

**Outsourcing Social Services to CSOs:
Lessons from Abroad**

Leon E. Irish, Lester M. Salamon,
and
Karla W. Simon

June 2009

Table of Contents

Preface	1
I. Overview	3
II. Country Studies	29
England	30
France	45
Germany	53
The Netherlands	65
Hungary	71
Russian Federation	84
Australia	93
Hong Kong SAR	109
Republic of Korea	115
United States	125
III. Conclusions and Recommendations	137
Appendix A (Examples of Compacts and Related Cooperation Agreements)	141
Appendix B (Examples of Application Processes)	142
Appendix C (Case Studies of Capacity Building, Loans, etc.)	151
Appendix D (Examples of Monitoring and Evaluation)	152

Preface

This study aims to provide the Ministry of Civil Affairs (MoCA) of the People's Republic of China an overview of international experience with the use of direct and indirect, consumer and producer side instruments for engaging civil society organizations in the delivery of government-financed social and human services. Our understanding of why the government engaged us to produce it is that the government is endeavoring to better supply social services to the Chinese people, to enhance civil society, and to create a partnership for social service provision that will promote a “small government big society” approach to social and economic development in China. Our study benefited significantly from a review seminar to discuss the draft report on June 3, 2009 at the World Bank's Beijing Office and a subsequent meeting at the Ministry of Civil Affairs. The final report addresses the issues that experts at both meetings emphasized that we should include in the final report.

The discussion in the report falls into three major parts. Part I offers an overview of the scale of the civil society sector globally and of the extent and patterns of government support for it. Against this backdrop, Part II then examines in more detail the experience of particular countries with government-nonprofit cooperation with respect to outsourcing social services. Finally, based on these experiences, the final part offers some suggestions for the Government of China as it seeks to fashion a workable relationship with the emerging Chinese CSO sector. The discussion in all sections of the Report reflects the world-wide trend toward models of what Professor Salamon has termed “new governance,” stressing collaboration and partnership between government and civil society organizations (CSOs) to meet social and economic needs.¹ Our belief is that viewing the process of social service outsourcing with this new lens will greatly enhance the ability of the government to meet the needs of the Chinese people in the 21st Century.

¹ Lester M. Salamon, “The New Governance and the Tools of Public Action: An Introduction,” in Lester M. Salamon, editor. *The Tools of Government: A Guide to the New Governance*. (New York: Oxford University Press, 2002), pp. 1-47.

Final June 2009

The authors of this report are Leon E. Irish (Central European University), Lester M. Salamon (Center for Civil Society Studies, John Hopkins University) and Karla W. Simon (Catholic University of America). The study was supported by the World Bank. The task manager for this study is Li Li, Senior External Affairs Officer and CSO liaison person in the World Bank Office, Beijing.

Part I: Overview²

Introduction

Government reliance on Civil Society Organizations (CSOs) to deliver government-funded services is a widespread, and growing, practice in countries throughout the world. Indeed, in most advanced industrial countries such reliance is so widespread that government has become the major source of CSO financial support, and CSOs have become the major delivery system for a wide range of government-funded human services.

The background of government support for nonprofit organizations varies greatly, however. In the United States and the United Kingdom, for example, long-standing resistance to government involvement in social welfare protections left the provision of human services in private hands until relatively recently. When government later entered many of these fields it confronted existing nonprofit organizations that insisted on a role in the resulting programs. In Germany and the Netherlands, government reliance on CSOs grew out of efforts to blunt worker radicalism and resolve disputes between religious communities early in the twentieth century. To do so, the government instituted social welfare protections but channeled the funding through private, nonprofit organizations, many of them religiously affiliated. Finally, in France, government reliance on CSOs is a more recent phenomenon resulting from efforts by a Socialist government in the 1980s to respond to popular criticisms of the perceived cumbersomeness and unresponsiveness of existing government-provided welfare services. The solution was to retain government's role in the financing of these services but to turn the operation over to private nonprofit groups.

² This section was prepared by Dr. Lester M. Salamon of the Johns Hopkins University and draws heavily on: Lester M. Salamon, "Government-Nonprofit Relations in International Perspective" in *Nonprofits and Government* (Elizabeth T. Boris and C. Eugene Steuerle, eds), Urban Institute Press, Washington, DC, 2004; Lester M. Salamon, Wojciech Sokolowski, and Associates, *Global Civil Society*. Volume III. (Bloomfield, Ct: Kumarian Press, forthcoming, 2009); Lester M. Salamon, *The Tools of Government: A Guide to the New Governance*, (New York: Oxford University Press, 2002); and Lester M. Salamon, "Training Professional Citizens: Getting Beyond the Right Answer to the Wrong Question in Public Affairs Education," *Journal of Public Affairs Education*, 11, 15 (2005): pp. 7-19.

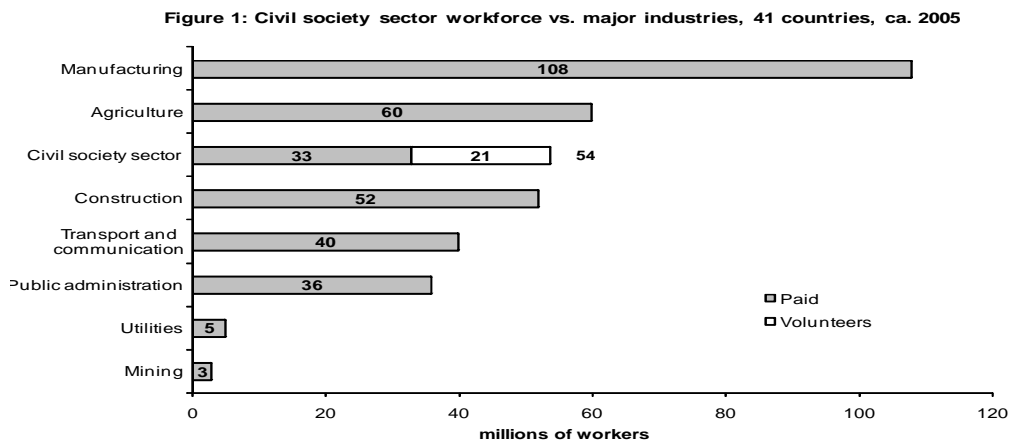
Given these variations, it is difficult to generalize about the patterns of government involvement with CSOs. Nevertheless, it is possible to offer an overview of the general contours of such involvement, to outline some of the major variations that exist, to identify some of the major trends in the field, and on the basis of this experience to offer some suggestions to the Government of China as it considers its own route toward government cooperation with civil society. The purpose of this section is to provide such an overview. In particular, the discussion focuses on five major topics:

- **First**, the overall scope of the civil society sector around the world in order to put the discussion of government's relation with it into context;
- **Second**, the overall extent of government support of CSOs and the variations that exist among countries and fields;
- **Third**, the reasons for government reliance on nonprofit organizations to deliver publicly financed services and the advantages and disadvantages of this mode of service provision;
- **Fourth**, the different forms that government support to CSOs can take and the pluses and minuses of the different instruments governments have available to provide this support; and
- **Fifth**, the steps that are needed to put in place an effective and reliable outsourcing system that takes advantage of the contributions that such arrangements can offer while responding to the special challenges they also involve.

A. The Global Civil Society Sector: A Major Economic Force

A useful starting point for this discussion is a recognition of the enormous scale and importance that civil society organizations have assumed in countries throughout the world. Included within this sector are social bodies that share five crucial features: they are (i) *organizations* that are (ii) *private*, i.e., not part of the institutions of government; (iii) *non profit-distributing*; (iv) *self-governing*, and (v) *non-compulsory*. Depending on the country, this can embrace a substantial range of entities, including significant shares of many countries' universities, hospitals, homes for the aging, social service agencies, employment and training centers, orchestras, and many others.

This set of institutions has become a significant economic presence in countries throughout the world. Data generated by the Johns Hopkins Comparative Nonprofit Sector Project reveals that this CSO sector currently employs approximately 54 million full-time equivalent workers in the 41 countries on which reliable statistical data are available.³ Included in this figure are 33 million paid workers and the full-time equivalent of 21 million volunteer workers. This represents an average of 4.4 percent of the economically active populations of these countries.⁴ Put somewhat differently, the civil society workforce in these 41 countries is larger than the workforce of the construction and the transport and communications industries, and outdistances the utility industry (electricity, water, and gas) by a factor of 10 to 1, as shown in Figure 1.



