

Emerging on the European Policy Radar: The Voluntary Sector

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EXECUTIVE SUMMARY

The voluntary sector, also known as “civil society” or the “third sector”, makes an important contribution to nearly every field of social activity. It is large, of the order of 5 percent of the typical economy, and in the context of the rapid ageing that most advanced economies will experience for the foreseeable future there is considerable scope for increasing this contribution. Since the range of policy domains that impinge on it are very wide, making the most of its contribution will require an extensive and comprehensive strengthening of the policy framework which governs its activities. The objective should be to reduce barriers to the sector’s expansion while ensuring its effectiveness, accountability and political legitimacy. Much of the concrete policy action needed in Europe will relate to specific aspects of particular activities, such as education, social services and arts and culture. But it will also relate to horizontal issues that cut across sectors with wide applicability, such as tax, financial reporting and specific problems that discourage mobilization of volunteers, particularly among retired people.

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I. INTRODUCTION

The voluntary sector, also known as “civil society” or the “third sector”, consists of a heterogeneous collection of non-profit organisations ranging from charitable foundations to sports clubs and soup kitchens. It is large, of the order of 5 percent of the typical economy (see below), and it makes an important contribution to nearly every field of social activity. In the context of the rapid ageing and associated fiscal pressures and labour shortages that most advanced economies will experience for the foreseeable future there is considerable scope for increasing this contribution. Indeed, better mobilization of older volunteers could increase the effective workforce¹ by as much as 3-4 percent during the next 20 years and by more subsequently (see below). At the same time questions concerning its effectiveness, accountability and legitimacy have arisen due to:

- the large human and financial resource base it commands;
- the high political profile some organisations have taken; and
- some serious scandals and ethical lapses.

Given the sector’s heterogeneity of purpose and scope its overall governance does not generally fall within the responsibility of individual ministries or regulatory agencies in national administrations. As a result, little attention has been given to the design of a coherent policy framework for the sector as a whole. This has led the European Commission to describe the sector as operating “in what amounts, at least in strategic terms, to a policy vacuum” [COM(1997)241final, para.10.2] that inhibits its effectiveness in EU countries (and this probably applies elsewhere).

The remainder of this brief defines the voluntary sector; sets out why the sector merits more attention from economic policy makers than it has so far received; and identifies some horizontal policy areas that need to be addressed. It finishes with conclusions.

¹ Improvements in the way labor markets operate will be required in many countries if they are to take full advantage of this potential. These improvements are largely the same as those that are desirable in any case to reduce unemployment and fully mobilize the prime age workforce productively.

II THE DEFINITION OF THE VOLUNTARY SECTOR

The voluntary sector consists of private organisations that are philanthropic or operate otherwise on a non-commercial basis. As such, they are not part of what is normally thought of as the business sector. Funding can be (i) from the state; (ii) from private donations of money or time; and (iii) from outside income generated by fees, trading activities or investments. These organisations are generally tax exempt or in some way advantaged (notably where donors can deduct donations from their own tax base).

Agreeing a definition of the sector that is robust to differences across countries in institutional arrangements, legal frameworks and national traditions has been a challenge. Statistical agencies, who would have to confront the issue in order to collect data related to the voluntary sector, have largely avoided it until recently: in official data most volunteer work is simply not counted. The System of National Accounts assigns most important non-profit organisations to the corporate or government sector depending on their main source of funding. Consequently, official information about the sector should be used cautiously.

A rigorous international comparative study carried out at Johns Hopkins University² developed, in partnership with the UN Statistics Division, a "Handbook on Nonprofit Institutions in the SNA". It concluded that the best approach to definition is to identify structural or operational features that characterize organisations that should be considered as part of the sector. The definition that emerged is the set of institutions with the following characteristics:

- Formality – there is some structure and regularity to operations, with people subject to rules and procedures.
- Private – they are not part of the state, even if dependent on state funding.
- Non-profit distribution – they are not primarily commercial in purpose and any profits get channelled back to the objectives of the organisation.

² Johns Hopkins Comparative Nonprofit Sector Project. See www.jhu.edu/~cnp/

- Self-governing – they have mechanisms of internal governance and are in control of their own affairs.
- Voluntary – participation is not legally required or otherwise compulsory.

