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Working under pressure: economic recession and third sector development in Europe

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# Working under pressure: economic recession and third sector development in Europe

Working  
under  
pressure

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## Abstract

**Purpose** – The context conditions for third sector organizations (TSOs) in Europe have significantly changed as a result of the global economic crisis, including decreasing levels of public funding and changing modes of relations with the state. The effect of economic recession, however, varies across Europe. The purpose of this paper is to understand why this is the case. It analyses the impact of economic recession and related policy changes on third sector development in Europe. The economic effects on TSOs are thereby placed into a broader context of changing third sector policies and welfare state restructuring.

**Design/methodology/approach** – The paper focusses on two research questions: how has the changing policy environment affected the development of the third sector? And what kind of strategies have TSOs adopted to respond to these changes? The paper first investigates general trends in Europe, based on a conceptual model that focusses on economic recession and austerity policies with regard to the third sector. In a second step of analysis, the paper provides five country case studies that exemplify policy changes and responses from the third sector in France, Germany, the Netherlands, Poland and Spain.

**Findings** – The paper argues that three different development paths can be identified across Europe. In some countries (France and Spain), TSOs face a strong effect of economic recession. In other countries (Germany and Poland) the development of the third sector remains largely stable, albeit at different levels, whereas in the Netherlands, TSOs rather experience changes in the policy environment than a direct impact of economic decline. The paper also shows that response strategies of the third sector in Europe depend on the context conditions. The paper is based on the European project “Third Sector Impact.” It combines an analysis of statistical information with qualitative data from interviews with third sector representatives.

**Originality/value** – The paper contributes to our understanding of the interrelation between economic recession, long-term policy changes and third sector development in Europe.

**Keywords** Public policy, European Union, Third sector, Economic recession

**Paper type** Research paper



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## 1. Introduction

Third sector organizations (TSOs) – commonly defined as organizations being both independent from the state and the market – are playing an important role in Europe (Evers and Laville, 2004; Osborne, 2008; Monzon and Chaves, 2012). In many European countries, TSOs have a long tradition and fulfill vital functions in society, particularly in the field of welfare provision and labor inclusion (Spear *et al.*, 2001; Evers and Laville, 2004). The European third sector comprises a broad variety of different organizations, ranging from neighborhood initiatives to professionalized umbrella organizations, and from civic associations to advocacy networks, and charity foundations. Moreover, in some European countries, co-operatives and social enterprises are attributed to the third sector. Within the European third sector, TSOs exist both to provide goods or services to members (member-serving organizations) or clients (public-benefit organizations) (Never, 2011). In addition, TSOs are active in various policy fields, e.g. in health and social services, labor inclusion, sports as well as culture and arts. Common to all of these diverse organizations is that they link private initiative to a public or charitable purpose.

The global economic recession, starting in 2007, has had a profound impact on the European third sector. Similar to the previous recession (1977-1984), economic downturn and related austerity policies have not only affected the availability of public and private funding for TSOs, but also altered the modes of their cooperation with the state (Salamon, 1986, 1995). Moreover, one can observe a shift in societal discourses on the role of the third sector. The perceptions of TSOs have changes and so have the expectations toward the organizations. In many EU member states, the effects of the global economic crisis and subsequent austerity policies aggravated the challenges TSOs are confronted with. The most direct consequences of austerity are a decrease in the availability of funding resources. More long-term effects of austerity include the impact on the internal structure of the third sector, its alignment toward external stakeholders and its interrelations with state and society.

Policy changes associated with austerity do not stand alone, but take place against the background of broader societal developments which can be observed in many European countries as a major impact on third sector development. A growing trend toward individualization, for instance, has changed the character of volunteering and civic participation in Europe. Individualization and other social transformations have challenged the functional logic of TSOs and led to increased competition both within the sector and between TSOs and for-profit organizations. Furthermore, many European countries have in recent years been restructuring their welfare states with direct consequences for those TSOs that have been closely involved in the provision of social services in Europe. As a consequence to increasing external pressures, many TSOs have, for instance, introduced professionalized volunteer management systems and other governance measures that are meant to strengthen output efficiency. The activities of TSOs are more and more geared toward a higher service orientation to keep up with the increased attractiveness of commercial competitors. These broader societal trends can be observed to different degrees in all European countries. They are also reflected in societal discourses which demand higher levels of accountability and legitimacy from the third sector.

Previous research (Evers and Zimmer, 2010; Never, 2011; Thomas and Trafford, 2013) and various observations from the sector itself indicate that the consequences of economic recession on the third sector in Europe have been substantial and lasting. However, when studying this impact, we need to distinguish between direct and

indirect effects of the economic crisis. Direct effects include shrinking levels of private and public funding which have immediate consequences for non-profit financing and sustainability. Indirect effects include long-term changes in the policy environment and in society which are more loosely linked to economic development, but all the more need to be considered, as they are shaping the context conditions for third sector development in Europe.

When reviewing the existing literature on the effects of economic recession on third sector development, it is striking to find out that there are many more studies on the US-American than on the European context. Moreover, studies on Europe mostly focus on individual countries or on the TSOs in a specific policy field, such as sport (Evers and Zimmer, 2010), community development and youth services (Never, 2011) or culture and arts (Thomas and Trafford, 2013). A comparative analysis on the crisis and third sector development in Europe, however, does not exist, and thus forms the starting point for this study.

