



THIRD  
SECTOR  
IMPACT

Measuring impact.  
Enhancing visibility

# THE THIRD SECTOR

## A RENEWABLE RESOURCE FOR EUROPE

Summary of main findings of the Third Sector Impact project

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The Third Sector Impact (TSI) project constitutes an ambitious effort to fill the knowledge gaps, leading to a lack of identity and awareness, information, data availability, and foundation for knowledge-based policies related to the third sector in Europe, at least in part, by drawing on the combined strengths of the academic community, government, and the third sector itself. More specifically, the project aimed at accomplishing **four inter-related major objectives**:

- **First:** To clarify the **concept** of the third sector in its European manifestations and put it into meaningful context in relation to broader international conceptualizations of this sector;
- **Second:** To identify the **major contours** of the sector so defined—its size, structure, composition, sources of support, and recent trends; and make progress in putting in place permanent mechanisms to track its evolution over time and compare it to similar developments elsewhere;
- **Third:** To identify the impacts of this sector, its **contributions** to European economic development, innovation, citizen well-being, civic engagement, and human development, and to create capabilities to measure these contributions into the future;
- **Fourth:** To identify **barriers** both internal to organizations and external to them that might be impeding their ability to contribute even more to European socio-economic development, and suggest **ways these barriers might be overcome**.

Indeed, the third sector and volunteering represent a unique ‘renewable resource’ for social and economic problem-solving and civic engagement in Europe. At this time of social and economic distress and enormous pressures on governmental budgets, this resource is needed more than ever—not as an alternative to government but as a full-fledged partner in the effort to promote European progress. But Europe cannot take full advantage of this resource unless it develops a clearer understanding of the third sector’s scope and scale, its existing and potential impacts, and the barriers that are impeding its full contributions to the continent’s common welfare.

The Third Sector (TSI) project has contributed to improving the sector’s:

- **Identity and awareness** by providing a shared understanding across Europe and in the EU of what exactly the third sector is and what its role is in the European public space.
- **Information**, by bringing together a broad network of stakeholders and enabling the sharing of research and practice, innovations and policy developments.
- **Data availability**, by providing a common set of methodologies for collecting and analysing data about the third sector and its impact.
- **Knowledge about barriers and resilience strategies**, by providing an overview of the common trends across Europe characterizing the barriers to the development of third sector organizations and their adaptive strategies.

By increasing the state of knowledge about the sector made available to citizens, third sector organizations and policy-makers, the results achieved by the TSI project are expected to improve the visibility and legitimacy of the third sector and thereby its contribution to Europe’s socio-economic development.

This summary of findings present the main results achieved by the TSI project along the four objectives of the project.



