, Poland, Romania and Slovakia. The idea of the 1% system is to let private citizens decide on the distribution of government support. This new financing scheme[2] permits the transfer of one percent of personal income tax payments to TSOs. Taxpayers are authorized to choose a civil society organization to which they want their funds allocated.

Several different kinds of third sector organizations are eligible for the 1 percent designation. Namely, TSOs which are engaged in preventive medicine, health care, social services, culture, education, research, public safety, human rights, environmental protection, protection of cultural heritage, sports and leisure time activities for the youth and the disabled, care for the elderly, the poor, the handicapped, children, national and ethnic minorities can all get 1 percent support if they have been in existence for a considerable period, are independent of political parties and do not support candidates for political office, and they are not in arrears with tax and duties, or they agree that the amount they would receive from the personal income tax is used to pay or decrease their debt.

The 1 percent designation is part of the individual's tax declaration. The financial transfer itself is made by the tax authority. If the taxpayer does not name a recipient organization or makes some formal mistake when preparing the designation declaration, the 1 percent transfer is negated and the entirety of the individual's tax payment remains part of the central budget. Similarly, the transfer is not made if the designated organization is not eligible, cannot get the necessary certificates within the established deadline or thinks that the costs of meeting all the application and reporting requirements would be higher than the amount it could receive.

Public authorities play only administrative roles in the process; they do not have any influence on the actual distribution of the 1 percent support. The decisions are made by taxpayers who seem to prefer public-serving civil society organizations to both nonprofit service providers and member-serving voluntary associations. As a result, TSOs performing civil society functions can receive public funds through the 1 percent mechanism without becoming dependent on public authorities.

Obviously, TSOs work hard in order to acquire as much of this kind of support as possible. Nevertheless, a large number of the taxpayers still do not make their designation. Consequently, a significant part of the potential 1 percent support remained in the central budget until 2003. Finding a way of distributing this non-designated 1 percent among voluntary organizations became a subject of heated debates right after the introduction of the 1% system. This debate resulted in the creation of another innovative funding scheme, the

National Civil Fund (NCF) (Jenei *et al.*, 2005). The NCF budget depends on the size of the 1 percent designations. In a given year, it can only distribute exactly the same amount of money that the taxpayers' gave to designated recipients in their tax declarations earlier that year.[3]

The NCF's main goal is to support the operating costs of civil society organizations. At least 60 percent of its money must be spent to this purpose. Besides operating costs, another 30 percent of the fund may be devoted to a variety of purposes, including the public benefit activities of civic organizations, domestic and cross-border events, membership and participation in international civic networks, research, education, advisory work and publications about civil society. The NCF may also offer matching grants and there is a possibility to allocate funds to re-granting organizations. The remaining 10 percent of the fund balance covers the administration costs of the NCF itself. Eighty percent of the NCF's sources are mandated to be distributed either as non-refundable or as refundable grants through open application schemes.

Civil society organizations, such as associations, societies and foundations, are eligible to receive support from the NCF. Parties, trade unions, employers' federations, mutual insurance associations, churches, public benefit companies, and public law foundations established by state or municipal institutions are explicitly excluded. Organizations must be at least one year old and active (i.e. operating) to be eligible.

The National Civil Fund is composed of two types of decision-making bodies: the Council and the Colleges.[4] The Council makes the strategic decisions, sets the NCF's priorities, divides its resources among the various purposes and develops its other rules. The Colleges are operative grant-makers: they accept or reject the applications for NCF grants.

The overwhelming majority of the members of both decision-making bodies are civil society representatives. They are selected through a sophisticated open electoral system which is supposed to ensure that TSO representatives have a decisive voice in the distribution of NCF funds. While the 1% system delegates decision-making rights to the citizens themselves, elected representatives of TSOs are the key actors in the redistribution through the National Civil Fund. Figure 2.1 shows that this arrangement is advantageous for the TSOs performing civil society functions and brings government funding closer to the support of the interests of the civil society. At this point the question can be raised: what is the impact of the duality in service provision to the other functions of TSOs?