This paper aims to provide a general analysis on the impact of economic recession and related policy changes on the development of TSOs in Europe. In the analysis we focus on five European countries: France, Germany, the Netherlands, Poland and Spain which have been selected on the basis of their third sector characteristics. Several questions guided the analysis: how have transforming policy environments, e.g. the impact of the global financial crisis and subsequent austerity measures, changed the context for third sector development in Europe? How have TSOs responded to the challenges of a transforming policy environment? What kind of opportunities and obstacles have they been encountering? What are successful strategies of adaptation to cope with these challenges?

The paper is structured as follows: first, we will provide an overview of the economic crisis in Europe. Second, we will develop a conceptual model that enables us to analyze the interrelation between economic recession, broader policy changes and third sector development. Third we will present five case studies that exemplify third sector development and responses to economic recession in France, Germany, the Netherlands, Poland and Spain. The paper will conclude with a summary that brings the different European experiences together. By providing a comparative analysis of the third sector in European countries, this paper does not only aim to account for country characteristics, but also to identify broader trends of third sector development in Europe. The analysis is based on document analysis, in-depth interviews and an online survey among third sector representatives in the countries under study. The empirical case studies have been conducted in the framework of the Third Sector Impact (TSI) project which is coordinated by the Institute for Social Research in Oslo and funded by the European Union Seventh Framework Programme (FP7)[1].

## **2. Background: economic recession and its impact on Europe**

Before we turn to the analysis of the impact of economic recession and related austerity policies on third sector development in Europe, we need to clarify what the global economic crisis is and how it has affected Europe.

The global economic and financial crisis started in 2007 and can roughly be divided into four phases. The crisis is described as “the most severe financial crisis since the Great Depression” (Claessens *et al.*, 2010). The first phase began in the USA as a financial crisis linked to the real estate market and in 2008 and 2009 reached worldwide proportions (Guillén, 2012). An important factor in the unfolding crisis was overextended households and mortgage loans which affected the international

banking system (Claessens *et al.*, 2010). According to the International Monetary Fund (IMF), in 2009, global economy went into recession which happened for the first time in decades (IMF, 2009). The world gross domestic product (GDP) decreased by 0.5 percent in this year. The global crisis most seriously affected the economy of developed countries such as Germany (−4.7 percent in GDP), Japan (−6.3 percent in GDP) and the USA (−2.6 percent in GDP). As a result of the crisis, countries all over the world experienced financial stress and reduced economic activity. The impact of the crisis, however, has varied across countries based on their economic and financial vulnerability (Claessens *et al.*, 2010).

The second phase of the global economic and financial crisis began in late 2009 and has been concentrated on Europe. In 2009 and 2010, European governments deployed two kinds of economic policies to respond to the crisis: financial policies to rescue national banks and fiscal (Keynesian) policies to reactivate the economy. In the third phase (2010 and 2011), most European countries first recorded a growth of their GDP. However, with an even greater increase in public account deficits this trend turned into an increase in sovereign debt over the following years. Public sector borrowing led to growing inflation which could not be regulated anymore by national fiscal policies, thus resulting in increasing public account deficits (Lane, 2012). As a consequence, several member states of the Eurozone (Cyprus, Greece, Ireland, Portugal and Spain) were unable to refinance their government debt or to bail out over-indebted banks under their national supervision.

In the fourth phase (2011 and after), Keynesian policies were replaced by austerity measures: European governments deployed austerity policies to stabilize public deficits and debt by national bank rescues. In addition, European member states, the European Central Bank and the IMF introduced a number of financial measures, commonly called the euro rescue package, to stabilize the currency and to preserve or re-install the ability to meet financial obligations of the affected European countries. The support measures allowed the affected countries to resort to a common loan program and thus be more independent from capital markets. In 2014 and 2015, economic development in Europe has stabilized with GDP growth rates in the European Union ranging from 1.5 (Q1 2014) to 1.9 percent (Q3 2015) (Eurostat, 2016).

The European economic crisis has a sustained impact on Europe. Most notably, one can observe of loss of trust in the currency Euro and in European institutions which have proved to be chaotic in their response to the crisis (Lane, 2012). Although the economic trend has been stabilized, economists call for a fundamental reform of the European monetary union to stabilize economic growth (Lane, 2012). The effects of the crisis have varied across Europe. The levels of unemployment have exploded in the most vulnerable European economies, reaching levels above 25 percent in Spain and Greece. Also, inequality and poverty have increased in the crisis period, most notably in the South of Europe. Linked to the economic crisis in Europe is a political crisis which has resulted in declining solidarity among European countries and a deep change in the political landscape in all countries with emerging new social movements and political parties, ranging from the extreme left to the extreme right.

### **3. Understanding the impact of economic recession on the third sector**

From this brief overview of the economic crisis in Europe we will now turn to the impact of economic recession and subsequent austerity policies on the development of the third sector in Europe. In this paragraph we will develop a conceptual model that helps to analyze the relation between economic recession and third sector development.

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In the conceptual model we focus on two dimensions: first, economic recession (based on GDP trends, unemployment rates, public debt rates); and second, austerity measures with regard to the third sector.

As we have seen above, the economic crisis had a differential impact on European countries depending on the vulnerability of their economies and their political response to the crisis. Economic recession did not leave any country in Europe unaffected. However, the effect of the crisis varied. Among the five countries, we can observe two groups: Some countries faced a prolonged economic crisis, while others experienced only a confined, temporary recession. With regard to the impact of economic recession, we looked into three indicators: GDP development, unemployment rates and public debts rates.