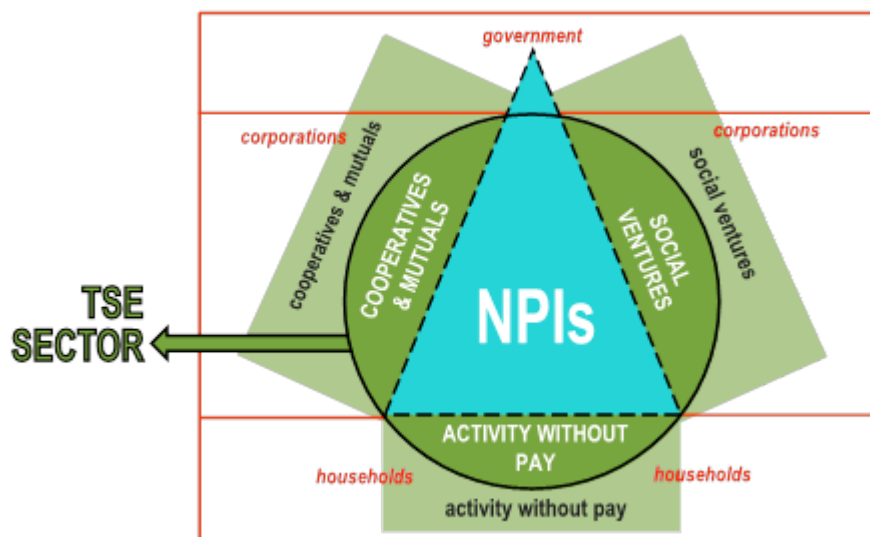


# CONCEPT

This conceptualization builds upon the widespread bottom-up investigation carried out in more than 40 countries scattered widely across the world in the process that led to the conceptualization of the “nonprofit sector” in the Johns Hopkins Comparative Nonprofit Sector Project, but supplements this with a similar bottom-up investigation carried out more recently in a broad cross-section of European countries—north, south, east, and west—to tap understandings of the broader concept of “third sector” and its various regional cognates, such as the social economy, civil society, and social entrepreneurship. Building on these bottom-up processes, a consensus conceptualization was hammered out through a vigorous set of discussions among representatives of 11 research institutes, an advisory board, and sector stakeholders. The goal was to provide as broad a consensus conceptualization as possible and one that could provide a basis for systematic comparisons both among European countries and between them and countries in other parts of the world.

Figure 1 below illustrates this conceptualization task. The circular line marks the hypothesized boundary of what we can term the third sector/social economy, or TSE sector, and differentiates the institutional and individual action components that are in-scope of this sector from those that are out-of-scope.

**Fig. 1: Conceptualizing the Third Sector**



In order to obtain an operational conception of the Third Sector/Social Economy (TSE) Sector, we began with the existing consensus definitions of the NPI sector and volunteer work, respectively, and searched for ways to refine them to incorporate portions of these other potentially in-scope institutional and individual-action components.



## Institutional Components

An institutional unit—whether a nonprofit organization, an association, a cooperative, a mutual, a social enterprise, or any other type of institutional entity in a country—must meet all five of these features to be considered “in-scope” of the third, or TSE, sector.

In particular, to be considered part of the TSE sector, entities must be:

- **Organizations**, whether formal or informal;
- **Private**;
- **Self-governed**;
- **Non-compulsory**; and
- **Totally or significantly limited from distributing any surplus they earn to investors, members, or other stakeholders.**

This means they must:

- (i) Have a legally binding social mission that may limit the surplus generated by their activities;
- (ii) Be prohibited from distributing any more than 50 per cent of any profit they may earn to any stakeholders or investors; and
- (iii) Operate under a “capital lock” that requires that all retained profits must be used to support the organization or, in the case of its dissolution or conversion, to support another entity with a similar social purpose.

The final requirement is that the organizations either:

- (iv) Include at least 30 per cent of individuals with specified special needs among their employees and/or beneficiaries; *or*
- (v) Be prohibited from distributing any profits they may earn in proportion to capital invested or fees paid, but payment of reasonable interest is permitted.

## Informal and Individual Components

In addition to organizations, the TSE sector embraces a variety of individual and informal activities. Here the project adopted the official, internationally recommended definition of volunteer work presented in the International Labour Organization’s 2011 *Manual on the Measurement of Volunteer Work*, which defines “volunteer work” as “unpaid, non-compulsory work; that is, time individuals give without pay to activities performed either through an organization or directly for others outside their own household or family.”<sup>1</sup> Individual activities in-scope of the TSE sector thus include activities with the following characteristics:

- **They produce benefits for others and not just, or chiefly, for the person performing it.**
- **They are not casual or episodic.**
- **They are unpaid.**
- **The activity is not aimed at benefiting members of one’s household or their close family or families** (e.g., next of kin—brothers, sisters, parents, grandparents, and respective children).
- **The activity is non-compulsory**, which means it involves a meaningful element of individual choice.

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<sup>1</sup> ILO. “Manual on the Measurement of Volunteer Work.” Geneva: International Labour Organization, 2011.