Source: Salamon, Sokolowski, and Associates, *Global Civil Society*, 3rd Edition, (Kumarian 2010)

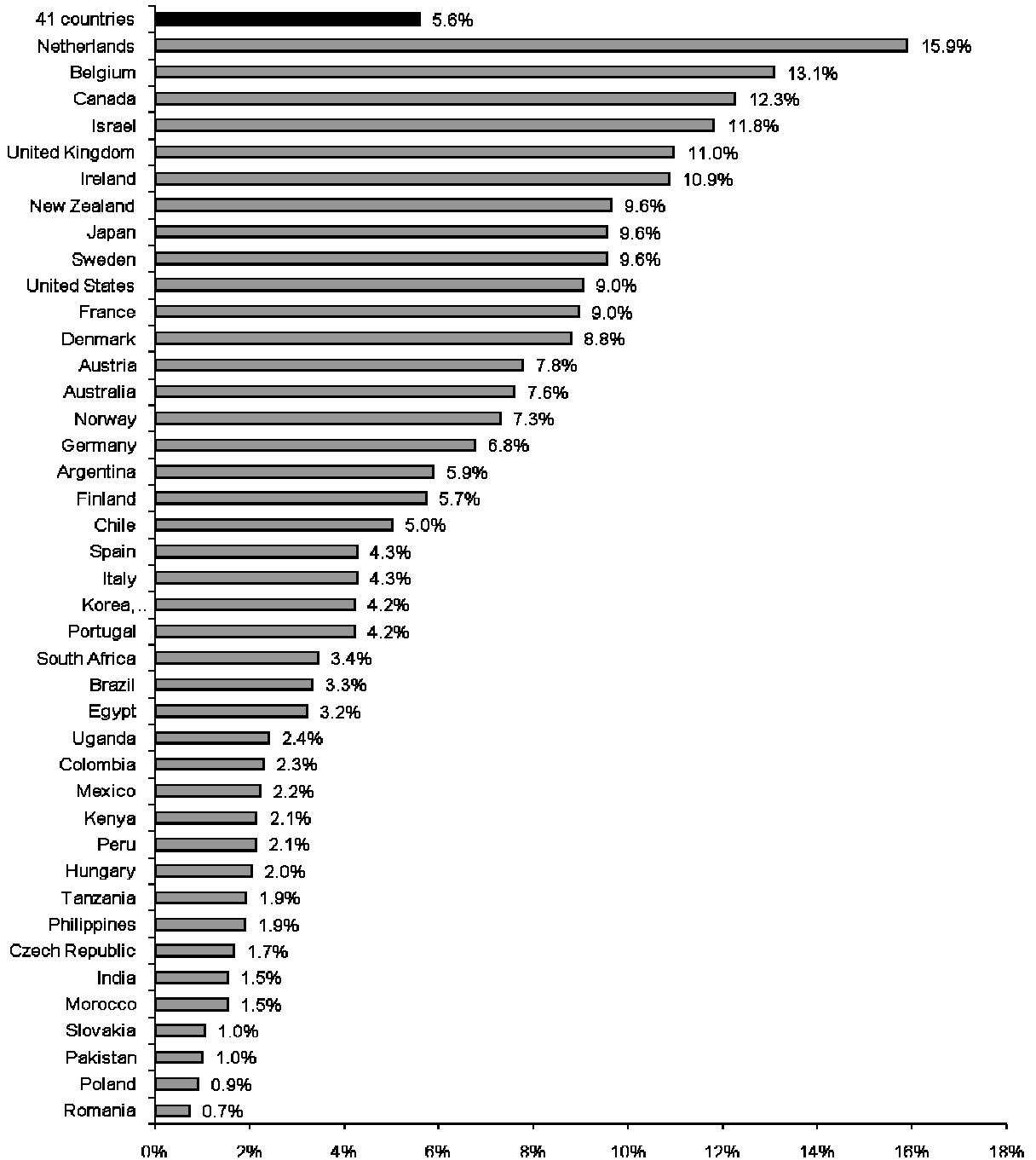
This overall picture obscures, however, the significant variations that exist in the relative size of the civil society sector in different countries. As shown in Figure 2, the CSO workforce varies from a high of over 15 percent of the economically active population in the Netherlands to a low of under 1 percent in Romania. Generally

³ Lester M. Salamon, Wojciech Sokolowski, and Associates, *Global Civil Society: Dimensions of the Nonprofit Sector*. Volume III, Kumarian Press, forthcoming 2009.

⁴ This figure is the weighted average, which takes account of the size of the economies in question. The unweighted average, which takes each country as an observation regardless of its size, is 5.6 percent. This is because several of the countries with the highest shares of CSO employment are relatively small countries.

speaking, the more advanced industrial countries of Western Europe and North America (e.g. the Netherlands, Belgium, Ireland, the U.K., and Canada) have the largest nonprofit sectors measured as a share of their economically active populations.

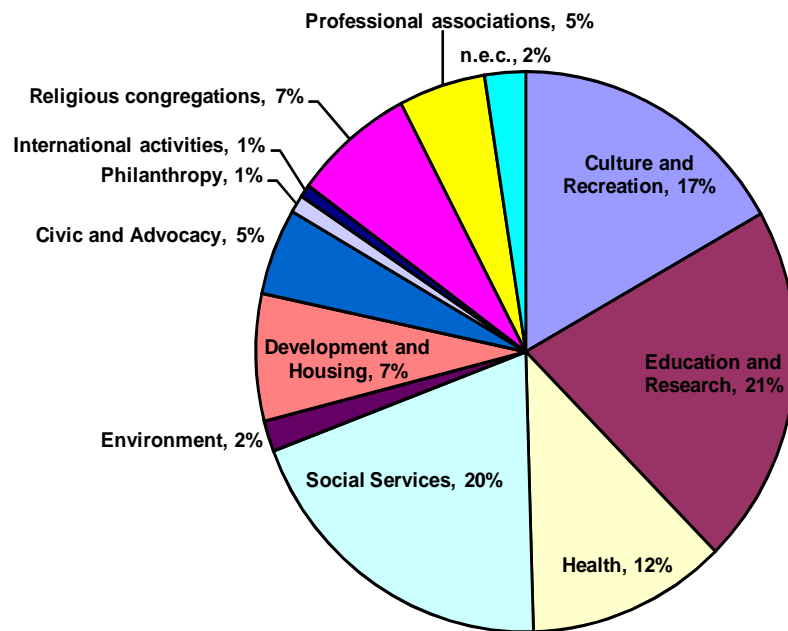
Figure 2 Civil society workforce as a share of economically active population (EAP).



Source: Salamon, Sokolowski, and Associates, *Global Civil Society*, 3rd edition (Kumarian, 2010)

While considerable variations exist among countries, the civil society sector's workforce tends to be concentrated in four principal fields: education, social services, culture and recreation, and health. Taken together, as Figure 3 shows, these four fields account for 70 percent of the total civil society workforce, paid and volunteer.

Figure 3: Distribution of civil society workforce among fields



Source: Salamon, Sokolowski, and Associates, *Global Civil Society*, 3rd edition (Kumarian 2010)

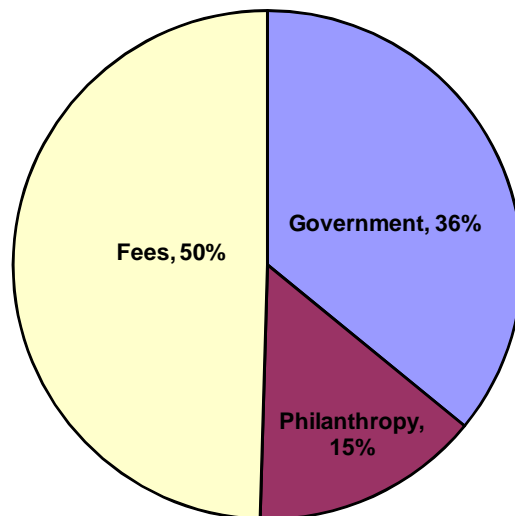
B. Government Involvement and Support

Government policy affects the civil society sector in a wide variety of ways. First, government sets the basic legal environment within which the sector operates, determining how easy or difficult it is to form civil society organizations and secure legal person status for them. Beyond this, governments in many parts of the world provide a variety of tax privileges to these organizations, including relief from all or a portion of the income, sales, and use taxes imposed on other organizations or businesses; and tax

deductions or credits for contributions to these organizations made by individuals or corporations.

Extent of Government Financial Support to CSOs. Perhaps one of the most important ways in which governments affect the civil society sector, however, is through the provision of direct financial support. Indeed, government has emerged as a far larger source of financial support to the civil society sector around the world than is philanthropy. In particular, in the 39 countries examined under the Johns Hopkins Comparative Nonprofit Sector Project for which data are available, government's share of civil society sector income exceeds the share provided by philanthropy by more than 2:1 (36 percent vs. 15 percent), as shown in Figure 4.