Although there is no univocal understanding of a recession, most researchers make use of the conventional definition of a recession as “two consecutive quarters of negative growth” (Bermeo and Pontusson, 2012, p. 94). Among the five countries under study, all countries except Poland experienced a recession between 2008 and 2013 (OECD, 2015). In Spain, economic downturn was most severe with a continuous recession from 2008 (Q3) to 2009 (Q4) and from 2011 (Q1) to 2013 (Q3). The Netherlands, Germany and France also saw a recession in 2008/2009 and 2011/2012, albeit less pronounced than in Spain.

The economic crisis had a negative impact on the labor market. Unemployment rates increased in all European countries except in Germany where unemployment was at its peak in the beginning of the 2000s. Mediterranean countries such as Greece, Spain, Portugal and to a lesser extent Italy and France were particularly affected by the rise of unemployment (Eurostat, 2015). Among the five countries in our study, unemployment rose in Spain and France, whereas remaining more or less stable in Poland, Germany and the Netherlands (Eurostat, 2015). Similarly, public debts rates increased as a consequence of the European economic crisis. In 2010, 12 states in the EU had a public debt greater than the Maastricht limit of 60 percent of GDP; in two of them Greece and Italy, government debts rose to 115 percent (Guillén, 2012). Among the five countries, the increase of public debts was particularly strong in France and Germany, but less in the Netherlands, Poland and Spain.

When we compare the countries under study, we can distinguish between two groups. Two countries (Spain and France) experienced a prolonged recession with adverse consequences for the economy. Three countries (Germany, the Netherlands and Poland) also faced economic crisis, but less severe than the first group. In the conceptual model we therefore placed two columns: one for the countries with temporary recession and one for the countries with prolonged recession.

The second dimension we investigated is austerity measures with regard to the third sector. Same as in the first dimension, we can observe a difference among European countries. It holds true for all European countries that the policy environment for TSOs has changed. In some countries, these changes have been more severe than in others. In the model we conceptualize this difference as moderate and austerity measures with regard to the third sector. Generally speaking, the policy changes include cuts in public spending to TSOs as well as modifications of the rules of cooperation between the public and the third sector, which, for example can comprise the introduction of market mechanisms, the adaption of NPM reforms with regards or the transfer of responsibilities from federal governments to municipalities, leading to a change of infrastructure for local TSOs.

A number of these policy changes were introduced long before the European economic crisis. They are related to the emergence and the restructuring of welfare

regimes in Europe. The recession, however, intensified the ongoing trend, as it emphasized the need to reduce public costs, particularly in the social sphere. For the third sector, this development can represent both a challenge and an opportunity. On the one hand, TSOs face decreasing levels of public welfare spending; on the other hand they experience a growing demand for cooperation with state institutions, as public-private partnerships are seen as a promising way for modernizing European welfare states.

Among the five countries under study, we can distinguish between countries facing moderate and those facing more severe policy measures with regard to the third sector (Table I: conceptual model – economic recession and third sector development in Europe). Germany and Poland belong to the first group (moderate policy measures), whereas the Netherlands, Spain and France belong to the second group (more severe policy measures).

#### 4. Changing policy environments and third sector responses in Europe

In this paragraph we show how the policy environment for the third sector in Europe has changed with the economic recession in the five different countries. The analysis will take into account both direct and indirect effects of the economic crisis. While the first are immediately linked to recession and austerity policies, the second have a more long-term character. They include, for instance, changes in welfare state arrangements which in many European countries have been introduced before the economic crisis, but reinforced within the course of the crisis. In addition, we will show how TSOs in Europe have responded to the changing policy environment. The analysis is based on case studies from the five different countries under study and structured on the basis of the conceptual model.

##### 4.1 *Stable development or catching up: the third sector in Germany and Poland*

In the case of the first group of countries, Germany and Poland, we cannot speak of a direct effect of the economic crises. Germany started to introduce austerity policies years before the economic crisis, and Poland has never developed policies which have been favorable for TSOs.

*Germany.* German austerity policies started long before the financial crisis. The crisis itself did not provoke any considerable austerity programs (Keller, 2013). However, the financial crisis favored a continuation and a deeper legal anchoring of existing austerity practices.

First, public authorities tried to reduce public spending due to mounting economic and financial problems which resulted in budget and subsidy cuts (Keller, 2014). The German reunification produced financial and economic costs which overextended the capacities of the state sector. Furthermore, the decline of traditional industries in the Ruhr region and in Northern German harbor cities produced additional financial pressures and in many cases cities were close to bankruptcy. They were put under the

**Table I.**  
Model: the impact of  
economic recession  
on third sector  
development  
in Europe

Policy measures	Economic recession	
	Temporary recession	Prolonged recession
Moderate austerity measures with regard to the third sector	1. Stable development or catching up: Germany, Poland	
More severe austerity measures with regard to the third sector	2. Enforced adaptation: the Netherlands	3. Third sector under stress: Spain, France



auspices of state authorities which require that municipalities provide a concrete time frame for cutting public expenditures (Eckersley and Timm-Arnold, 2014; Keller, 2014). In addition, there is a division of tasks: that are mandatory and voluntary task. The latter often touch the activity fields of TSOs. Voluntary tasks are among the first affected by budget cuts in the respective municipalities. Among those tasks are, for instance, the maintenance of sports facilities, cultural institutions and initiatives, and social work, mainly in the area of senior citizens and youth welfare (Keller, 2014). Hence, the maintenance of public facilities was neglected or facilities were closed down and the available public space like community centers or sports facilities diminished. This is of particular relevance for TSOs in Germany because they heavily rely on the public infrastructure to carry out convivial gatherings, cultural activities or to practice sports. E.g. two-thirds of German sports clubs rely on using municipal facilities for their activities (62.4 percent). According to the sports development survey of the German sports clubs umbrella DOSB, 3.3 percent of sports clubs are endangered due to the (bad) condition of sports facilities. This figure increased by 27.6 percent compared to 2012 (Breuer and Feiler, 2015).