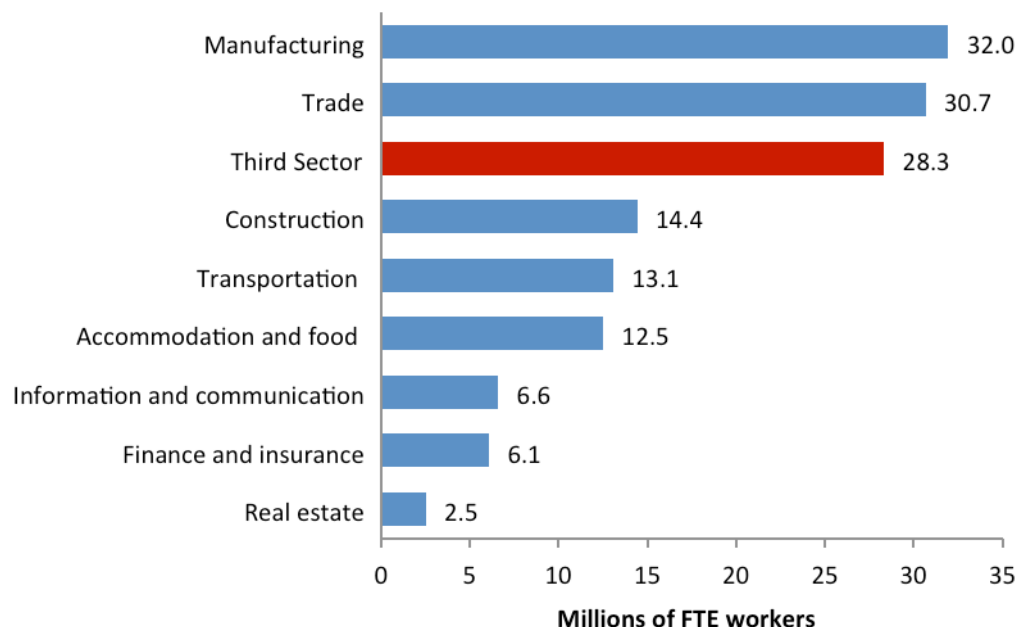
## SIZE AND SCOPE

Armed with this conceptualization of the third sector we are now in a position to give a first estimate of the size of the third sector in Europe.

The European third sector is an enormous economic force, outdistancing most major industries in the scale of its workforce. Taken together, as of 2014, which are the latest data available, the European third sector engages an estimated 28.3 million full-time equivalent (FTE) workers (paid and volunteer) in the 28 EU countries and Norway. The European TS thus accounts for nearly 13 percent of the European workforce. This is a significant contribution because any industry that accounts for 5 percent of the employment of a country is considered to be a major industry.

Put somewhat differently, the European third sector has the third largest workforce of any “industry” in Europe, trailing only trade and manufacturing, but outdistancing the construction and transportation industries by 2:1, and the financial services industry by 5:1, as shown in Figure 2

**Figure 2. Size of the TS workforce vs. employment in major industries, 29 European countries, 2014**



A second striking characteristic of the European TSE is its engagement of volunteers in addition to paid employees. In fact, over 15 million full-time equivalent workers in the civil society sector in Europe are volunteers, which is 55 percent of the workforce.





# IMPACT

We have now drawn the borders between the TSE-sector and other parts of society, and we have measured the size of the workforce. This raises the question about why we need a third sector in Europe. To answer this question we must first find out what impact means, and what the TSE sector may have impact on.

It is important to distinguish between evaluation of *performance* of an activity and the *impact*. Evaluation of performance looks at the relationship between the input and the output, and if the output is less than expected from the resources that went in, we would say that the activity is inefficient. However, the impact has nothing to do with this kind of internal evaluation. It has to do with the effects of the TSE-sector on other parts of society, which means specific changes in individuals or community that result from the outcome of the activity of volunteers or of the third sector organizations. However, society and individuals change all the time, sometimes for better and sometimes for worse. In other words, impact is the portion of the total outcome above and beyond what would have happened without the third sector activity. Moreover, impacts that only last a very short period may just be an effect of the novelty of an intervention or of being observed during the evaluation process, so the analysis should focus on medium to long-term consequences.

*Third sector impact* means direct or indirect, medium to long-term consequences of the activity of volunteers or of the third sector organizations on individuals or on the community, ranging from neighbourhoods to society in general. Impact goes beyond and above the outcome that would have happened without the third sector activity.