Figure 4: Sources of revenue of civil society organizations, 39 country average*



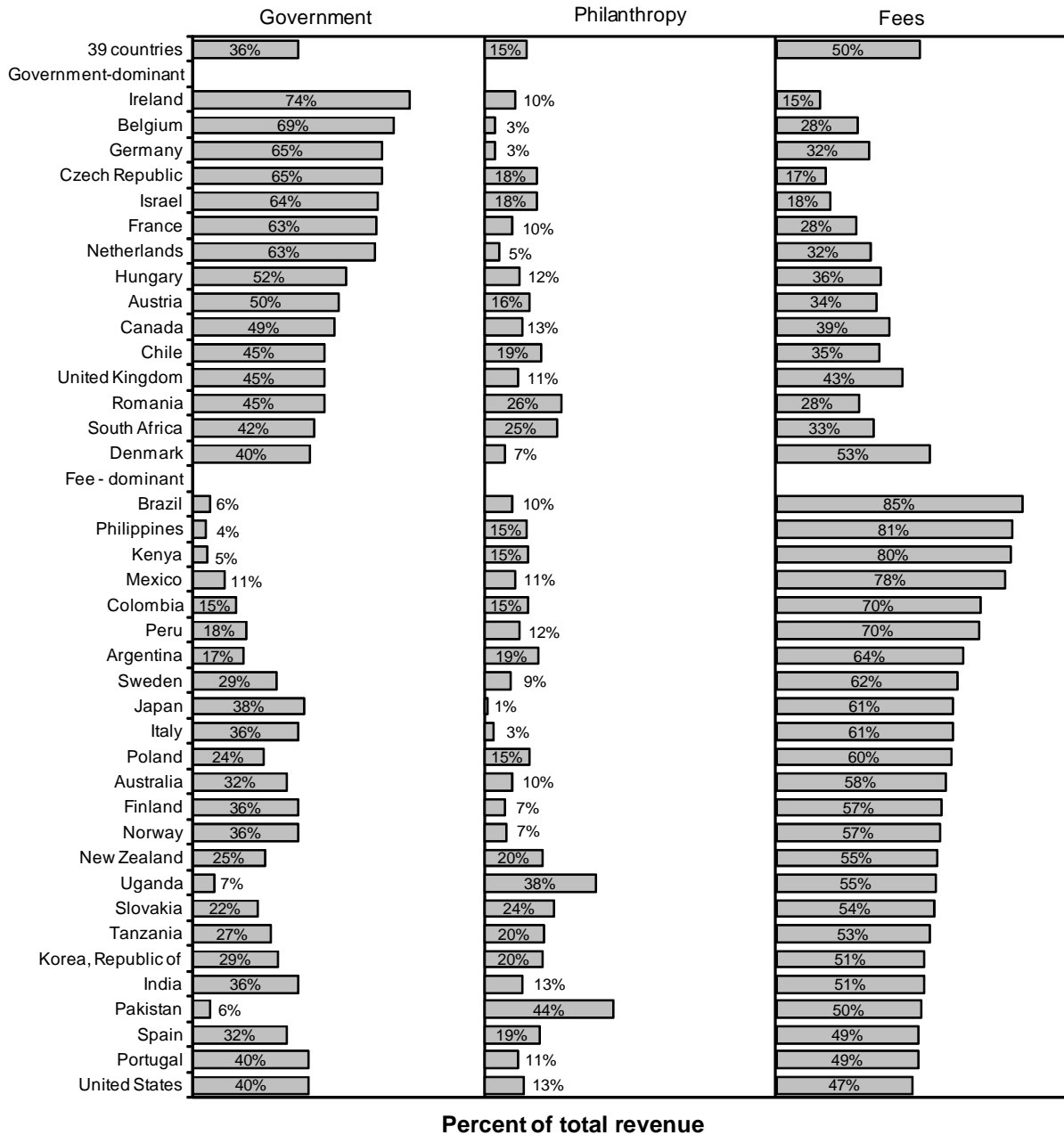
* Unweighted average

Source: Salamon, Sokolowski, and Associates, *Global Civil Society*. 3rd edition. (Kumarian 2010)

Variations in Government Support Among Countries. As with so much about the civil society sector, however, the extent of government support to civil society organizations varies considerably among countries. As shown in Figure 5, however, in 14 of the 39 countries government is the largest source of civil society sector income,

outdistancing both fee income and philanthropy. Interestingly, moreover, this “government-dominant” pattern of civil society revenue is most common in the advanced countries of Western Europe, where a “welfare state” is supposed to exist. What this makes clear is that the term “welfare state” is misleading. What really exists in many of the Western European countries is a “welfare partnership” between the state and private nonprofit organizations. It is also notable that these are also the exact countries where the nonprofit sector is largest. This suggests that government support is strongly associated with the growth and strengthening of the CSO sector.

Figure 5: Sources of civil society organization revenue, by country



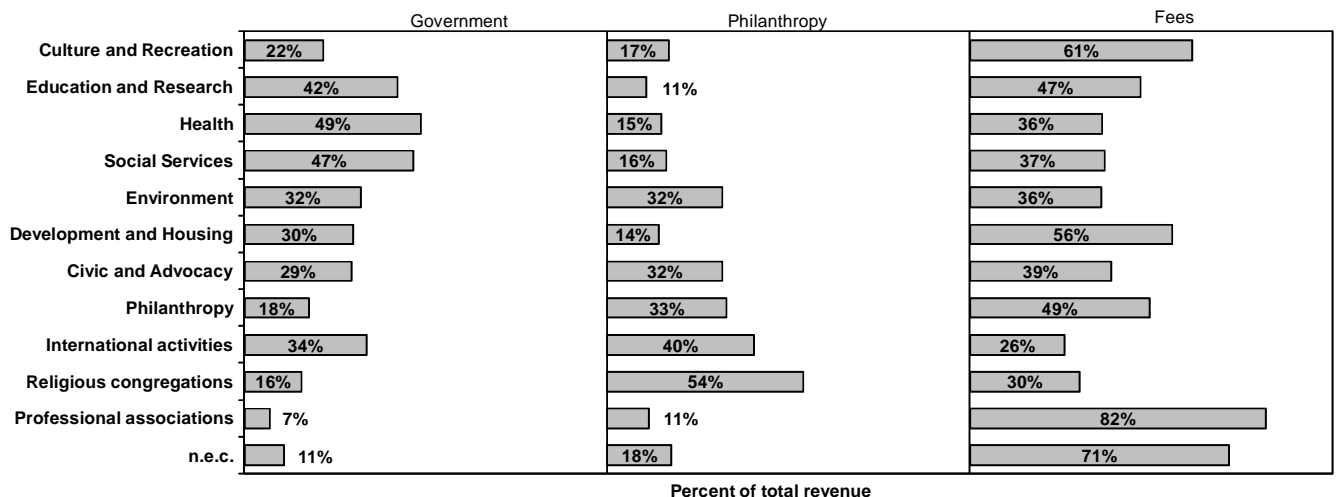
Source: Salamon, Sokolowski, and Associates, *Global Civil Society*. 3rd Edition. (Kumarian 2010)

In the other 25 countries the major source of revenue of CSOs is fee income for the services that CSOs provide. Included in this group of countries is the United States and Japan. Although the share of government support in the revenue base of CSOs is somewhat smaller in these countries than in the “government-dominant” ones, it can still be quite sizable. In the United States, for example, government support to CSO still

exceeds the share of income that CSOs receive from philanthropy by a substantial margin (40 percent from government vs. 13 percent from philanthropy). Clearly, government reliance on CSOs to deliver government-financed services has become a widespread pattern, particularly among advanced industrial nations. What is more, government support is strongly associated with the growth of the CSO sector. No country with an above-average CSO sector, except those in Scandinavia, where the CSO sector performs largely recreational and cultural roles, has achieved this result in the absence of sizable government support.

Variations in Government Support Among Fields. Government support for civil society activity is not uniform among fields, however, though important variations exist in these patterns among countries. Overall, however, as shown in Figure 6, government support averages between 40 and 50 percent of CSO revenue in three fields—Health (49 percent), Social Services (47 percent), and Education and research (42 percent). Included here are activities such as the following: Child and family care; poverty relief; elder care; Disaster relief; emergency food and shelter; day care for children; drug abuse treatment; hospital care; clinic care; crime prevention and community development; care of marginalized and vulnerable populations, such as immigrants or the disabled; legal aid; job training; and environmental protection. Even in the civic and advocacy field, however, government still supplies about one-third of the funding of CSOs on average in the 39 countries on which we have data (Figure 6).

Figure 6: Sources of civil society organization revenue, by field, 38 countries



Source: Salamon, Sokolowski, and Associates. *Global Civil Society*. 3rd Edition. (Kumarian 2010).

C. Advantages and Disadvantages of Outsourcing for Government, CSOs, and Citizens

Existing patterns of government reliance on nonprofit organizations to deliver publicly funded services have not resulted simply from conscious decisions about the most effective or efficient method to provide services. Rather, they reflect as well a variety of other factors, some of them political and some of them cultural.⁵ In various countries these have included: the early emergence of religious institutions providing various forms of care for the needy (e.g. Italy, Germany, the Netherlands, Chile), the lack of governmental institutions and the emergence of political ideologies favoring limited government (U.S., U.K.), national liberation movements that brought to power political forces favorable toward CSOs (South Africa, India), and frustrations with the responsiveness of governmental bureaucracies and a search for more flexible forms of social assistance (e.g. France, Italy).

Whatever the political and cultural factors, however, a broad consensus has formed in recent years about the potential advantages that can result from greater cooperation between government and nonprofit organizations in addressing pressing social, economic, and environmental problems. At the same time, these arrangements also have their disadvantages. The balance of advantages and disadvantages differs somewhat, however, for the three major types of stakeholders that may be affected by such cooperation-- government, CSOs, and the beneficiaries or recipients of outsourced services. The great challenge, therefore, is to find forms of outsourcing that achieve the greatest balance among the objectives being sought by these different actors and the costs they are willing to accept. The discussion below therefore examines the major advantages and disadvantages of outsourcing from the perspective of these different stakeholders.

⁵ For an extensive analysis of the various patterns of government-nonprofit relations in different countries, see: Lester M. Salamon and Helmut Anheier, "The Social Origins of Civil Society: Explaining the Nonprofit Sector Cross-Nationally." *Voluntas*, Vol. 9, No. 3,(1998): 213-248, and Salamon, Sokolowski, and Associates, *Global Civil Society*. (forthcoming 2010).

The Government Perspective

Advantages to government. Outsourcing has come to be seen as holding significant advantages for governments around the world. Among these advantages are the following:

- Improved service quality resulting from the smaller scale and greater responsiveness of CSOs;
- Access to the expertise and experience in dealing with problems that CSOs often possess;
- The ability to mobilize additional resources in the form of private contributions and volunteer effort;
- The ability to shift some of the cost of services to users in the form of fees and charges;
- Access to the innovative solutions to intractable problems that CSOs often devise;
- Early identification of problems needing solution;
- Encouragement of “social capital” and social harmony;
- The ability to respond to problems in a more flexible manner without the need to build sizable state bureaucracies.