Second, new public management practices which aimed at making policies more efficient were initiated. The introduction of competitive tendering and consumer choice made the (low) price of a service a decisive criterion to commission a TSO with particular tasks (Strünck, 2010; Zimmer *et al.*, 2013).

Despite the fact that the economic effects of the financial crisis were of temporary character and mainly limited to 2008 and 2009, the year in which the GDP fell by 5 percent (Keller, 2014), austerity measures gained broad political legitimacy. Thus, a “debt break,” a ceiling of debts, was enshrined in constitutional law (Thiele, 2015). The reactions to the “German” financial crisis, which has to be understood in a longer perspective, will have more long-term effects since extensive cost containment strategies will be derived from constitutional law. A future economic downturn with consequently shrinking tax revenues will force policy makers to implement extensive austerity measures. Consequently, the German reaction to a more long-term financial crisis might prove to be more sustainable in comparison to many European countries and might show its full potential when a future economic crisis is in sight. The outlined austerity measures induced severe efficiency and cost pressures on TSOs, which led to marketization of TSOs. First, TSOs changed their revenue structure. While in the 1990s public grants were the biggest financial source, now funds generated by own business activities, like service charges and fees, are the most important source of revenue (Priller *et al.*, 2012).

Second, TSOs created market compatible structures. The ideational and economic activities were organizationally separated which led to the mushrooming of limited liability companies and a strengthening of the management level vs the voluntary board. Additionally, managerial business practices were adopted, like controlling, cost and activity accounting, performance measurement (Droß, 2013).

Third, as human resources represents the major cost factor for TSOs, precarious employment patterns were introduced to reduce the costs per service unit and to make employment and dismissal practices more flexible. Additionally, personnel instruments like performance-based pay or target agreements were introduced (Schmeißer, 2013).

Fourth, TSOs engage in managing their own facilities which provokes further business involvement as the maintenance and bureaucratic cost of, e.g. sports facilities loom particularly large (Breuer and Feiler, 2013).

Generally, one can conclude that it is lesser the financial crisis that affected the work of TSOs in Germany, but rather a societal climate that favors a small state which retreats from financing societal tasks and which gives preference of market solution for societal challenges over public and civil society ones. TSOs adapted to this changing policy environment by becoming more business-like.

*Poland.* The third sector in Poland has been in constant development since the fall of communism. The number of TSOs grew rapidly during the first years of the political transformation (Główny Urząd Statystyczny (Poland), 2015). New organizations filled the vacuum in public life which had been created by decades of authoritarian rule. However newly established TSOs very quickly met several structural barriers (Nalęcz *et al.*, 2015) out of which two were the most severe: the lack of financial support and the lack of civic engagement. These two barriers established the framework for third sector development in Poland for many years. The economic crises did not change this situation. Overall, TSOs did not experienced a deterioration of their conditions since 2008. On the contrary, to some extent, the overall situation of the Polish third sector has improved. This improvement however has more to do with the financial support from the European Union for Poland over the past years than with a general economic trend.

Most of TSOs in Poland have always been in quite severe economic condition. Half of the organizations only has an annual budget of 18,000 PLN (4,500 EUR) or less in 2012 (Ministerstwo Pracy i Polityki Społecznej (Poland), 2012). An average budget was worth 288,000 PLN (72,000 EUR) in the same year. As a result, the major concern for most Polish TSOs is to secure financial resources for their existence. It has therefore always been very difficult for them to develop long-term strategies.

The major source of income for TSOs is the state. In 2012, 41 percent of total income of TSOs came from public institutions (Główny Urząd Statystyczny (Poland), 2015). 55 percent of TSOs received a financial support from state institutions in the same year. After a slight initial decrease in public support for TSOs in 2009, the amount of money delivered to TSOs has been on the increase. TSOs received over 4,792 millions PLN in 2011 compare to over 2,533 millions PLN in 2008 (Ministerstwo Pracy i Polityki Społecznej (Poland), 2012).

TSOs are mostly supported by the lowest level of local government, the municipalities (*gmina*). These local governments provided 17 percent of overall third sector income in 2012. 41 percent of TSOs received this kind of support. Thus, the close link between TSOs and local governments is a distinctive feature of the third sector in Poland.

Another obstacle for the third sector development in Poland is the low level of civic engagement. There are around 83.5 thousand TSOs in Poland (Główny Urząd Statystyczny (Poland), 2015), but only around 30 percent of Poles are involved in activities which have some connections with the third sector (Centrum Badań Opinii Społecznej, 2012, 2014). Poles are unwilling to engage in activities taken by formal forms of civil society. They are more willing to act in public life in more informal manner. The economic crises has not changed public attitudes toward TSOs.