This is not universally accepted in all details³, and might have to be modified in the context of designing any specific policy measure, but it provides a good basis for discussion and analysis.

III. WHY THE VOLUNTARY SECTOR IS IMPORTANT

The voluntary sector is significant in macroeconomic terms

The voluntary sector is surprisingly large. The Johns Hopkins study found that operating expenditures by the sector in 36 countries, including all major developed countries except Canada⁴, averaged more than 5 per cent of GDP during the mid - to – late 1990s. They amounted in aggregate to \$1.6 trillion (2002 US dollars), roughly the same as GDP in France or the United Kingdom. In developed countries covered in the study, including 11 of the EU15 countries, paid employment in the sector was 4.7 per cent of the workforce. Volunteers, some 15 percent of the adult population (just under 13 percent in EU-15 countries) often contributing an average of more than half a day per week, contributed another 2.7 per cent of the active workforce when volunteering is measured on a full-time equivalent basis. Underlying details on a country specific basis are available at the link with the Johns Hopkins study provided in footnote 1 above by clicking "[38 countries](#)" and then "[Comparative Data Tables](#)" and "[Findings by Country](#)".

³ There are grey areas here which are mainly important for statistical purposes. Volunteering on an individual and ad-hoc basis, e.g. for disaster relief, can be left aside with this definition. National service, to the extent that it is compulsory, is excluded. And some co-operative or mutual organisations that make limited distributions to members are not included. On the other hand, this definition does not require contributing to the public good, which may be the basis for any favourable tax status, but includes organisations whose benefits accrue principally to its own members. These include organisations such as housing associations, trade unions and religious groups. Nor does "voluntary" here imply a meaningful giving of time or money, although these are important sources of resources for much of the sector.

⁴ Data for Canada were reported too late to be incorporated in all of the summary analysis of the project but can be accessed at the link provided in footnote 1.

The voluntary sector fills important gaps between the state and the market

Charitable foundations finance, and non-profit organisations deliver, a significant share of the social services available in European societies. They often address unattended problems that neither the state nor the market is willing and able to provide. These organisations perform an important advocacy role, calling attention to new issues and problems and working to find solutions. They also form an important part of any society's social capital, serving as an infrastructure for the artistic, religious, cultural, recreational, political and humanitarian activities that enrich modern life in advanced democratic societies. Even if the voluntary sector just amounted to a small scattered collection of economically marginal activities, these considerations alone would merit attaching high priority to making it perform well.

Private voluntary financing can complement state funding as age-related budget pressures rise

Ageing populations will lead to steadily increasing budgetary pressures in virtually all developed countries. These pressures are likely to force most countries to take an increasingly narrow view at the margin of what the state can finance on its own.

Old age pensions and medical care will be the main expenditure items affected by ageing but early retirement programs and long-term care such as retirement homes, nursing care and home assistance for the elderly may be significant in some countries. Probably offsetting these will be spending on education and on family and child allowances. A recent study, carried out by member governments but coordinated by the OECD⁵, projected that ageing pressures would lead to:

- increased government spending on old age pensions, given existing generosity (i.e. no changes in eligibility requirements or average benefit levels relative to productivity in the economy), of the order of 6 per cent of GDP on average in the EU (Table1);

⁵ This study was carried out in economics and finance ministries using national models. The OECD's role was to ensure common assumptions and cross-country comparability and to synthesize the results. Part of the work was done in collaboration with the Working Party on Ageing of the Economic Policy of the European Union.

Table 1: Projected changes in age-related public spending, 2000-2050
(per cent of GDP)

	Contribution of ageing to change in old age pension spending	Other influences[1]	Total
Austria	7,6	-5,3	2,3
Belgium	4,7	0,5	5,2
Czech Republic	8,2	-1,3	6,9
Denmark	2,7	3	5,7
Finland	5,2	3,3	8,5
France [2]	7,6
Germany	6,4
Hungary	2,9	-1,3	1,6
Italy	10,1
Netherlands	3,8	6,1	9,9
Poland	7,3	-9,9	-2,6
Spain	8,6
Sweden	3,9	-0,7	3,2
United Kingdom	1,7	-1,5	0,2
Average of above EU countries	5,8	..	4,1
Average of 21 OECD countries [3]	5,2	..	5,5

[1] Assumed changes in pension eligibility conditions; benefit levels relative to GDP per worker; medical and long-term care costs; education expenses; family allowances.