Potential Disadvantages for Government. Even though it promises many advantages, government outsourcing to CSOs also involves significant challenges. Three of these challenges in particular seem especially common:⁶

- **The Management Challenge.** In the first place, reliance on CSOs to deliver government-funded services raises important management challenges, perhaps far more immense than those posed by traditional public administration. With power dispersed and numerous semi-autonomous entities involved in the operation of public programs, even straightforward tasks become difficult. Indirect forms of government action paradoxically require far more advance planning than is the

⁶ This section draws heavily on Lester M. Salamon, “The Tools Approach and the New Governance: Conclusions and Implications,” in Lester M. Salamon, editor, *The Tools of Government: A Guide to the New Governance*. New York: Oxford University Press, 2002, pp. 603-606.

case with more direct tools. Matters that could be dealt with internally on an ad hoc basis in direct government have to be settled in advance through legally binding contracts under indirect government. Similarly, incentives have to be devised sufficient to induce desired behavior but not so substantial as to yield windfall gains; concurrence has to be secured at numerous points in complex decision chains; and disparate organizations have to be forged into effective networks capable of integrated action. All of this requires new processes and new skills that differ considerably from those characteristic of traditional public administration. In addition to knowledge about the internal dynamics of public agencies, what is needed increasingly is an understanding of the incentive structures of government's third-party partners, how to manage complex networks, how to negotiate with largely autonomous partners in interdependent systems, how to structure incentive systems to overcome the moral hazards of principal-agent relationships, and how to create a sense of shared responsibility for hard-to-measure outcomes.

- **The Accountability Challenge.** In addition to the management challenge it poses, reliance on CSOs and other third parties for service delivery also poses a serious accountability challenge. This is so because such reliance inevitably leads to some loss of control on the part of public agencies, if only because, as “principal-agent theory” informs us, the implementing organizations will always have more information about what is going on in the field.⁷ Governments relying heavily on CSOs and other types of actors therefore have to be willing to accept a different concept of accountability, one involving a certain sharing of responsibility for setting the objectives of public programs.
- **The Legitimacy Challenge.** Finally, outsourcing can weaken the perceived link between the taxes citizens pay and the services they receive because the services under outsourcing reach citizens from the CSOs rather than from government

⁷Principal-agent theory attempts to explain the paradox that often arises in contractual and other relationships between a “principal” and an “agent” hired by that principal to carry out a particular function. Although the principal controls the funds, the agent paradoxically often exercises more power because the principal is not able, or willing, to pay the cost of securing enough information to monitor the agent's behavior constantly. This “information asymmetry” between principal and agent explains the paradox of principal-agent relationships.

agencies. As a result, indirect government can confuse citizens about the source of the aid they are receiving and thus de-legitimize government in the very act of enabling it to operate in new spheres. This can be minimized by emphasizing the partnership aspect of the relationship, but this must be made an explicit part of program operations.

The Civil Society Organization Perspective

Advantages to CSOs. Civil society organizations also stand to gain important advantages from outsourcing. Among these advantages to CSOs are the following:

- Increased access to resources;
- Increased capabilities resulting from the expanded resources and staffing;
- Greater ability to carry out missions;
- Potential ability to influence the content of government policy and thus improve the way problems are approached;
- Reduced need to devote precious time and resources to costly fundraising;
- Greater stability of funding

Potential disadvantages for CSOs. In addition to the advantages that government-nonprofit cooperation brings to CSOs, moreover, it also poses significant risks. Two of these risks in particular are notable.

- **Potential loss of CSO distinctiveness.** One concern about extensive nonprofit engagement with the state is that it can lead to the weakening or loss of distinctive nonprofit roles and functions, particularly their roles as community builders and vehicles for giving expression to community concerns and unrepresented perspectives. Particularly where outsourcing places limits on nonprofit representational and advocacy activity, the result can be to alter the mission and character of civil society organizations.
- **Potential loss of flexibility.** Quite apart from the impact that outsourcing can have on the ability of civil society organizations to give voice to important perspectives, outsourcing can also lead to greater bureaucratization within the nonprofit sector because of reporting and staffing requirements of government

agencies. Where this happens, civil society organizations can lose their flexibility and innovativeness and be transformed into rigid bureaucratic organizations unresponsive to client concerns.

- **Budget shortfalls** caused by failure of public sector to cover the true cost of service provision.

Counterbalancing these potential disadvantages, however, are the limits that the disparities in information emphasized by “principal-agent theory” impose on principals in principal-agent relationships of the sort that arise in outsourcing. This usually provides a certain degree of flexibility for the agents in such relationships.⁸

The Recipient Perspective

In addition to its implications for government and for civil society organizations, outsourcing also has implications for the ultimate beneficiaries of public programs. These implications, too, can be either positive or negative.

Potential advantages for recipients. Beneficiaries of public program stand to benefit in a variety of ways from outsourcing. These include the following:

- Greater choice among providers;
- Delivery of services on a smaller, more human, scale;
- Greater responsiveness of service providers;
- More personal relationship with service providers;
- Additional supporters for programs of interest

Possible disadvantages for recipients. Outsourcing can also potentially generate disadvantages for recipients. This could include:

- Introduction of user charges for services;
- Limits on availability of services due to higher eligibility requirements or limited resources available to civil society organizations;

⁸ Principal-agent theory explains the paradox that in principal-agent relationships, the principal, who often supplies the financial resources, often has less control than the agent because the agent is better informed than the principal about what is happening on the ground. For the principal to be in complete control, the principal must increase its access to information. But this involves costs. Principals therefore generally settle for a compromise between the control they would like and the control they can afford.

- Lack of training and capacity on the part of private providers.

D. Instruments or Tools for Outsourcing

One factor affecting the balance between the advantages and risks of government outsourcing for various stakeholders is the form that this outsourcing takes. In practice there are numerous “tools” or “instruments” that governments can use to structure their partnerships with the third sector, and the choice of instrument can significantly affect the relative roles of government agencies and CSOs that result.

Broadly speaking, such tools can be grouped into two broad categories: (a) *producer-side subsidies*, which deliver their benefits to producers of services who then provide the services to beneficiaries; and (b) *consumer-side subsidies*, which provide some form of payment or reimbursement directly to the beneficiaries of a program and leave the choice of provider up to the beneficiary. Each of these, in turn, can take *direct* vs. *indirect* forms. Generally speaking, producers of services (e.g. civil society organizations) prefer producer-side subsidies while beneficiaries prefer consumer-side subsidies. Generally speaking, governments prefer more direct tools and third-party providers prefer indirect tools.

The table below provides examples of types of tools classified according to these two dimensions.⁹ The discussion that follows describes these different tools in a bit more detail.

Table 1
Examples of Types of Tools Available for Use in Outsourcing to CSOs

Degree of Directness	Type of Subsidy	
	Producer-Side	Consumer-Side
High	<ul style="list-style-type: none"> • Direct provision by govt agencies 	
Medium	<ul style="list-style-type: none"> • Contracts—design standards • Contracts—performance Standards 	<ul style="list-style-type: none"> • Vouchers • Tax expenditures
Low	<ul style="list-style-type: none"> • Categorical grants 	<ul style="list-style-type: none"> • Loan guarantees

⁹⁹ For a full discussion of the “tool of government,” see: Lester M. Salamon, *The Tools of Government: A Guide to the New Governance*. (New York: Oxford University Press, 2002).

	<ul style="list-style-type: none">• Block grants• Block allocations	
--	--	--

Producer side subsidies

Producer-side subsidies deliver assistance to the producers or providers of services. They thus help ensure that there is a supply of whatever services government is promoting. However, they limit consumer choice among service providers, much as government direct provision does. Producer-side subsidies can take many forms, however:

- *Block allocations.* In some countries, governments make automatic allocations of funds to CSO out of their general budgets, much as they would do to local governments in countries where local government is funded out of the central budget. In Germany, for example, most government support to the “free welfare associations” has historically come in the form of such direct subsidies and block allocations to support basic organizational operations. This form of assistance is especially favorable to the CSOs but leaves government with few mechanisms through which to hold CSOs accountable.
- *Categorical grants.* Categorical grants, i.e., grants made for specific purposes, provide a way to support the activities of CSOs in particular areas of interest to the government while still leaving considerable discretion in the hands of the CSOs. Grants tend to be used where governments are interested in supporting activities being carried out by CSOs as opposed to buying services or products for government’s own use. Grants can be distributed by automatic formulas (*formula grants*) or in response to specific proposals for particular projects (*project grants*). Governments tend to have more control when using project grants than formula grants, but funding can be uneven and depend heavily on “grantsmanship,” i.e., the proposal-writing skills of particular organizations.

Categorical grants are used widely in the United States to support a wide assortment of nonprofit activities. Indeed, at last count there were 700 grant programs through which nonprofit organizations receive support from the national

government.¹⁰ Thus, for example, a significant portion of government-funded medical research is carried out by private, nonprofit universities through project grants from the National Institutes of Health.