## **Impact areas focused on by TSI project**

Third sector organizations and volunteers are fulfilling a set of functions or roles in society such as service provision, advocacy, community-building, and value-maintenance. For each of these roles played by third sector organizations, it is possible to infer a set of expected impacts at the individual, organizational, community and societal levels. Some of these impacts are distinctive (idiosyncratic) to the third sector organizations whereas other impacts – such as the impact of service production and economic activities – are common to other types of societal spheres and actors. For each of these functions it is possible to identify third sector organizations' specific contributions – i.e. the functional features that are particularly characteristic of these organizations. Based on reviews of previous research, these functions and roles can be translated into six domains of impact: well-being and quality of life; innovation; civic engagement, empowerment, advocacy and community building; economic impacts; and human resources impacts<sup>2</sup>. Several studies of impact, at both the individual and societal levels, have been

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<sup>2</sup>Simsa, R., Rauscher, O., et.al. (2014) "Methodological Guideline For Impact Assessment", TSI Working Paper Series No. 1. Seventh Framework Programme (grant agreement 613034), European Union. Brussels: Third Sector Impact.



undertaken within the TSI project. Although there is evidence of impacts of the third sector, the findings differ between the impact domains and between the individual, organizational, and national level.

### **Impact on civic engagement, empowerment, advocacy, community building**

One of the potential impact domains we have identified for the TSE-sector is civic engagement, empowerment and advocacy, which also means that third-sector organizations can be schools for democracy. Closely related to this line of thinking is the emphasis recently placed on the third sector as a major contributor to social capital, to those bonds of trust and reciprocity without which neither democracy nor markets can operate.

At the macro level, comparisons between countries consistently display a correlation between social capital and political engagement, on the one hand, and the size of the third sector employment, on the other hand. The Nordic countries and Northern Europe are characterized by high levels of social trust and political engagement, while Eastern European countries are displaying the lowest levels of trust, and political engagement in Europe; the Southern countries being located in between these two sets of countries. High scores on these indicators coincide with vibrant civil societies, absence of corruption, strong trust in institutions, high scores on all indices of economic and gender equality, and a culture of adherence to laws and regulations alongside a critical attitude towards politicians and excessive state power. We also find that the size of the voluntary sector is positively associated with high levels of social trust. This effect is evident even when controlling for other aggregated measures which can influence this indicator, such as the GDP per capita, the level of inequalities measured by the GINI index, the level of social expenditures in the country, and the employment rate in the country. Although empirical investigations establish a correlation between the size of the third sector and indicators of trust and civic engagement, it is, however, in the absence of better data, difficult to establish the direction of causality between these indicators.

### **Impact on well-being**

Third sector organizations have long been associated with the provision of human services that contribute to well-being and the quality of life. The Stiglitz report emphasized the need to “shift emphasis from measuring economic production to measuring people’s well-being” and called attention particularly to the role that third sector institutions play. We find that, at the national macro level, the size of the voluntary sector is negatively associated with the level of self-reported wellbeing when controlling for other aggregated measures which can influence this indicator. This may be a product of the well-known “reverse J-curve effect” in which aspirations continue to grow faster than improvements in social and economic conditions once a certain level of such conditions is achieved. However, levels of wellbeing decrease with inequalities.

### **Impact on human resources**

An important domain for impact of the third sector is related to the impacts these organizations have – not on the society at large – but on those who work or volunteer in third sector organizations. This set of impacts has been emphasized most explicitly by studies of volunteering, but there are studies of paid personnel as well. A problem with this is that people disposing higher levels of resources in terms of education, skills, and income also are more



likely to be involved in the third sector activities, which makes it difficult to differentiate between the characteristics of who are recruited from the effect of volunteering. Using propensity scores matching methods in order to address this issue, we find<sup>3</sup>, based on the European Social Survey data for 23 European countries, that volunteering has a minimal impact on self-reported health, no impact on self-reported well-being, but a significant impact on political engagement. We find also that there is an impact of volunteering on unemployed individuals' wellbeing and mental health, but this effect depends on generous welfare benefits.<sup>4</sup> Human resource effects on people in a vulnerable situation can be particularly important, but often they are less likely to volunteer.