Despite a lack of resources and a low level of civic engagement the third sector acts on the basis of very supportive legal regulations. Apart from laws on foundations or associations, there is an Act on Public Benefit and Volunteer Work. This law very precisely describes the relations between state institutions and TSOs and regulates volunteer work. It also creates opportunities for TSOs to influence the formulation of public policy at national and local level. However, the scope of this influence is very

limited and TSOs are not considered to be important partners for state institutions in present-day Poland.

The economic crises did not bring any changes in the legal regulations regarding the third sector. There were some changes in the law[2], but it is impossible to link those changes to the economic crises. The legal structure of the third sector has not been changed after the start of the economic crisis.

As the financial, social and legal environment for the third sector has not changed with the economic crisis, Polish TSOs have not developed any specific responses to the crisis. The interviews conducted in the framework of the TSI project showed that the economic crisis is no point of reverence for third sector representatives. TSOs have tried to tackle the same issues than before the crisis; they deal with financial insecurity and a lack support from the state and from public opinion. Some TSOs have tried to involve themselves in the development of social economy (Ciepielewska-Kowalik *et al.*, 2015), others have tried to further their relations with state institutions (Ciepielewska-Kowalik and Pielniński, 2015). However, a major challenge for TSOs lies ahead of them. It is the termination of most of EU funding programmes for Poland in 2020. Although only around 5 percent of TSOs receive direct financial support from European or foreign institutions, this support consists of more than 10 percent of the overall income of the third sector in Poland (Główny Urząd Statystyczny (Poland), 2015). Because European funding is available mostly to the largest and most professionalized TSOs, the end of financing might lead to significant changes in the structure of the Polish third sector. In addition, one of the key recipients of European funding are local governments. The decrease of European support for local governments could thus also lead to the adoption of austerity programs at the local level. As a consequence, financial support for TSOs could be radically reduced in the future to save money for other essential expenditures. Therefore, the real challenges for Polish third sector still lay ahead.

#### 4.2 *Enforced adaptation: the third sector in the Netherlands*

The combination of temporary recession and more severe austerity policies with regard to the third sector can be found in one of the investigated countries in Europe: The Netherlands.

*The Netherlands.* In the Netherlands, TSOs have traditionally been strong, particularly in the field of social welfare and health. In the Johns Hopkins Comparative Non-profit Sector Project, the Dutch third sector came out as one of the largest in the world (Burger *et al.*, 1999). Over the past two decades, TSOs have largely proved to be resilient toward the pressures from outside. However, economic recession and a climate of austerity since 2008 did not go unnoticed. In the following we will provide an overview of the impact of economic recession on third sector development in the Netherlands. We will thereby focus on the trends in memberships and donor support, public and private funding as well as volunteering.

Overall, TSOs in the Netherlands enjoy broad support in the population. Membership in TSOs is high: In 2012, 31.4 million memberships in large societal organizations were counted (Postumus *et al.*, 2014). On a population of about 16 million, this means that on average every inhabitant of the Netherlands is member of two organizations. The economic recession did not have a direct impact on membership levels. Since the 1980, TSOs first saw a steep increase in membership. With the beginning of the 2000s, membership numbers in TSOs have been stagnating and even

saw a slight decrease (Postumus *et al.*, 2014). The recession is believed to have only marginally aggravated this general development (Postumus *et al.*, 2014). In some policy fields, however, TSOs have been more affected by the crisis than in others. In a study conducted by the Netherlands Institute for Social Research, particularly charity organizations reported a negative impact of the economic crisis (Postumus *et al.*, 2014). The interviews conducted for our study confirmed this observation.

The effect of recession also became visible in private donations. According to the panel study "Giving in the Netherlands" which monitors philanthropic activity, the crisis had a negative impact on private donations (Bekkers *et al.*, 2015). This effect, however, was only of temporary nature. The long-term trend shows that since 1995 private donations are on the increase (Bekkers *et al.*, 2015). The years of 2009 onwards saw a drop in contributions to good causes; with 2013, private donations have started to grow again, however not reaching pre-crisis levels (Bekkers *et al.*, 2015).

The biggest impact of the economic crisis on the third sector, however, is the decrease in public funding. Among the TSO representatives interviewed for this study, a majority reported that decreasing levels of public funding and changing funding schemes are a major concern for the third sector in the Netherlands. Also here, we can observe significant differences between policy fields. Most severely affected are TSOs in subsectors that depend on government funding schemes. The field of international development aid is a case in point. Since 2011, the Dutch government reduced international development aid from 0.81 percent of gross national income in 2010 to 0.64 percent in 2014 (Rijksoverheid (the Netherlands), 2016b). This had a direct impact on development organizations which receive government funding through a co-financing system. As a result, many Dutch development organizations faced a decrease in their revenues and were forced to cut down operational and personnel costs.

In the policy fields of social services, sports as well as culture and arts, government support was also reduced, albeit to a lesser degree. The sport umbrella organization NOC\*NSF reported an overall decrease in income for sport organizations. In 2013, the total revenue for amounted to more than 253.8 million euros (all sports included), which compared to 2012 this is a decrease of nearly 2 million (NOC\*NSF, 2014). Most sport organizations, however, were able to compensate falling government subsidies by increasing membership fees (NOC\*NSF, 2014). In 2014, the sport umbrella observed a financial stabilization in the subsector sport; the number of sport organizations which experience financial difficulties is decreasing which is attributed to their ability to compensate through contributions and paid services (NOC\*NSF, 2015).