- *Block grants* are a particular form of grants with broader purposes than categorical grants. They are typically distributed by formula and leave substantial discretion in the hands of recipients—typically state or local governments.
- *Contracts*. Contracts are used typically when governments wish to purchase specific products or services from private organizations. Purchase-of-service contracts have become common in the human service field where the government wishes to retain a nonprofit organization for the provision of a specific type or range of services. Contracts generally involve more formal procedures for bidding and awarding and greater provisions for specification of outputs and accountability for results. Contracts work best where there is meaningful competition among potential providers. Contracts must also cover both the direct costs of services and the indirect costs (i.e. those that cannot be easily assigned to a particular service, such as maintenance of the physical plant of the organization, accounting services, etc.). Contracts are widely used in the United States for purchase of services from nonprofit organizations, particularly in the field of social services. Contracts are also increasingly being used in many of the “welfare partnership” countries of Western Europe such as France and the U.K. Germany, though there, until recently, when contracts were used they tended to last for decades and to take on the character of permanent subsidies. Contracts can differ in the types of standards they use to measure performance. Most typical are contract programs that use “design standards,” i.e., standards that measure the *output* of programs—e.g. the number of students taught, the number of person- days of day care provided, the number of person-days of nursing-home care produced. Increasingly, however, countries are moving toward using “performance standards,” which measure the *outcomes* of programs—e.g., the success rate of students in mastering a body of knowledge. In addition,

¹⁰ United States General Accountability Office. *Nonprofit Sector: Significant Federal Funds Reach the Sector through Various Mechanisms, but More Complete and Reliable Funding Data are Needed*. GAO-09-193. Washington, D.C.: General Accountability Office, February 2009).

performance standards are being combined with “performance incentives,” which offer those performing contracts financial or other rewards for meeting or exceeding the performance goals. Performance standard contracts tend to be preferred by governments and resisted by CSOs, which recognize that many external factors can affect the performance of beneficiaries of a program.

Consumer-side subsidies

Consumer-side subsidies provide assistance for specially targeted goods or services directly to program beneficiaries and leave the beneficiary free to choose among service providers, though often with some provision for certification by the providers by government. Vouchers thus give much more choice to consumers. However, they can also produce significant cost inflation in the product or service they are subsidizing if the supply of the service is constrained. Like producer-side subsidies, consumer-side subsidies can take a variety of different forms and these forms vary in the degree of control they vest in governments, CSOs, and consumers.

- *Vouchers.* Vouchers are tickets or reimbursement arrangements for selected goods of services provided to eligible recipients. Unlike the previous tools, which deliver assistance directly to CSOs, vouchers provide assistance *indirectly* through the recipients of services. With vouchers, consumers are free to choose which of a variety of possible providers to use to secure a service, though governments often “certify” eligible providers to avoid fraud or abuse. The consumer is given a card or a ticket that can be used to pay for the service and the provider is then reimbursed by the government. The major U.S. health program for the elderly, called Medicare, uses this approach as does America’s major program of aid to the poor for housing. In fact, vouchers now account for the majority of aid provided to U.S. CSOs by government. Vouchers are also used widely in the welfare partnership and social democratic countries such as the Netherlands, Norway, and the UK (Burger et. al. 1997; Eikås and Selle 2002: 54-5; Taylor 2002). This arrangement fosters competition among CSOs, and can also encourage the emergence of for-profit providers in the human service field. It can lead to unfortunate results, however, if sufficient information is not provided about providers, if care is not taken in the setting of reimbursement rates, and if

- protections are not provided for the mission-critical functions of the CSOs that may not be covered by the reimbursement systems.
- *Tax expenditures.* Tax expenditures are special provisions in the tax laws that deliver benefits to various private parties or institutions. These can take the form of *tax credits*, which provide direct reductions in tax obligations for purchases of certain services (e.g. day care for children); *tax deductions*, which permit taxpayers to exclude certain expenditures from their income before computing their tax liabilities; (e.g. charitable contributions to CSOs); *tax deferrals* permitting taxpayers to delay payment of income taxes on certain types of income (e.g. income placed in to retirement accounts); or *tax exemptions*, which permit certain types of organizations to be exempt from taxation on all or a portion of their income. Many countries make extensive use of tax expenditures to provide assistance to CSOs. In the U.S., for example, nonprofit organizations are exempt from all federal and state income and property taxes except on income they earn from so-called “unrelated” businesses. Similarly, nonprofits benefit indirectly from tax credits provided for day care services and tax deductions for charitable contributions and citizen expenditures on health care. Tax expenditures provide considerable flexibility for CSOs, though they also complicate the tax system. In addition, they often attract for-profit businesses into traditional nonprofit human service fields, increasing the competition facing nonprofits.
 - *Loans and loan guarantees.* Government can also provide assistance to CSOs through loans and loan guarantees. The loans can be provided directly to the CSO (e.g. to pay for a building) or to clients of the CSO (e.g. loans to students to pay for education from nonprofit universities). In *direct loans*, government loans money directly to consumers using funds it raises in capital markets. In *guaranteed loans*, the loans are made by commercial banks and guaranteed by the government. The guarantee is used to secure a lower interest rate and to encourage the banks to lend to needy individuals or institutions with limited assets. Both direct and guaranteed loans are used extensively to finance tuitions in American universities. Guaranteed loan programs are frequently supplemented with government-subsidized “secondary market” operations that purchase loans

made by commercial banks, allowing the banks to provide additional lending. The UK has recently created FutureBuilders, an organization that makes loans to nonprofits for technology and facilities using funds provided by the national government. Nonprofits pay back the funds allowing FutureBuilders to make additional loans to other nonprofits. Initial capitalization of this revolving loan fund was £400 million (this example is featured in the Country Study on England and in Appendix B and Appendix C).

Significant shifts have occurred in the relative reliance on these different instruments for structuring government-nonprofit partnerships in recent years. Generally speaking, the trend has been from general block allocations to more narrowly circumscribed contracts, and from producer-side subsidies to consumer-side subsidies. One impetus for these shifts has been the growing influence of the so-called New Public Management, which has sought to inject business notions of accountability, performance measurement, efficiency, competition, and choice into the relations between government and the nonprofit sector. Reflecting this, formal contracts have come increasingly to replace informal grant and reimbursement arrangements as the basic form of public sector support to nonprofit institutions, even in the social democratic regimes.¹¹ In the process, the provision of basic welfare services has been opened not only to nonprofit providers but to for-profit ones as well, stimulating an even more competitive welfare service “market.” In many cases, these shifts have complicated the tasks of public management, giving rise to the concept of “new governance,” which suggests a series of conceptual and practical steps that governments can take to improve the operation of these various tools of “indirect government.”

¹¹ Ascoli, Ugo and Costanzo Ranci, 2002, “Changes in the Welfare Mix: The European Path,” in *Dilemmas of the Welfare Mix: The New Structure of Welfare in the Era of Privatization*. Edited by Ugo Ascoli and Costanzo Ranci (225-43). New York: Kluwer Academic/ Plenum Publishers; Eikås, Magne and Per Selle, 2002. “A Contract Culture Even in Scandinavia,” in *Dilemmas of the Welfare Mix: The New Structure of Welfare in the Era of Privatization*. Edited by Ugo Ascoli and Costanzo Ranci (47-76). New York: Kluwer Academic/ Plenum Publishers.

E. Implications and Lessons

A number of lessons and implications emerge from this overview of patterns of government-nonprofit relationships around the world. Prominent among these are the following:

1) Government-nonprofit cooperation on the rise

The overwhelming international evidence suggests that government-nonprofit cooperation is on the rise around the world as governments increasingly recognize the need for additional help in coping with the complex social, economic, environmental, and related problems that they face. Complex partnership relationships thus seem the rule in most parts of the world. To be sure, fiscal considerations have played a part in this: governments have increasingly looked to voluntary institutions and private philanthropy for at least partial help in responding to increased public demands for services. Equally important, however, has been what Ascoli and Ranci (2002:225) have termed “an organizational crisis” in the modern welfare state caused by disappointments with the bureaucratic rigidities and administrative constraints of publicly delivered services. Inspired by neo-liberal economic concepts emphasizing the importance of consumer choice and market-type competition among service providers, governments have increasingly turned to indirect tools of action such as grants, contracts, and vouchers that turn the delivery of publicly financed services over to non-governmental actors, including particularly private, nonprofit organizations.¹² These developments are not restricted to highly developed industrial nations, moreover, but are in evidence as well in less developed regions where an “associational revolution” is also under way.¹³

2) The Need for Continued Government Involvement

While governments may be looking to nonprofit organizations and philanthropy as a way to relieve the pressures on public budgets by off-loading functions onto nonprofit organizations, the record of recent government involvement with the nonprofit sector

¹²Lester M. Salamon, “The New Governance and the Tools of Public Action: An Introduction,” in Lester M. Salamon, *The Tools of Government* (New York: Oxford University Press, 2002), pp. 1-47; Evers, Adelbert and Ivan Svetlick (eds). 1992. *Balancing Pluralism: New Welfare Mixes in Care for the Elderly*. Avebury: Aldershot.

¹³ See, for example, Lester M. Salamon, “The Rise of the Nonprofit Sector,” *Foreign Affairs* (1994).

internationally suggests that government-nonprofit cooperation, not replacement of government involvement with nonprofit involvement, is the more workable arrangement. The “partnership model,” not “privatization,” in other words, seems to be the approach that is gaining ground internationally.