[2] 2040

[3] 14 EU countries above plus Australia, Canada, Japan, Korea, New Zealand, Norway and the United States.

Source: Dang, Thai Than; P. Antolin; and H. Oxley. "Fiscal Implications of Ageing: Projections of Age-related Spending" OECD Economics Department Working Paper 305, Paris, 2001.

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- increased total age-related public spending of around 4 per cent of GDP by the EU countries that carried out the calculation (but note that Germany, France, Italy and Spain, all with generous pension programs, are not included) ⁶;

⁶ This figure probably understates the problem for EU countries. The 6 per cent estimate for the impact of demographics alone on pension spending is a fairly hard number since all people who will reach retirement age before 2050 have already been born. In contrast,

- slightly smaller increases in spending on pensions (5 percent of GDP, not allowing for changes in generosity levels), but higher total age-related spending (5.5 per cent of GDP), when major advanced non-EU countries are included in the sample.

With age-related spending set to increase cumulatively by the order of 4-6 per cent of GDP in the coming decades, pressures for reductions in other types of public spending and for higher taxes are likely nearly everywhere. Norms as regards the role of the state and the appropriate scope of the voluntary sector vary across countries according to politics, tradition, etc. But the voluntary sector can raise funds through philanthropy or fees or by volunteering time and may therefore have much to contribute by complementing public sector efforts in areas where market mechanisms either do not deliver or are thought inappropriate. In this regard, it should be noted that nearly 2/3 of the paid workforce currently employed in the voluntary sector is engaged in the social policy fields of health, education and social services⁷.

Mobilising older volunteers can add significantly to potential output

The challenge of ageing societies is not just financial but also one of mobilizing real resources. In this regard the growing population that will be supported by public pensions and other types of retirement incomes in advanced countries has much to contribute if the economic and social environment encourages it. This population possesses valuable skills and competences. It also looks forward in good health and reasonable financial security to a long remaining lifetime, around 20 years for 60 year-old men in the EU and nearly 25 years for women of the same age⁸.

the projection that other forces will mitigate this in EU countries, rather than add to spending pressures as in non-EU countries, must be uncertain. It at least partly depends on assumptions of better employment performance (hence output growth) and less generous pension payments that will require bold policy measures and political courage to achieve.

⁷ Johns Hopkins Comparative Nonprofit Sector Project.

⁸ Eurostat, as reported in the Green Paper from the EC, "Confronting Demographic change: a New Solidarity Between the Generations" [COM(2005)94 final].

The first priority here is to reverse the policies which entice or drive middle-aged people out of the gainfully employed workforce and to dependency on available sources of retirement income, reflected in low employment rates for people 55 and over (Table 2). But even where people prefer the freedom and leisure associated with withdrawal from the mainstream workforce, ways to supplement income and voluntary activity of various kinds may have appeal. European economies should look for ways to take advantage of this. Successfully mobilizing older people, of course, will require that the associated terms and conditions are suitable to both volunteers and the organisations that might benefit from their services.

Table 2: Employment rates, 2004 (employment as a percentage of population)			
	Age Group		
	15-24	25-54	55-64
EU 19 [1]	37,5	76,9	40,4
o/w Germany	41,9	79,5	39,2
France	29,5	79,2	37,1
Italy	27,2	72,1	30,5
Sweden	42,8	82,9	69,5
United Kingdom	60,1	80,7	56,2
United States	53	79	59,9
Japan	40	78,6	63

[1] EU15 plus Poland, Hungary, Czech and Slovak Republics
Source: OECD Employment Outlook, 2005

The potential amounts involved are significant. If there is no change in employment performance in the EU, especially in the 55+ age group, and if retired people volunteer at the same rate as the adult population as a whole, the effective active population (the total of paid employment and volunteering measured as full-time equivalents) will decline sharply over time (Table 3). It will decline from just under 199 million to just over 161 million in 2050 if, to allow for reduced activity among the very elderly, we assume that people stop volunteering when they reach 80 (Case 1). It may be unrealistic to expect the rapidly-increasing over-80 group to volunteer as much as the rest of the adult population but a calculation based on that assumption serves to provide an upward bound to an uncertain range. On this basis the decline will be to around 162 million (Case 2).