Governance, civil society and the third sector

The ongoing shift from government to governance in the European Union (van Kersbergen and van Waarden, 2004) has changed the role of the third sector organizations and the civil society. Indeed, civil society was among the initiators of the shift to governance, with its expectations and higher demands. In the course of the shift, governance arrangements have emerged in the EU – at Euro-

pean, national and subnational levels – involving different actors, diverse stakeholders (not only state actors anymore) such as business associations, lobby groups, public interest groups and service providers. The role of civil society has thus become twofold, as:

- a constant external pressure, requiring a shift toward governance;
- an increasing role in the governance of public service networks, and with growing influence on the bargaining and deliberation processes of the regulatory state in the policy arenas – and with an increasing role in social distributive policies both in terms of services provision and also the decision-making processes.

In the EU member countries in the past decades essential reform steps have been taken in public governance and management. These reform steps were triggered by a changing (civil) society with new and different expectations, and by the demand of third sector organizations for more involvement in service provision, for more empowerment in public policy making, and for a more efficient, open and transparent, more customer oriented, more flexible, accessible and consultative government, more focused on performance.

The expectations of civil society and the demands of third sector organizations are of essential importance in the shift from government to governance in general and in the strengthening of openness and transparency, in enhancing public sector performance, in modernizing accountability and control in the creation of new organizational settings, in the use of market type mechanism in particular. It is not a completed process yet, of course. We are in the middle of the creation of essential new relationships between government and civil society, and among market type, public, and third sector organizations.

It has been demonstrated elsewhere during the last decades that the same reform steps produced quite diverse results in different EU member countries (Pollitt and Bouckaert, 2000). The modernization process is hence context dependent, and the influence of the following factors is significant:

- the strength of civil society;
- the capabilities of civil society in articulating, expressing and implementing the interests of different social groups;
- the level of social capital, encompassing social trust;
- the level of vertical and horizontal value orientation in creating networks;
- the service provision power of third sector organizations; and
- the strength of the demand of civil society for making a shift from the "input legitimacy" of modern democracies to the "output legitimacy", which means to a "participatory democracy".

In 2005 the role of civil society and its organizations was evaluated in detail by the OECD, in the context of basic European administrative principles (OECD, 2005). The main conclusions of this report, which have relevance here, are:

- Openness and transparency – the two basic values of governance – are strongly emphasized as requirements of a civil society. Increasing openness and transparency brings third sector and civil society organizations closer together.
- When civil society receives relevant and understandable information on governance activities it means that TSO activities can also become open and transparent to the public. Relevant and understandable information enhances citizens' access to services and the opportunity to participate in decision making. The lack of relevant and understandable information triggers falling levels of social trust. Citizens' trust in TSOs is reduced when they are not informed as to their specific activities. Therefore, TSOs are required to raise their own standards of openness and transparency – even accountability – in order to maintain their creditability and legitimacy toward civil society.
- The credibility of TSOs depends on their public watchdog function as well. In many EU countries, across many public policy areas, this function has been strengthened because TSOs are not amateur lobbyists anymore. They have evolved into highly professional organizations and they can monitor government performance and provide comprehensible information for the public.

While there are traditional sources of independent monitoring of government performance (e.g. media, international organizations, rating agencies), TSOs have to become new, influential actors in monitoring activities, because they can significantly increase the power and vocal demands of the civil society for openness, transparency and accountability. Openness and transparency strengthen participatory democracy by providing civil society with opportunities to take an active role in society, by exposing abuse of power and corruption, offering greater protection against mismanagement and providing greater opportunities for full range participation in decision making and in service provision.

Civil society has higher demands for an accessible and responsive decision making and public service provision. This can be required not only from the public agencies but from the TSOs as well. In some EU member countries, citizen's access is enhanced through customer charters, which can establish appropriate redress mechanisms for citizens from public services.

Enhancing the performance level of TSOs is also an essential requirement and across the EU, many member states have introduced performance-oriented budgeting and performance management. Many TSOs already link expenditures to specific targets. The key issue is to what extent, in the future, performance results will determine budget allocations and whether the structure of expenditures is dependent upon outcome targets as well.

TSOs are challenged by public agencies and private enterprises in implementing performance management reforms. It is strongly recommended for TSOs to use performance results to set the priorities of projects and different activities, to allocate resources within the projects. A regular improvement of

the decision-making process is also needed based on monitoring the type of project evaluation. More autonomy is to be given to the managers of TSOs in using resources for achieving results and improving performance.