### **The context-dependency of third sector impact**

The socio-economic impacts of third sector organizations are contingent on the political and institutional context in which the third sector is embedded. Path dependency and social origins theories address both the nature of the *civil society regime* in which these organizations operate and the *institutional space of freedom* that the state grants to these organizations. These appear as crucial factors influencing the type and degree of impact that the TSE sector can make on society.

We find<sup>5</sup> that countries having high levels of volunteering (both volunteering within and outside third sector organizations) are also countries displaying high public welfare expenditures. An important reason for this is that when the government pays for welfare services, the families have more time to volunteer. This can be most easily seen in the Scandinavian countries and the Netherlands, which have high levels of volunteering and high welfare costs. Countries like France and Germany have somewhat lower welfare costs, but also much lower levels of volunteering. The southern European countries Spain and Portugal followed by the post-communist countries are at the lower end of the scale with low welfare costs and low levels of volunteering. This means that the impact of the third sector varies with the type of institutional arrangements constituting the welfare state in different European countries.

The space of freedom opened by the state appears, too, to constitute a crucial contextual factor for the third sector's ability to make a societal impact. In a comparative study of democratization pathways and levels of volunteering in six countries of the former Soviet Union, we find that Latvia, Lithuania, and Estonia have high and increasing levels of civil liberties and volunteering. In Russia and Belarus, civil liberties have remained low and volunteering has declined. The findings suggest it is not volunteering that brings civil liberties, but rather that increased civil liberties lead to higher levels of volunteering.<sup>6</sup> Similarly, a study<sup>7</sup>

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<sup>3</sup> Enjolras, B. (2015) "The Impact of Volunteering on Volunteers in 23 European Countries", TSI Working Paper Series No. 4, Seventh Framework Programme (grant agreement 613034), European Union. Brussels: Third Sector Impact.

<sup>4</sup> Kamerāde, D. & Bennett, M. (2015) Unemployment, volunteering, subjective well-being and mental health, TSI Working Paper Series No. 7. Seventh Framework Programme (grant agreement 613034), European Union. Brussels: Third Sector Impact.

<sup>5</sup> Sivesind, K. H. (2016) "Developmental trends of the Third Sector in EU – Growth in paid employment and volunteering", TSI Working Paper Series No. ??, Seventh Framework Programme (grant agreement 613034), European Union. Brussels: Third Sector Impact.

<sup>6</sup> Kamerade, D. et.al. 2016, *Civil liberties and volunteering in six former Soviet Union countries*. Nonprofit and Voluntary Sector Quarterly, <http://nvs.sagepub.com/content/early/2016/05/18/0899764016649689.abstract>





of the role and impact of the Third Sector in the transformative processes characterizing post-socialist countries, comparing Slovenia, Czech Republic and Croatia, shows that the different paths followed by the third sector in these countries is mainly due to different policies implemented by the state.

### **Does the European third sector make a socio-economic impact?**

A systematic review of literature<sup>8</sup> and of the empirical evidences produced by the Third Sector Impact project's research suggests that the third sector generates a set of distinctive socio-economic impacts on society.

At the societal level, knowledge about the impacts of the third sector on other parts of society is scattered and inconclusive. Measurement of the third sector's size, structure and composition can take advantage of standardized procedures, definitions and typologies, such as the UN *Handbook for Nonprofit Organizations in the System of National Accounts*<sup>9</sup>, and the ILO *Manual on the Measurement of Volunteer Work*<sup>10</sup>. Unfortunately, these procedures are not fully implemented across Europe, a consequence being the poor quality of available data about the third sector and volunteering. Whereas a theoretical understanding of the functions, roles and specific features of third sector organizations points in the direction of a wide array of potential socio-economic impacts of the third sector at different levels of analysis, the lack of data about the third sector's output and even more so about potential impact indicators hinders the empirical validation of these theoretical insights.

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<sup>7</sup> Bežovan, G. (2016) *"The role and impact of the Third Sector in a transformative process: A comparison of post-socialist countries Slovenia, Czech Republic and Croatia"*, TSI Working Paper Series No. ??, Seventh Framework Programme (grant agreement 613034), European Union. Brussels: Third Sector Impact.