Table 3

Potential Impact of Retiree Volunteering on the Effective Active EU Population

	<i>Paid employment plus volunteers measured as full-time equivalents (millions)</i>		
	2000	2025	2050
<u>Case 1: No volunteers over 80.</u>			
No change in volunteering behavior	199	191	161
Widespread volunteering of 1 day per week by 55-79 age group	...	198	168
<i>Impact of higher volunteering (per cent)</i>		3.3	4.1
<u>Case 2: No age limit on volunteers</u>			
No change in volunteering behavior	199	192	162
Widespread volunteering of 1 day per week by 55-79 age group		200	171
<i>Impact of higher volunteering (per cent)</i>		4.1	5.6

NOTE: "Widespread" volunteering implies a participation rate at average rates for Sweden and the UK, where volunteering rates are among the highest in the EU.

Projections for 2025 and 2050 are based on:

- ~ Eurostat demographic forecasts;
- ~ Assumption that employment rates from Table 2 do not change and apply to Cyprus, Malta, Slovenia and the Baltic Republics;
- ~ Johns Hopkins Comparative Nonprofit Sector Project results for volunteering.
- ~ Assumption that volunteering rates are the same in all age groups, except as indicated.

Source: Author's calculations, available on request.

But suppose, for example, that the rate of volunteering could be raised from current levels, just over 12 percent in the EU countries covered in the Johns Hopkins study (including transition countries), to the levels prevailing in Sweden and the United Kingdom, where EU volunteering rates are highest. Suppose also that volunteers could be mobilized for the equivalent of a full day per week. The impact would be to increase the effective total active population by around 3.3 percent by 2025 in the case where the over-80 age group is assumed to cease activity altogether and by around 4.1 percent if the over-80 group continues with average volunteering behaviour. This

latter figure would add two tenths of a percentage point to the average growth rate of the active population as measured here for the next 20 years. The cumulative increase by 2050 would be 4.1 per cent in the case where the over-80 group ceased all activity and 5.6 percent in the continued volunteering case. Although these figures do not directly translate into equivalent increases in potential growth of the economy⁹, they clearly suggest a material impact. For comparison, the Cecchini Report analysing the potential benefits of the Single Market Program in 1988 put its impact on the level of output in the EU at 4.5 per cent.

Volunteering contributes to the health and well-being of retirees themselves

Over and above the economic benefits that volunteering can provide there appear to be significant benefits to volunteers themselves. These benefits should be sought and encouraged as a matter of social policy. Volunteering typically involves purposeful activity, some degree of physical exercise and social interaction. There is an emerging literature in the medical and gerontology fields which examines the effects of volunteering and generally concludes that it has many benefits¹⁰. All age groups seem to benefit but the elderly more so than others. Volunteering can contribute importantly to psychological well-being, as reflected in higher perceived levels of happiness and life satisfaction, reduced depression and anxiety, better physical health and even improved life expectancy.

Research is in its early stages as regards more specific issues, which would be relevant to attempts to target policies to increase their effectiveness, such as for whom is it most beneficial? What kind of volunteering helps most? How much volunteering is good before it becomes excessive? But so far it suggests that

⁹ While it is tempting to extrapolate these figures to the potential growth rate for the economy, caution is warranted. First, while the retired population will include many highly skilled people it cannot be assumed that average productivity of older volunteers will be comparable to that of the paid workforce. Second, data and projections for paid employment are in terms of headcount, not FTEs, thus understating the weight of volunteers in the effective active population. Note that these biases are in opposing directions and will tend to compensate for, rather than reinforce, each other.

¹⁰ See, for example, Morrow-Howell N, J. Hinterlong, PA Rozario and F Tang, "Effects of Volunteering on the Well-being of Older Adults", *Journal of Gerontology Series B: Psychological Sciences and Social Sciences*, May 2003. Other references available on request.

benefits are highest for those with the least social integration, i.e. unmarried, living in rural areas, little access to social support networks, etc., and that there is no issue of volunteering becoming excessive. Overall, while this work cannot be considered conclusive, it strongly suggests that policies that facilitate more volunteering by the elderly, even if they do not actively encourage it, would be good social policy in an ageing society.