What this means in practice is a continued need for government involvement in the fields where the partnership model is being applied. This is certainly so in the financing area, but it applies to other aspects of the operation of these programs as well. Experience has shown the importance of retaining a meaningful governmental capability to monitor and supervise CSO operations and operate the new instruments of public action through which the partnerships are configured. Each of the new tools through which the relationships with CSOs are structured has its own operational features, its own standard operating procedures, its own skill requirements, and its own pitfalls and characteristic problems. Managing a contracting regime is thus a highly specialized task requiring detailed systems for handling the design of “requests for proposals,” the bidding process, source selection, the formulation of actual contracts, contract management, contract auditing, and contract close-out.¹⁴

The pattern of evolution of social welfare policy in France beginning in the early 1980s is particularly instructive about the continued role that government must play in an outsourced arrangement and its experience may be particularly relevant for China. Nonprofit institutions were outlawed from the time of the French Revolution until early in the twentieth century in France one grounds that they were expressions of the “partial will” of particular groups as opposed to the “general will” of all the people. This situation changed dramatically in the early 1980s, however, when the government of Socialist President Francois Mitterand adopted a bold program of government decentralization to cope with a perceived “crisis of state capacity” that was threatening popular support for the French welfare state. Lacking the capacity to deliver human services themselves, local governments throughout France were encouraged to turn to private voluntary associations for help in the hope that these associations could revitalize stagnant welfare bureaucracies. The result was a rapid

¹⁴ On contracting, see, for example, Steven J. Kelman, “Contracting” in Lester M. Salamon, *The Tools of Government: A Guide to the New Governance* (2002), pp. 282-318.

growth of local nonprofit organizations. As one student of the French transformation has noted:

The Socialist government offered nonprofits unprecedented roles in the administration of welfare state programs, delegating to them significant new responsibility for the implementation of public programs and providing them with substantial public funding. Indeed, every major poverty policy initiative of the 1980s in France relied on nonprofits for its implementation, including a campaign against hunger and homelessness, a law implementing a national right to housing, and, more important, major legislation creating a guaranteed minimum income.¹⁵

3) The Need for a New Type of Government Management

While government retains an important role in the cooperative relationships that result from government-nonprofit partnerships, the nature of that role must change significantly from that common under direct government. In particular, what is called for is a “new governance.”¹⁶ The “new governance” emphasizes two key concepts: first, that public problem-solving is a *collaborative* undertaking involving not only government agencies but also civil society organizations and potentially private enterprises; and second, a new recognition that the resulting relationships, far from being easy to manage, are quite difficult. To come to terms with this new reality, attention must shift from a focus on managing hierarchic agencies to a focus on operating in *networks*. This will require an understanding of “network theory,” which explains why “principals” in “principal-agent relationships” often have difficulty getting their way even when the agents share their basic goals.¹⁷

This “new governance” will therefore also require a new approach to public management emphasizing *negotiation and persuasion* rather than command and control. Instead of issuing orders, public managers must learn how to create incentives for the outcomes they desire from actors over whom they have only

¹⁵ Ullman, Claire F. “Partners in Reform: Nonprofit Organizations and the Welfare State in France,” In *Private Action and the Public Good*, edited by Walter W. Powell and Elisabeth C. Clemens (163-176). New Haven: Yale University Press, 1998, p164.

¹⁶ The discussion here draws heavily on Lester M. Salamon, *The Tools of Government: A Guide to the New Governance*. (New York: Oxford University Press, 2002); and Lester M. Salamon, “Training Professional Citizens: Getting Beyond the Right Answer to the Wrong Question in Public Affairs Education,” *Journal of Public Affairs Education*, 11, 15 (2005): pp. 7-19.

¹⁷ de Bruijn and ten Heuvelhof 1997.

imperfect control. Indeed, negotiation is even necessary over the *goals* that public action is to serve since part of the reason that third parties are often cut into the operation of public programs is that such clarity cannot be achieved at the point of enactment. All of this suggests the need for a new body of administrative “doctrine” and a new set of management skills.

In particular, what is needed to operate the new collaborative systems are less traditional management skills than what might be termed “enablement skills.” Included here are: (1) *activation skills*, the skills required to activate the networks of actors increasingly required to address public problems; (2) *orchestration skills*, the ability not only to create a network, but to operate and sustain it, much as a symphony conductor functions to get a group of skilled musicians to perform a given work in sync and on cue without, of course, playing any of the instruments; and (3) *modulation skills*, the ability to adjust the rewards and penalties in order to elicit the cooperative behavior required from the interdependent players in a complex interdependent network.

4) Institutionalization of Third Sector Policy Involvement.

In bringing third-sector actors into the *operation and delivery* of public programs, governments have also found it increasingly necessary to give third-sector actors a role in the *design* of government programs. To be sure, this is not an entirely new development. A long tradition of “corporatist” arrangements, of structured mechanisms for sharing power among major social groups, has long existed in many European and Latin American countries, and in at least some of them nonprofit organizations operate as integral parts of the corporatist structures. The Social Assistance Act of 1961, Germany’s basic social welfare law, thus obliges the “public bodies responsible for social assistance” to “collaborate with the public law churches and religious communities and with the free welfare associations” in both the design and delivery of publicly financed social assistance (see, *infra*, Country Study on Germany).

In more recent years other countries have begun moving in a similar direction, establishing legal requirements or informal agreements stipulating an obligation by governments to consult with nonprofit organizations in the design of public programs

and establishing special liaison offices between the voluntary sector and the state. One of the most well-known of these is the “compact” that the New Labor government of Tony Blair entered into with the UK’s voluntary sector.¹⁸ This document establishes the principle of “shared values and mutual respect” between government and the voluntary sector and commits the government to “meaningful consultation” with the voluntary sector on issues of policy and program design. Canada has moved in a similar direction with its Voluntary Sector Initiative, and even France and Japan, long known for their state-centered approaches to policy development, have recently established formal liaison offices for civil society or “social economy” institutions. What is more, such entities have also made their appearance in the developing world.¹⁹

5) The Need to Invest in CSO Capacity

A final lesson to draw from the recent international record of government-nonprofit cooperation is the need for governments to go beyond simply paying CSOs to deliver particular publicly funded services by investing in CSO basic organizational capacity. As the CSO sector comes to constitute a key component of the delivery system for a wide range of government services, the government acquires an enormous stake in the capacity of its third-sector partners to perform well. To ensure this capacity, government needs to invest in staff training, improvement in management systems, improvements in technology and facilities, and regular strategic planning.

In short, outsourcing to CSOs can bring enormous advantages to a country like China. But like all major changes it must be approached with care and in full awareness of the complexities that it entails.

¹⁸ Her Majesty’s Government, “The Government-Voluntary Sector Compact,” (November 1998). This is discussed in more detail in the Country Study on England, and a link is available in Appendix A.

¹⁹ The relevant office in France is the *Délégation à l’économie sociale*. In Japan it is the Civil Activities Division of the Cabinet Office. CENOC plays a similar role in Argentina while responsibilities for promoting cooperation between government and the third sector is vested in the Planning Department in both Chile and India.

Final June 2009

Against the backdrop of this general overview, we turn in the next section of this report to an examination of how this process of government outsourcing to CSOs has been handled in a number of illustrative countries.

Part II. Country Studies

In this part we survey a variety of countries with respect to their experiences with outsourcing social services to CSOs. While many of the Country Studies follow the template of questions asked in the Terms of Reference, we were not in all cases able to obtain information in English for all of the questions. Some of the Country Studies include actual outsourcing experiences or pilot projects undertaken (with respect to the latter, we reference a specific study about local authorities in Russia).

In the section on Europe, we have chosen to include four studies from Western Europe (England, France, Germany, and a specific case study from The Netherlands) and two from Central and Eastern Europe and Russia, where the experiences with outsourcing and government support for CSOs more nearly reflect the issues that are pertinent to the situation in China (development of new models after a period of government dominant social service provision), as MoCA looks to set up an outsourcing program and set nationwide policies outsourcing of social services.

In all European countries there is emphasis on “new public management,” although there is debate about its efficacy in some instances. New Public Management (NPM) is supposed to lead to less bureaucracy, increased flexibility, and greater efficiency. In all European countries, more and more social services are the subject of tendering. This is supposed to create more competition and lower prices for social services. On the other hand, many fear that one result will be a “race to the bottom” and a failure to meet actual social needs. And many also believe that once the costs to government are factored in, there will be no or little cost savings involved in outsourcing. In addition, as Country Studies for Germany and England suggest, NPM may lead to tighter government controls rather than looser ones.

One general problem with tendering procedures is that public administrators sometimes lack a good understanding of the functioning of the CSO sector. That seems to be true in China, as many commentators on the draft Report suggested. One emphasis in England

in particular has been to work closely with the sector to identify sector needs and establish processes that will prevent problems. . In fact, it is impossible to overemphasize the need for the government to have a clear understanding of the capacities and concerns of the CSO sector, which is something we come back to in the Conclusions and Recommendations.

A. England²⁰

This Country Study looks at a range of tools or instruments, including grants, contracts, loans, and loan guarantees. It also discusses the manner in which England proceeded to develop a broad-based partnership between government and the CSO Sector called the Compact, a link to which is attached in Appendix A. It thus emphasizes the need to build up trust between the CSO sector and the government and the methods for sustaining confidence on both sides of outsourcing arrangements.

1. Government policies and guidelines

The United Kingdom is a place where the CSO sector and the government have long-established and close working relationships. From a legal standpoint, legislation from the late 16th and early 17th centuries established the importance of the sector to the provision of social services in the country. Both the Statute of Charitable Uses (1601) and the Elizabethan Poor Laws (late 16th century) demonstrate the extent to which the government intended early on to rely on charities to perform social services. This long history of good relations makes the UK quite a bit different from France, for example, where the relations between the government and the sector were strained for many centuries. This Country Study focuses its attention on only one of the constituent parts of

²⁰ We are discussing the situation in England and not the entire United Kingdom because of the complexity of dealing with more than one jurisdiction in the UK --- each of the constituent parts has its own CSO sector government agencies and discussing all of them would simply provide more detail than necessary. The Johns Hopkins Project did not develop data for various constituent parts of the UK. Thus, there are no separate data for England, and reference will be made to aggregate UK data with respect sources of finance for CSOs, etc.

the U.K. for reasons of clarity and brevity; good relations between the sector and the government exist in Northern Ireland, Scotland, and Wales as well.