<sup>8</sup> Kamerāde, D., (2015) *"Third Sector impacts on human resources and community"*, TSI Working Paper No. 3, Seventh Framework Programme (grant agreement 613034), European Union. Brussels: Third Sector Impact.

<sup>9</sup> A revised version of this *Handbook* encompassing much of the social economy, social enterprise, and direct volunteer work is available on the following web site:

<http://unstats.un.org/unsd/nationalaccount/gc.asp>

<sup>10</sup> *Manual on the Measurement of Volunteer Work*, International Labour Organization, 2011 (ILO Manual).





## Barriers

Whatever the current state of third sector and volunteering impact, it is clear to most observers that this impact can be enhanced by strengthening the European third sector and removing barriers that inhibit the successful and effective operation of its organizations and volunteering.

In many European countries, political stability and reputation of the Union are put into question through the growth of populist parties, strongly supporting nationalistic tendencies among their populations. The unemployment rates are skyrocketing in many European countries, in particular in the Mediterranean region and in Eastern Europe. The Euro hardly managed to survive the economic crisis of 2008. Among the affluent countries in Central Europe, tendencies to leave the so-called Euro-Zone are increasingly gaining popularity. Against this background, it is questionable whether the success story of the sector in Europe that was prevalent during the 1990s is going to continue. It is not to say that government-third sector co-operations, civiness and volunteering are no longer contributing to the diversity of Europe and to the wellbeing of its citizens. For sure, Europe's third sector is well developed and remarkable in terms of size and scope. But, it is increasingly unclear whether the third sector is able to stick to its roots and to continue to provide an alternative compared to the competing sectors, in particular to the "market" and the for-profit. Based on our research, we have identified an array of common trends and barriers to TSO development as a result of changes of their environment.

**Managed Volunteering.** As the bonds to third sector organizations have eroded, a continuous supply of volunteers and members does not automatically occur any more as volunteers have to be actively retained. Additionally, the mobility of citizens increased. Hence, volunteers are increasingly engaged on a temporary basis and personal goals play a decisive role for taking up a volunteer job rather than the commitment to an organization. As the engagement has become more fluid and flexible a continuous influx of volunteers and members has to be managed and integrated into the workflow. TSOs increasingly devote resources to a volunteer management system in order to cope with the growing fluctuation. In a nutshell, volunteer work is reported to be more flexible, informal, project based and not directly linked to organizations. Long term commitment is on the retreat which is best exemplified by the difficulty of recruiting board members while episodic volunteering, which is of temporary nature, enjoys a high popularity, e.g. organizing single events. The dominant organizational model, which is built on a governance structure with a high volunteer involvement, is losing its base, which forces TSOs to reconstruct their modus operandi.

**Scarce Resources: Changing modes of financing.** With the rise of neoliberalism as the dominant paradigm changing the institutional design of the welfare state the logics of markets have made inroads into the field of third sector policies and a withdrawal of the state in monetary terms can be observed. Firstly, although government funding is still of major importance for TSOs, public funds are scaled back in the context of vast austerity measures that have been implemented following the financial crisis of 2008. Secondly, social policies increasingly follow a social-investment-logic as market instruments are used to pursue social goals, which changed



the modes of public financing substantially. Until the nineties, public funds granted full cost coverage. Additionally, public funds are increasingly designed to foster consumer choice. In many areas of social policy citizens are vested with consumer rights and “buy” the products on a social market via vouchers for e.g. child or health care services. Their mix of acquired service might include commercial or third sector providers or informal help. As the financial support is more geared towards the consumer than the producer of services, TSOs are required to compete over clients on the market. On account of scarce resources, TSOs are tapping new financial resources and diversify their portfolio. In this context marketing and social sponsoring are gaining importance and in all countries under study TSOs report that they allocate more resources to fundraising. The diversification of financial resources carries the risks that managing TSOs becomes more demanding as accountability requirements of different funders have to be taken into account.