In the field of culture and arts, TSOs have experienced significant financial difficulties, after the Dutch government redesigned its cultural policy in 2010. The government aims to make the cultural sector less dependent on government subsidies and to stimulate entrepreneurship (Rijksoverheid (the Netherlands), 2016a). Most representatives of cultural organizations, interviewed for this study, mentioned this development as a major shift in their work which made cultural TSOs to rethink their financial strategies. A particular asset of TSOs in the cultural sphere is the support they enjoy by members and by the general public. This enables TSOs to raise private funding and attract volunteers for cultural events.

Also in the social sector, TSOs have been affected by a decrease in government funding. Here, the changes in the policy environment take place in a longer-term development which implies a decentralization of social services in the context of an "activating" welfare state (van Berkel, 2006). For social TSOs, not so much the direct

impact of economic recession has been of importance, but rather the underlying changes in the welfare system which in the Dutch context are described with the idea of a “participating society.” In 2015, a new law came into force which transferred important parts of social services from the national government to municipalities.

At the same time, the law stipulated a decrease in financial transfers to municipalities. As a consequence, social TSOs deal with decreasing levels of structural funding. In addition, they need to readjust their collaboration with state institutions. Also here, the local level has become more important.

Overall, one can conclude that it is not so much the economic crisis, but rather policy changes that have changed the context conditions for the third sector in the Netherlands. In all policy fields, one can observe a decline of government subsidies. This is most directly felt in policy fields where TSOs worked within co-financing systems. With falling government funding, TSOs are forced to diversify their revenues and to focus more on contributions, fees and paid services. The decrease in subsidies has also led to a growing competition among TSOs and to a marketization of the third sector. TSOs adopt business strategies such as offering paid services. Some organizations, e.g. Dutch development agency Cordaid, have even redefined themselves as social enterprises to attain a more sustainable and diversified funding base (Meyer zu Natrup, 2014). The general trend in the Dutch third sector can therefore be described as an enforced adaptation. TSOs with the ability to adjust to a changing policy environment have an advantage over more traditional organizations that find it difficult to change.

#### *4.3 The third sector under stress: Spain and France*

In Spain and France, the third sector experienced a significant impact of the economic crisis. It led to important modifications in the policies toward the whole sector. These new developments created challenges as well opportunities for TSOs in both countries.

*Spain.* The economic crisis has had a different impact in Spain than in other European countries. In Spain, the crisis has produced one of the highest rates of unemployment (around 25 percent), of young unemployment (more than 50 percent), of “poor workers,” and of people in risk of poverty. The crisis has also led to increased inequalities and a major drop in salaries. Government policies during the crisis focussed first in assisting banks (with support of the Euro rescue package), and second, in applying restrictive budgetary policies, mostly with regard to welfare state services, and a labor reform. Despite some discourses, such as Stiglitz (2009), claiming that the economic crisis could be seen as an opportunity to give the third sector a major role in a new model of development in Europe, in fact only few policies have been launched that foster the third sector and the social economy. This holds true for Europe at large. However, the trend is particularly visible in a number of mostly Southern European countries, such as Spain, Greece, Portugal, Belgium and France (Chaves and Demoustier, 2013). The mainstream policy toward the third sector has been austerity measures combined with a restructuring of welfare state arrangements.

During the crisis, Spanish TSOs have faced an average reduction of around 30 percent in public funds at national and regional levels and a reduction in contracting out public services. The general perception in the Spanish third sector was that “we have to respond to more needs with less money and less manpower.”

However, the impact of the crisis varies across TSOs. In the Spanish third sector, one can distinguish between four clusters or groups of organizations: first, the big and medium *quangos* (non-profit organizations that are closely related to the state and largely dependent on public funds); second, local and regional TSOs; third, TSOs linked to new social movements; and fourth, social economy enterprises (the majority of co-operatives and social enterprises) linked to labor issues. While “*quangos*,” active in the policy fields of social services and labor inclusion, have assumed the biggest part of the reduction in public funds, local sport and cultural TSOs, which mainly operate on private funds, have been less affected by the crisis. Co-operatives and social enterprises have also been less affected of budgetary reductions. However, in a context of high unemployment and labor exclusion, they can also be considered in decline.

Concerning the policy environment for the third sector, the main trend was inertia, in a context of a Mediterranean welfare model and partnership between the public and the third sector (Archambault, 2001; based on Esping-Andersen, 1990). The expected laws on social economy and on sustainable development, approved in 2011, remain sleeping beauties (Chaves and Savall, 2013) and it was only at the end of 2015 that new policies have been passed, as new laws on “social” TSO (excluding sport, culture, environment), on social investment, on social clauses for public procurements, on volunteering and on sharing enterprises.

Within the Spanish third sector, the most prevalent reaction to the decrease in public funds has been a reduction in personnel costs. A small number of TSO bankruptcies have been registered in all of the four clusters. Worker co-operatives have seen an overall reduction in staff from 221,844 to 188,673 in the time period between 2008 and 2012, social enterprises from 52,631 to 48,901. Social TSO have increased their staff from 529,029 to 644,979 between 2008 and 2013, while the number of entities stabilized, from 28,790 to 29,737 (Ruiz, 2015; Chaves and Savall, 2016).