England at the present time has one of the best developed systems for the governance and oversight of the CSO sector and for partnerships between the CSO sector and government at all levels. The country is very sector-friendly in ways that most countries are not: there is even a Minister for the Third Sector²¹ in the Cabinet Office of the U.K. (he heads the Office of the Third Sector). As noted earlier, the existence of the Compacts negotiated between the CSO sector and the government and the ways in which they affect the inter-relationships between government and the sector is important to the success of outsourcing in the country.

The Charity Commission for England and Wales also plays a constructive role for the sector that is engaged in providing not-for-profit social service provision in partnership with government. Although the Charity Commission is not directly involved in the outsourcing itself, it has developed a statement of recommended practice (SORP) with regard to appropriate accounting, which can help government agencies that do outsource to CSOs engage in effective monitoring and evaluation (Accounting and Reporting by Charities: Statement of Recommended Practice (SORP) 2005). This SORP assists social service providers to meet the requirements of accountability for public funds. Furthermore, the Charity Commission exercises a strong general supportive role for the CSO sector in England (O'Halloran, McGregor-Lowndes & Simon, 2008).

In addition, the public-private partnership called Partnerships UK (PUK) has a remit that helps to encourage the development of partnerships in social service sectors (such as health and education). PUK provides assistance to government bodies in a number of different ways, including:

²¹ Organizations that we refer to generally as CSOs are called Third Sector Organizations (TSOs) in the UK. Therefore we will continue to refer to CSOs, even in English documents, simply for purposes of clarity.

- Project advice and support;
- Government policy support;
- Co-sponsorship; and
- Investment.

With this remit, it seeks to assist the public bodies that outsource to do so in a fashion that can best be described as a partnership.

The Compact is the major document describing sector-government relations in England. It was established in England in November 1998 and was inspired by the Deakin Commission report (Deakin Commission, 1996) on the Future of the Voluntary Sector. It is an agreement that provides an overall framework for promoting effective partnership between the Government and the voluntary and community sector to provide social service. It aims to address areas of poor performance, in addition to recognizing shared values, principles, and commitments, and it sets out guidelines for how the two parties should work together (Compact website).

There are five Codes of Practice that underpin the Compact, and they deal with the following issues:

- The Black and Minority Ethnic (BME) Code;
- The Community Groups Code;
- The Consultation and Policy Appraisal Code;
- The Funding and Procurement Code; and
- The Volunteering Code.

Each of these Codes has its own section of the website of the Compact.

The Compact has its own Commission, which is led by a Commissioner, and a staff that seeks to ensure appropriate implementation, conduct research, etc. Established in April 2007, the Commission for the Compact is an independent body responsible for

overseeing the Compact. It was set up to improve awareness of the Compact and its Codes of Good Practice, and to address the barriers to its adoption and implementation. The Commission works alongside the Office of the Third Sector, Compact Voice, and the Local Government Association to achieve effective implementation of the Compact, and improve outcomes for both individuals and communities. It works with all stakeholders to take the Compact forward through increasing awareness, sharing good practice and carrying out research, looking at key themes that affect the relationships between the government and the voluntary sector.

One of the major issues that has yet to be resolved is whether the Commission for the Compact should have legal powers to enforce application of the Compact in situations in which there are disagreements. The government had originally opposed all efforts to permit the Commission to enforce agreements, except through mediation, but that may now be changing.

There are also local compacts in England, and they are linked on the national compact website. The most recent guidance (February 2009) published by the Commission for the Compact deals with Commissioning Guidelines for relationships between local authorities and Primary Care Trusts (in the health field).

Under the national and local Compacts there are two methods of outsourcing to CSOs – procurement and commissioning. The Funding and Procurement Code of Good Practice, published in 2000, revised in 2005, and reprinted in 2008, sets out the parameters for procurement, which apply to both grants and contracts. The more recent Commissioning Guidance, promulgated in 2009, deals with “the cycle of assessing the needs of people in an area, designing, and then securing appropriate service.” It is therefore more grant-focused than contract-focused, but it may tend to undermine CSO involvement in planning because of conflicts of interest (CSOs are providers of commissioned services).²² . Both of these documents are available on the website of the Compact.

²² See Marilyn Taylor, “Government, the Third Sector and the Contract Culture: the UK Experience so far,” in *Dilemmas of the Welfare Mix* (U. Ascoli and C. Ranci, eds., Kluwer 2002), at 104.

In accordance with Compact principles, agencies operating at the national level also share information and good practice with local authorities. For example, the Office of the Deputy Prime Minister issued a “National Procurement Strategy for Local Government” in 2003. This effort was welcomed by the CSO sector.²³ In addition, the Office of the Third Sector has prepared several documents that are to be used by local authorities either in contracting for social services or commissioning them (Office of Third Sector website)

As with other countries in Europe, England is subject to the European Union procurement rules, which set out procedures for awarding contracts above certain values. Their purpose is to open up the public procurement market and to ensure the free movement of goods and services within the European Union. These policies apply to government procurement of social services along with other procurement mechanisms used in other sectors of the economy, e.g., the business sector.

2. Government responsibilities

Government agencies must ensure that the money allocated to them under the budget (national, regional, local) is spent in a proper and effective way. Thus, they need to be satisfied that the organizations that receive public funds to provide social service programs outsourced to them have appropriate controls in place to support this requirement. Government accounting for public funds includes three main principles:

- Regularity (ensuring that funds are awarded and used only for authorized purposes);
- Propriety (ensuring that funds are awarded fairly and free from undue influence); and
- Value for money (ensuring that funds are spent in a way that minimizes costs, maximizes outputs, and achieves intended outcomes).

These principles must guide the government as it seeks to outsource funds for social services.

²³ See the Association of Chief Executives of Voluntary Organizations (acevo): Surer Funding: The acevo Commission of Inquiry Report, 2004.

One of the problems that has been noted with regard to outsourcing to CSOs is that they tend to work locally and that the lack scale with respect to both the public and the private sectors. There is therefore some interest in having CSO coalitions (sometimes called peak bodies) be involved in outsourcing relationships to address large-scale social issues, such as homelessness (Melville, 1999). In England, the Office of the Third Sector has stated that it will provide support for sub-contracting and consortia building in such circumstances (Office of the Third Sector, Partnership in Public Services, 2006). In 2008 the Office published guidance about working in consortia.

3. Percentage of government support in CSO total revenue

The Johns Hopkins Project found that for the years studied, the aggregate amounts of support for the CSO sector in the UK were 47 percent from government, 45 percent from fees, and 9 percent from philanthropy in the late 1990's. According to figures developed under the English Compact, the CSO sector in England received £ 6.6 billion from the government in 2004. According to information assembled by the National Council of Voluntary Organizations (NCVO) for 2006, while three-quarters of charities received no funding from government, 25,000 large charities received three-quarters of their funds from government, suggesting that government funding is very targeted (NCVO, 2009). Another statistic cited by NCVO is also important – between 2005/06 and 2006/07, government funding for CSOs grew from £10.9 to £11.5 billion.

4. Types of CSOs engaged in service delivery

In England there are many types of organizations that qualify as potential social service providers, including registered charities, non-charitable not-for-profit entities, associations, self-help groups and community groups. Charities may be organized for legal purposes as charitable companies or as charitable trusts.²⁴ Other types of organizations that may be involved are social enterprises, which are separately regulated in England. Some membership-based mutual and cooperative organizations also qualify as social enterprises.

²⁴ These are the most common legal forms for CSO social service providers in common law countries.

5. Types of services provided by CSOs²⁵

Examples of government social service programs involving CSOs:

Home Office	<p>Crime prevention/management programs</p> <p>Drug Action Teams – local coordinating groups set up under the government’s national drugs strategy</p> <p>Victim Support – national charity providing support and information for victims of crime</p>
Department for Education and Skills	<p>Children’s Fund – services for disadvantaged children and young people aged 5 to 13</p> <p>Safeguarding Children and Supporting Families Grants - children’s social care</p> <p>Sure Start – childcare, health and emotional development services for young children</p> <p>Connexions – information and advice for young people aged 13 to 19</p>
Office of the Deputy Prime Minister	<p>New Deal for Communities – alleviating deprivation in the most disadvantaged communities</p> <p>Homelessness and hostel provision</p>
Department for Work and Pensions	<p>New Deal for Young People – employment advice and help for young people aged 18 to 24</p>
Department for Transport	<p>Funding for transport services in rural areas and for disadvantaged groups, such as the Rural Bus Subsidy Grant and the Rural and Urban Bus Challenge Grant</p>

²⁵ This information is derived from a table in the Home Office’s publication “Working with the Third Sector,” and is based on National Audit Office statistics.