**Down by bureaucratization.** Throughout Europe we observe a rise of neoliberal approaches to address socio-economic challenges, which favors market solutions for public problems. Across Europe the public administration marketized their structures. In this vein new public management reforms were carried out. These reforms are interrelated with a general cultural shift from a trust-me to a prove-me-culture for the third sector. The relationship with public administration changed from a partnership at eye level to a customer-supplier relationship. TSOs have to demonstrate their effectiveness and efficiency. Consequently TSOs are under permanent bureaucratic stress to report to their funders. Among other measures, contract-based management procedures were introduced where the terms of delivery are strictly defined by public agencies. Extensive reporting obligations force TSOs under stricter scrutiny of public authorities. High transparency and accountability requirements lead to a bureaucratic burden for TSOs. Also private donors prioritize evaluation and demand more accountability about how the money is spent in terms of efficiency and effectiveness. In the face of increasing reporting and efficiency pressures, market-compatible structures were introduced.

**Lack of infrastructure and public space.** Cultural activities such as exhibitions, (amateur) theatre or concerts are notably space consuming and the availability of sports facilities is a precondition for practicing sports. Currently, TSOs active in the area of arts and culture and the area of sports are faced with limited access to facilities and available space. In metropolitan areas with rising shortage of residential space, it has become increasingly difficult for TSOs to find places for encounters and convivial gatherings as available public space is converted into “cash”, e.g. upscale real estate or commercial centers. In municipalities under austerity regimes, public facilities such as gyms are often in poor condition or hardly available. Here, the availability of facilities, e.g. for practicing sports, is increasingly restricted. Consequently, compared with commercial providers, sports clubs lose attractiveness and third sector cultural organizations are limited in their ability to engage in art productions.

**Low –pay third sector jobs.** Personnel costs loom particularly large in third sector Organizations. Hence, the cost and efficiency pressures and the financial instability outlined before have been translated into precarious employments patterns. Personnel per service unit is downsized, the workload of employees intensified, the salaries are lowered and atypical employment patterns like fixed term contracts, part time and marginal part time jobs are on the rise. Except in Spain, where unemployment is high and working conditions have worsened, working in the sector becomes increasingly unattractive. Particularly in areas where the mental and physical stress is high TSOs face serious problems to recruit personnel. These circumstances carry the risk that the quality of service delivery will deteriorate as TSOs might have to employ less professionally competent personnel and further engage in reducing personnel costs per service unit in order to fill a growing staffing gap.



# The road ahead: toward a renewal strategy for the third sector in Europe

The results of the research carried out within the Third Sector Impact (TSI) project points towards two implications for the future of the third sector in Europe.

**First**, the third sector's legitimacy and visibility in Europe are weak as a result of a lack of common understanding of the nature of the sector and of recognition and institutionalization into the statistical apparatus and policy-arena. The TSI project has enabled us to provide a common concept of the third sector reflecting the diversity of its components in Europe, as well as a first estimate of its socio-economic significance and impact. Further steps have to be undertaken in order to secure the visibility and legitimacy of the sector in Europe, entailing:

- The adoption of statistical standards (UN Handbook on Nonprofit Institutions in the System of National Accounts, 2003 and its 2017 revision entitled *Satellite Account Handbook on Nonprofit and Related Institutions and Household Volunteer Activities*, and the *Manual on the Measurement of Volunteer Work*, International Labour Organization, 2011) by statistical agencies across Europe and at the European level to enable the production of reliable statistics about the sector;
- The adoption of a common methodology for assessing the sector's socio-economic impact and the production of suitable data for this purpose, as also outlined in the revised UN *Satellite Account Manual*; and
- The recognition of the third sector as a policy-field at the European level.

**Second**, after a period of development and supportive policies in the 1990's, the societal and policy-environment of TSOs in Europe and the survival strategies these organizations have had to develop in response, are contributing to threatening the specific socio-economic contributions of the third sector. It seems that there are two main scenarios for the future of the third sector in Europe: *A drift scenario*, either as a result of the status quo or as a result of an increasing marketization of the sector, and *a renewal scenario*, where the policy-makers and the sector's players are willing to enhance a process of social and cultural change entailing (i) the development of a new culture of government-TSO relations that recognizes the specificities of TSOs and their contributions to socio-economic development, and (ii) a renewal of the social economy tradition and organizational model as well as the enhancement of an adapted policy environment enabling organizations to combine entrepreneurial innovation with community orientation.