IV. WHERE THE MAIN POLICY ISSUES LIE

Our knowledge of the challenges facing the various parts of the voluntary sector in Europe is limited. Nevertheless, we can identify at least some of the horizontal issues that need to be addressed in broad terms.

Taxation

Advantages much of the sector enjoys include full or partial tax deductibility of donations and exemption from income or value-added taxes. A review of the criteria for qualifying for these tax advantages would be useful in view of concerns about legitimacy and accountability of parts of the sector. Issues concern the extent to which political and religious activity should benefit from favourable tax treatment; the extent to which organisations whose activities benefit primarily their own members even if they do not distribute profits, such as trade unions, employers' federations, co-operatives and mutual societies, should be tax-privileged; whether tax advantaged status for trading income that funds, but is otherwise unrelated to, the activities that justify this status is consistent with sound competition policy; and whether organisations that have been granted tax exempt status should not be able to recover value-added tax that they pay on their purchases.

Funding

According to the Johns Hopkins study the two main sources of funding for voluntary organisations in developed countries are government support (around 48 percent of the total financial resources if volunteering is ignored) and income that the sector generates itself: mainly fees and services, but also contracts, other trading income and investment income (45 percent of the total).

Philanthropy amounts to just 7 percent of the total. If the value of volunteering is taken into account, however, the share of philanthropy rises markedly to nearly 30 percent.

Fiscal pressures due to ageing populations will put pressure on this pattern. Public funding for voluntary sector organisations will be increasingly difficult to obtain, except to the extent that it reflects contracting out of functions traditionally covered by the state at prices that are thought to imply budget savings. In such an environment there will be advantages in mobilizing private funding. Many of the issues here relate to tax, discussed above. But policies toward estates and inheritance, governance of charitable foundations (notably as regards minimal levels of grant-giving), and cost recovery in areas such as health, education, arts, culture and social services are all important elements of the picture. Funding in terms of contribution of time rather than cash, i.e. volunteering, is also potentially important. Developing ways to make the terms and conditions associated with volunteer activity (see below) attractive for both volunteers and organisations that might benefit from their services will have high priority.

Accountability and Governance

A Brookings-Aspen Institute study, "The State of Nonprofit America"¹¹, reports that in 1998 only 20 percent of US respondents agreed strongly that charitable organisations play a major role in making communities better places to live. Only 10 percent could agree strongly that most charities are honest and ethical in their use of donated funds. The situation in Europe seems to be better as around 60 per cent of respondents to an EU survey "tend to trust" rather than "tend not to trust" charitable and voluntary organizations¹². However, a survey by AccountAbility, a British Non-governmental organization, found that community-based NGOs are considered "quite accountable" or "very accountable" by only 44 per cent of respondents,

¹¹ See Salamon, Lester, "The Resilient Sector: The State of Nonprofit America", Chapter 2 in *The State of Nonprofit America*, The Brookings Institution and The Aspen Institute, Washington D.C., 2002.

¹² European Commission, "Eurobarometer 61: Public Opinion in the European Union, Fall 2004", Brussels, 2005.

well below governments at 60 per cent¹³. Since the forces operating in the two regions are similar, and the questions in the various surveys were not strictly comparable, the US numbers serve as a warning. Since voluntary sector organisations neither answer to the electorate nor face a true market test, mechanisms to ensure their legitimacy are desirable. Such mechanisms should be designed to ensure that these organisations' activities are carried out effectively, that their outputs serve the purposes which underpin any privileged tax status and that checks against fraud, self-dealing and excessive pay to insiders are in place.

The Operating Environment

Voluntary sector organisations face challenges regarding both capacity building and the regulatory framework which governs their activities. Many of these challenges faces must be confronted by the sector itself but in some cases there are obstacles or barriers that merit a policy response.

Key challenges relate to human resource issues. At the level of management, the Brookings-Aspen Institute study cited above called attention to high turnover in the US at executive director level and, notably, difficulties recruiting leaders in the arts field. Also in the US, a survey of voluntary organisations pointed to a severe lack of capacity to co-ordinate and manage volunteers that discouraged their use¹⁴. These findings point to a need for capacity building to which management training programs might contribute. Patterns prevailing in the US may differ from those in Europe, but significant differences would be surprising.