In this context, accountability to the citizens has to be improved. TSOs have to be accountable toward their members and toward their target groups in order to increase public trust. Because of scandals, public trust has declined toward TSOs in some areas. Therefore improvement of transparency and accountability is crucially important. It has to include reforms in the application of techniques of performance budgeting and management but also changes in the behavior of TSO employees.

A final challenge for TSOs is the reorganization of their internal processes and activities as a consequence of their strategic partnership relationships with public agencies and the private sector. TSOs now have to compete with organizations from both sectors. In the process of such competition new challenges can emerge for their management systems and reporting mechanisms. Reorganization of TSOs creates new relationships with their members, with their new stakeholders and with other citizen groups. These differing demands need to be balanced by TSOs.

Conclusions

In the EU member countries – depending on differences in their economic, social and cultural context and on historical traditions – a diversity exists in the empowerment of civil society and in the involvement of their organizations in the public sphere. However, some general conclusions can still be drawn:

- The level of the empowerment can be related to the potential shift from representative (output) democracy to the participatory (input) democracy in some parts of the EU.
- The bargaining and lobby power of civil society and its organizations has been increasing in the area of regulatory policy making.
- The service provision function of TSOs in different policy areas has grown significantly, mainly services provision but with commensurate development in the decision making processes of the distributive policies as well.
- Civic participation has been strengthening through the emergence of a "civil dialogue", which implies a shift from consultation by government to co-decision making with it.
- Civil society organizations are accepted by many EU governments and, accordingly, supported as having important economic and social roles in democratic societies.
- The multifunctional character of these organizations is differentiated at the EU level by distinguishing between operational organizations with service delivery function and advocacy organizations aiming to have an impact on the policies of the government, on the behavior of public agencies and on

public opinion. It means that civil society has the potential to contribute not only to the improvement of the input, but also to the output, of the legitimacy of democratic societies in Europe.

Notes

1 These statistical data come from Hungary (Nonprofit szervezetek Magyarországon, 2005) because these are the only ones which are detailed enough and easily available for the authors. However, we would probably find a similar pattern in other countries of the CEE region. It is also possible that the pattern would be not too different in the more developed parts of Europe, either.
2 There are several differences between the national versions of the 1% system. Since these are not important in the context of the present discussion, we limit ourselves to a short overview of the original Hungarian scheme.
3 However, the law guarantees that this amount cannot be less than 0.5 percent of the personal income tax, even if taxpayers' 1 percent designations prove to be extremely low.
4 "College" is a rough translation of the Latin-based Hungarian word "kollégium". Its actual meaning is a decision-making board.

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3 Where does social capital come from?*

Dag Wollebæk and Per Selle

Introduction

The present study re-examines the face to face hypothesis in the social capital literature by comparing Putnam's socialization perspective with institutionally oriented perspectives in a cross-national context. There are main differences between the perspectives. Both perspectives agree that organizational affiliation does have an impact on individual levels of social capital. In a socialization perspective, only active members and volunteers develop social capital through organizational activity, as only they experience face to face interaction. On aggregate, members should therefore display higher levels of social capital than non-members, but active members and volunteers should score even higher on such measures. There should, however, be no difference between passive members and non-members. In an institutional perspective, members will tend to have somewhat higher levels of social capital than non-members as their linkages to organizations provide them with direct representation by the organization, loyalty to a system of collective action and more direct knowledge about what the organization does by means of newsletters or emails. Social interaction with other members is not crucial in this perspective. In contrast to the socialization perspective, therefore, there is no hypothesized effect of active over passive affiliations.

Rather than the intensity of the involvement, an institutional perspective stresses its *scope:* the more linkages, the better. Thus, a passive member of two associations should have higher social capital than an active member of one. More important than the individual effects, however, is the impact overlapping memberships has for society. The number of memberships held in a population should be a stronger predictor of social capital than the proportion of the population which is active. By contrast, the face to face hypothesis asserts that the number of passive memberships does not compensate for the lack of direct involvement. Thus, intensity is more important than scope, and active members of one association should have higher social capital than passive members of several. Furthermore, societies characterized by numerous passive members should display *lower* levels of social capital than societies with fewer, more active members.