Overall, TSOs have experienced difficulties to shift the source of revenue from public to private sources, as it was seen in the USA in the 1980s (Salamon, 1986). Business activities and fees have been increased in this period, but slowly. As another negative impact of the financial crisis, the bankruptcy of saving banks, that represented half of the Spanish financial system before the crisis, and the businesses crisis mean a huge reduction of private funds for TSO. Attracting and binding volunteers has become a new challenge for Spanish TSOs, in fact, the number of volunteers has decreased in big TSOs and the new volunteering and social movements are active outside the traditional third sector. Finally, individual donations have been moderately increasing. On the other hand, EU public funding remains distant, complex and is mostly reserved for large organizations and for Northern European countries.

Concerning the policy environment, new umbrella organizations have been created during the crisis, such as the National Platform for Social Third Sector (PTS). Its major task is lobbying and creating a joint image for the Spanish third sector. The platform has already succeeded in preventing new regulations that would prejudice the sector (in terms of taxation and new bureaucracy requirements for small TSOs) and new rules on the third sector and on volunteering.

*France.* In France, the third sector constitutes an important economic force and is defined as social and solidarity economy (SSE) organizations[3]. In 2013, TSOs counted for more than two million salaries (in full time equivalents) and more than 10 percent of total employment in France.

While the crisis of 2008 had important consequences for TSOs in France, the resilience of the sector was high. Although third sector employment slightly decreased in the crisis years of 2011 and 2012, it has globally grown since then, with a total increase of 0.8 percent between 2008 and 2013. At the same time, employment in the rest of the French economy increased only with 0.2 percent during this period. Since 2008, employment in SSE is in fact more or less stable, even showing a slightly positive trend. Regarding the size of the sector, the number of organizational dissolutions has increased little bit between 2008 and 2010, but this number has decreased afterwards and is now lower than before the crisis (CNCRESS, 2014).

As mentioned above, the crisis can not only be considered as a challenge, but also as an opportunity for French TSOs. The situation in France, which is less dramatic than in Spain, is rather paradoxical. While the crisis has led to major cuts in public funding, it has also resulted in a growing recognition of the role played by TSOs in searching for innovative solutions to social and societal needs which have previously been unmet. The adoption of a new law on SSE in 2014 and the nomination of a secretary of state in charge of SSE are major steps toward the recognition and the development of SSE in France. At the organizational level, cuts in public subsidies, which profoundly threatened those associations most dependent on them, fostered TSOs to find new ways of organizing and financing their projects.

However, as mentioned in the introduction, cuts in public spending and changes in public funding schemes have started before the crisis of 2008. The crisis can be considered as an accelerating factor for implementing public reforms with the aim to improve the efficiency of public policies. The major changes in public intervention instruments, implementing New Public Management principles, reinforced by the economic recession, strengthened the pressure for TSOs to diversify their resources. Associations, in particular, were highly dependent on public funds and had to face drastic cuts in their revenues. From 2005 to 2011, public subsidies toward associations decreased by 17 percent (Tchermonog, 2013). In the meantime, private resources increased by 44 percent, contributing to the trend of “marketization” in the associational field (Salamon *et al.*, 2003). Membership fees increased by 5 percent during this period, while donations and sponsorship decreased by 3 percent during this period. Donations and sponsorship remain low (5 percent of their resources), although there has been an increase in donations of nearly 4.7 percent between 2011 and 2012 (CNCRESS, 2014). Interestingly, that there is a move in the destination of the donations, with a deep decrease in donations to voluntary associations (with no paid staff) and an increase in donations to more professionalized associations with paid staff. Our study showed that increasing market fees have raised lot of tensions within the French third sector, jeopardizing not only the organizations’ social mission but also their volunteer participation and donations.

In line with New Public Management paradigm, changes in public support schemes have been implemented for TSOs. Along with the decentralization process, there has been a trend of parceling out between different public bodies at different levels and of increased uncertainty and variability of public funds. Public resources are more frequently coming from territorial or local public bodies (such as the regions or the municipalities), multiplying financial sources, often of short-term and variable nature and linked to specific projects and increasing the administrative costs for TSOs. In short, application forms are becoming more numerous and complex but for smaller subsidies.

Moreover, a larger part of public funds is now allocated through tendering processes. Contracting out introduced more competition within the third sector and between TSOs and private businesses, given the entry of private commercial providers encouraged by public authorities and/or the spread of tendering processes. Tendering processes form a risk for associations (Petrella and Richez-Battesti, 2012). In order to compete with for-profit organizations, associations need to reach a sufficient size and possess competencies in order to be able to answer to these tenders. They also put associations into a position of “answering to the public market” which might impede their autonomy and their innovative capacity to reveal and meet emerging social demands.

These changes in public intervention instruments led to an increased fragility of the economic model of associations, in particular in the case of those associations that have been largely dependent on public resources. Many support schemes and organizations have been created, most of them with public funds, with the aim to assist associations in the transformation of their economic model. In addition, changes in public instruments led to the adoption of new performance objectives in the third sector along with new managerial tools and indicators. It also brought about significant isomorphic processes within TSOs, most of them now adopting similar managerial practices as private businesses, although some differentiating processes have been observed (Petrella *et al.*, 2014).

One important response to these changes in the policy environment is an emerging trend toward scale changing which can indeed deeply transform the structure of the third sector, until now mainly composed by small size organizations (65 percent have less than five paid staff members). To reduce costs, TSOs are searching for economies of scale and synergies toward pooling and sharing resources, concentration and merging between TSOs or toward creating networks at the territorial level. Today, we can observe the emergence of large third sector groups and hybrid organizations that develop partnerships with private businesses.