Below management level the employment status and access to the social safety net for volunteers are issues that merit attention given the large actual and potential future role of volunteers in the sector. Based on the survey by the EC cited earlier, more than 80 percent of voluntary sector organisations in the EU employ volunteers. In addition, where pay is low and access to social support is limited the work of many paid staff may be considered to have a volunteer element. In the US, the Brookings – Aspen Institute study found this to be a

¹³ As reported in "Reinventing Accountability for the 21st Century", at www.accountability.org.uk.

¹⁴ This survey was carried out by the National Council on the Aging's RespectAbility program. A summary can be found at www.respectability.org/.

problem and it would be surprising if this was not characteristic of Europe as well. In France legislation to address some of these issues by clarifying the legal status of volunteers engaged with non-profit organizations, notably for occasional instructors at vacation and recreational centers, is now in its second reading¹⁵. While this legislation must be judged in the wider context of the legal framework affecting the labor market as a whole, reducing the legal uncertainty surrounding volunteers' status should be helpful. A review of whether legislation is warranted elsewhere would be useful.

Given that many voluntary sector organisations are small many of the issues that arise in the area of supporting SMEs and entrepreneurship also face the voluntary sector. Simplicity is highly desirable as regards financial reporting, tax and administrative requirements. Flexibility to adjust paid staff levels is essential where funding is uncertain. Access to capital for expenditures such as building construction or IT infrastructure can put non-profit organisations at a disadvantage vis-à-vis profit-making competitors.

Review and Evaluation

Policy initiatives affecting the sector need to be assessed and lessons from evaluations disseminated. Especially where strengthening the voluntary sector has high policy priority (e.g. the United Kingdom), these initiatives lead to interaction between the government agencies, often at lower levels of government, and the voluntary sector at the level of the organisation. There is a need to take stock of what works, to identify what does not work, modify programs or support services where they can be improved and to scrap initiatives that do not deliver results. These things should be done on a systematic basis and lessons learned from the process should be circulated widely so that regions and localities can learn from others' experience.

¹⁵ See "Projet de loi relative au volontariat associatif et à l'engagement éducatif", Texte No. 163(2005-2006), transmitted to the Senate in Paris on 18 January 2006.

Cross-Border Issues

Cross-border obstacles may limit the scope for many voluntary sector organisations to operate as effectively as they might. While trade and financial sector arrangements have systematically been liberalized to facilitate open and integrated international markets, both within the EU and globally, voluntary sector organisations often remain constrained by national borders. A number of barriers to cross-border activity of charitable foundations have been identified relating to: recognition of legal personality by a host country; formalities required to operate in host jurisdictions; home country restrictions on foreign activities or fund transfers; lack of tax deductibility of donations to foreign foundations; and forced heirship provisions of laws concerning inheritance and successions¹⁶. Many of these would appear to apply to cross-border activities of operating organizations in the voluntary sector as well, although a comprehensive assessment does not appear to be available. As regards the specific issue of volunteers who work outside their home countries, problems can arise relating to visas and to the implications for their position vis-à-vis some elements of home social security systems (e.g. rights to family allocations).

V. CONCLUSIONS

As societies age the voluntary sector will have much to offer. The ranges of activities in which it participates and the policy domains that impinge on it are very wide. Therefore making the most of its contribution will require an extensive and comprehensive strengthening of the policy framework which governs its activities. Much of the concrete policy action needed will relate to specific aspects of particular activities, such as education, social services and arts and culture. But it will also relate to horizontal issues that cut across sectors with wide applicability, such as tax, financial reporting and specific problems that discourage mobilization of volunteers, particularly among retired people. The focus must include not only identification and reduction of barriers to the sector's

¹⁶ Gallop, Bradley, "Cross-border Issues Facing Foundations and their Donors" in Schluter, Andreas, Volker Then and Peter Walkenhorst (ed.), *Foundations in Europe*, Bertelsmann Foundation, The Directory of Social Change, London, U.K. 2001, pp. 744-795.

expansion and effective performance but also creation of disciplines that ensure its effectiveness, accountability and political legitimacy.