These changes have a strong impact on third sector governance in France. Given the competitive pressure and the “managerial” turn of the policy environment and the scale changing of some organizations, TSO have to improve their professionalization through the acquisition of technical and specialized competences of both the board of directors and the paid directors. Our study revealed that some associations are moving from a “compliance” board to a more “competence-based” one. These evolutions have raised the question of how to combine a social mission with technical management requirements. While these tensions are not new, they have been recently exacerbated and form a challenge for the third sector in France.

Overall, we can conclude that in France, similar as in the Netherlands and in Spain, pressures on TSOs are more the result of deep institutional, social and economic transformations than of the economic crisis, although it accelerated parts of these changes. Despite austerity measures that affected them, TSO have shown their capacity to resist, adapt and innovate within their new environmental conditions.

## 5. Discussion and conclusions

This paper aimed at investigating the link between economic recession, policy changes and third sector development in Europe. It can be concluded that the economic crisis had an impact on third sector development in Europe. The impact of recession, however, varies across European countries, as do the responses that TSOs



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have adopted to meet the challenges of austerity policies. Comparing the five different countries under study we can observe one major common trend: The context conditions for the third sector in Europe have become more difficult over the past decade. Existing funding schemes and cooperation arrangement have been altered, forcing TSOs to seek new sources of revenues and redefine their modes of operation. All across Europe, we can observe that TSOs are increasingly working under pressure.

A second observation is that the economic crisis itself has not been the most important source of change for third sector policies in Europe. On the contrary, in all countries we investigated we see that changing government policies toward the third sector are the key driver for change. These more long-term changes have begun before the economic crisis started in 2008. The economic crisis can, therefore, be understood as an accelerating factor that has reinforced already existing trends in third sector development.

In some European countries the effect of economic recession has been stronger than in others. In Germany and Poland, the development of the third sector can be regarded stable, albeit at different levels. In Germany, the third sector is strongly developed and closely integrated in the welfare system. The economic crisis did not alter this set-up. In Poland, the third sector has been developing since the end of Communism. The economic crisis did not aggravate the context conditions for the third sector in Poland, as TSOs have already struggled with difficult working environment before the crisis. In the Netherlands, it was not so much the direct effect of recession that changed the context for the third sector than rather austerity policies, introduced since 2010, and aiming at making the sector more independent from government support and collaboration. This trend can therefore be called an enforced adaptation. The biggest impact of the economic recession can be observed in Spain and France with a decrease of government subsidies of up to 30 percent. In these two countries, the third sector has been under increased stress. They revealed also big difficulties in shifting from decreasing public funds to private resources. In contrary to other parts of Europe, the recession in Spain and France has also led to closure of TSOs and, thus, as decrease in the number of organizations in the third sector.

Next to differences between countries we can also observe differences between policy fields. In some policy fields, e.g. sports, TSOs find it easier to adopt business strategies and tap new financial resources through membership fees and paid services. Another observed development concerns differences between types of organizations, both regarding organizational form and size of the organization. As can be, for instance, seen in France, traditional voluntary associations find it more difficult to adapt to new context conditions than more professionalized staff-based TSOs. In Spain, large TSOs which are closely linked to public policies have suffered most from the impact of public funds reduction. Similar differences are also visible in other European countries.

A third observation is that the context conditions for the third sector are becoming more similar across Europe. When one in the past could observe better conditions for TSOs in the North of Europe where collaborative welfare arrangements were widespread, the changes in the policy environment now make that TSOs are similarly confronted with decreasing levels of subsidies and tensed working conditions.

With regard to third sector responses, we can observe more similarities than differences between the five European countries under study. As the scale of economic

recession and related austerity policies differs across Europe, the intensity of responses from TSOs varies. The general trends, however, are similar. The decrease in governmental subsidies leads to growing competition among TSOs. Some organizations are better equipped to adapt to new circumstances. In general, one can observe a trend toward more market-types mechanisms in the European third sector. This also leads to tensions among organizations. While some TSOs welcome the trend toward professionalization and perceive it as an advantage, others feel opposed and fear the loss of third sector qualities such as the defense of social needs. Next to the professionalization of marketization of many TSO, one can also observe emerging new trends and tensions between the old institutionalized TSO and the new social movements, new volunteering and new forms of self-organizations which also change the face of the third sector in Europe.

To conclude, the economic crises did not initiate changes in third sector development in Europe, but rather accelerated policy developments which had already been taking place. As a consequence, in almost all European countries TSOs now have to work must work under the pressure of decreasing state support for their activities. They are forced to find new ways of functioning. TSOs are more independent in their actions, but at the same time they operate in fare more precarious financial positions. Despite external pressures, we can, however, observe signs resilience, as for instance the emergence of new initiatives and new forms of financing that allow TSOs to reinvent themselves in times of economic downturn. At present, it is difficult to anticipate how the new demanding environment will affect the future development of the third sector in Europe. It remains to be seen whether TSOs will fail and diminish or adapt and flourish.

### Notes

1. In the case of Ulla Pape, additional funding has been provided by the Russian Academic Excellence Project “5-100”.
2. For instance, the law on associations was amended in 2015.
3. Note that TSO’s are designated in France as social and solidarity economy organizations (SSE). It includes associations, co-operatives, mutual organizations and foundations, although more than 80 percent of organizations within SSE (CNCRESS, 2014).

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