<p>Department of Health and National Health Service</p>	<p>Funding for charity run hospices</p> <p>Digital hearing aids provided through partnership with RNID (royal National Institute for the Deaf)</p> <p>Variety of health services such as care for cancer patients (e.g. Marie Curie Cancer Care)</p>
<p>Ministry of Defense</p>	<p>Veterans' services such as housing and employment advice, rehabilitation for war pensioners</p> <p>Skill Force – vocational training for young people aged 14 to 16</p>
<p>HM Revenue and Customs</p>	<p>Pilot schemes offering advice on eligibility for tax credits</p>
<p><i>Source: National Audit Office</i></p>	
<p>NOTE</p> <p>This table is not intended to provide a comprehensive list of government programs involving the third sector, but an indication of the range of activities in which CSOs are involved. Some significant third sector funders (e.g. the Department for Environment, Food and Rural Affairs) are not included here.</p>	

6. Incentives provided to encourage CSOs to participate in social service outsourcing

Her Majesty's Treasury (HM Treasury) engaged in the 2002 and 2004 Cross Cutting Reviews, which set out measures to give the Third Sector a stronger role in public service delivery, leading to increased public expenditure through initiatives such as Futurebuilders and Change Up (now called Capacitybuilders). In the 2002 review £125m was set aside to help overcome barriers to effective service delivery, increase the scope and scale of voluntary sector services and modernize the sector for the future. The new fund was designed and administered in close consultation with the sector. The Government pledged to:

- involve the sector in the planning and design as well as the delivery of services;
- develop long term strategic relationships with the sector;
- build capacity within the sector;
- move towards a funding regime which is transparent and recognises the full costs of delivering services;
- ensure that the 1998 Compact between Government and the sector is implemented in full at central, regional, and local government levels.

The Government also promoted increased levels of volunteering through the 2005 Year of the Volunteer and support for the implementation of the Russell Commission recommendations. In 2006 the Government published the Action Plan for Third Sector Public Service Delivery. In December 2008, the Minister for the Third Sector published an update on the Action Plan, noting where successes had occurred, including some case studies of effective changes in the process of commissioning, the development of a way of thinking that permits the development of stronger partnerships (see Department of Health example in 12. below). This report also stressed that template contracts are being developed that can be used to procure social service provision by CSOs.

In 2007 the Government also undertook the largest consultation it had ever done with the third sector to develop uniform future policy as part of its 2007 Comprehensive Spending review. This resulted in the development of new Public Service Agreements (PSAs) with regard to several issues that are relevant to this report – for example, promoting better health and well-being; ensuring better care for all; making communities safer (2007 Comprehensive Spending Review). Finally, in 2007 the Cabinet Office published its report “The future role of the third sector in social and economic regeneration: final report,” which contains a lengthy strategy for third sector (CSO) government relations.

7. Identification of CSOs and verification of capacity to provide services

There are three different types of funding approaches taken by various government departments to outsourcing social services to CSOs. These include²⁶

- Giving
- Shopping; and
- Investing.

Giving is the approach used when the department seeks to provide short-term support without intended outcomes. Shopping applies to contractual relationships (through procurement of specific services) where outcomes are specified. Investing implies a longer term objective. Despite these generalities, however, government funders do not have settled practices as to which approach to use, and that generates significant difficulties for their CSO partners. One important lesson to be learned from this is that design of outsourcing programs is important, and it makes clear that CSOs need to be consulted as to design of the tools or instruments to be used (Taylor, 2001).

8. Monitoring and evaluation by government; reporting requirements

Compact principles should be applied in the following ways to help achieve effective monitoring and review when services are commissioned:

- Agencies should focus on outcomes when developing monitoring requirements. This allows providers to focus on the specifics of staffing, delivery and using their expertise to deliver services.
- Agencies should develop monitoring forms and arrangements that are proportionate with the value of funding, size and level of perceived risk associated with the provider in receipt of funding. Finding the right balance allows providers to focus on delivery. Excessive monitoring burdens can also

²⁶ See Home Office publication, cited above.

affect a provider's price for service delivery; monitoring has a resource cost associated to it.

- Agencies should only request information that is required or will be used to assess performance against outcomes or value for money in monitoring forms.
- Agencies should explore ways in which arrangements can be joined up, or standardized with other departments' approaches.
- Agencies should give consideration to involving service users (beneficiaries) in obtaining feedback on performance.
- Where delivery is not meeting agreed targets, commissioners should communicate and consider with the provider how intended outcomes might be met in other ways.
- Where monitoring highlights that a change in commission priorities is required or at the end of a contract or grant, a minimum of three months' notice of termination should be provided.

Despite these procedures set down in the Compact, the recent Home Office report suggests that monitoring and evaluation have not always been successful or proceeded smoothly. As Taylor pointed out in 2002,

...even in the most favorable circumstances, the language of partnership masks very real tensions: between the need for a stable market and the need for responsiveness to individual need...; between the need for public accountability in the delivery of care and the desire of partner organizations for flexibility; between professionalism and the voluntary principle; between the need for standards and the need for diversity; between accountability and trust.

9. Training or capacity building for CSOs

The Government currently has three different capacity-building programs available to CSOs. These include Capacitybuilders, Futurebuilders, and a Grassroots Grant Program:

- Capacitybuilders is a program whose mission is to improve support for a stronger Third Sector, to manage funds and seek to influence the policy and practice of decision-makers and other funders. It works in partnership with support

providers, funders and government to develop more effective and sustainable support services for frontline organizations across England.

- Futurebuilders is a program set up to assist front-line third sector organisations to build their capacity to increase the scale and scope of their public service delivery. The Government-backed fund provides loans, repaid through contracts with public bodies, to build organizational capacity and capability to increase the scale and scope of an organization's public service delivery.
- Grassroots Grants is a program funded by the Cabinet Office and administered by the Community Development Foundation. The £130 million Grassroots Grants program aims to boost local community organisations with much-needed access to small grants and long-term financing through an endowment fund. It runs from 2008-2011 and has been allocated to local authorities that oversee the disbursement of funds.

Examples of their programs are included in Appendix C.

10. Successes and failures

One of the significant failures of government in England (and the UK generally) has been a failure of funders to provide for “full cost recovery for their CSO partners.” According to the Home Office report:

Full cost recovery means that CSOs receive payment not only for the direct costs they incur by providing a service – for example, staff salaries in the case of residential care services – but also for overhead costs such as the costs of office space, utilities and information technology services, as well as various other costs such as depreciation and interest on loans. Failure to recover full costs can mean that CSOs have to divert funding intended for service provision into paying overheads, or subsidize service provision from other sources such as donor income. Ultimately, failure to cover overheads may lead to organizations shrinking or collapsing.

In addition, the Home Office report notes that little progress has been achieved on longer term funding. This continues to be an issue that is harmful to the sector, as noted by the Office of the Third Sector in its 2008 report.

A further problem found by the sector itself is the failure of the government to adequately address the issue of risk. Much shifting of risk to CSOs has characterized the relationships between government and the sector in recent years, and many sector leaders believe this to be inappropriate. The risk shifting may occur as a result of the failure to provide multi-year funding or to identify appropriate beneficiaries in advance of the award of contracts.

11. Estimated economic and fiscal impact

NCVO reported that in 2006 CSO sector employment increased by over 20,000 employees, representing a ten year increase of 24 percent. That trend obviously will be affected by the economic downturn, but it does suggest that the New Labour government was true to its word that it intended to outsource more social services.

12. Specific program example

According to a Department of Health publication in 2008, in December 2007, the Department of Health began a formal consultation on proposals for a strategic framework for its funding and investment in the third sector. The proposals were developed during 2007 through engagement with a variety of stakeholders from third sector organizations at national, regional and local levels, other government departments and Department of Health staff.

A review of the number of CSOs involved in the provision of health services showed that the sector is extremely diverse in terms of the size, scope, staffing and funding of organisations. An estimated 35 thousand CSOs provide health and/or social care in England and a further 1600 plan to do so in the next three to five years. The total funding for these services amounts to an annual £12bn. In addition, there is already a high level of interaction between public sector commissioners and third sector providers. Just over

Final June 2009

half of the organisations' funding comes from the public sector, although the public sector's share is higher for social care (62%) than health care (36%). Of the £13.7bn that local authorities spent on adult social services in 2004/05, an estimated 11% was delivered by the third sector (£1.5bn).

The Health Department review therefore recognized the critical and integral role of the third sector to the delivery of improved health and well-being in England. This role is at multiple levels from contributing to the development and implementation of policy to help drive innovation and development; through information and contributing throughout the cycle of commissioning for health and social care services helping to understand user needs and expectations; and as providers of health and care services formally commissioned by the NHS and local authorities.

The review aimed to achieve a more strategic approach to the Department's direct investment in the third sector that was more consistent with its role in the health and care system. It proposed a clear framework for funding and investment in the third sector that would allow more coherent investment; support evaluation of outcomes and benefits; increase value for money; and reinforce the sector's integral role in improving health and well-being outcomes for people.

The vision for future funding of the third sector includes four functions: investment in strategic partners; support for innovation excellence and service development; promote and support volunteering; and contracting for expertise required at national level. There was strong support for these functions from the consultation and for the principles underpinning this approach.

The Department is developing a funding framework that will underpin a third sector investment program. The program will be developed over time as more funding schemes in the Department are brought into the framework. For 2009-10 the third sector investment program will include the following:

- The Innovation Excellence and Service Development Fund and

Final June 2009

- The Strategic Partner Program.

The resulting strategic framework for investment sets the context for a more coherent approach to funding of the sector by the Department, stronger governance of the funding relationship, and the opportunity to further mainstream the principles of the Compact and its Funding Code of Practice across the range of DH policy and delivery programmes.

B. France²⁷

This Country Study looks at a range of tools or instruments, including grants, contracts, and third party payment systems (vouchers). It also mentions indirect support, such as the provision of free office space to CSOs by government. It discusses the political reasoning behind the French government's decision to move to an outsourcing model of governance.

1. Government policies and guidelines

The relationship between the French government and CSOs has undergone a metamorphosis since World War Two. Before the 20th century there were centuries of conflict between the state and any form of intermediate bodies, which resulted in strong centralization of social service provision in the French state, indeed in the central government. In addition, the French social security system, which was revamped after the war to reflect then-current views of what was necessary for a modern European society, became a significant part of the household income of all French citizens. Currently France ranks second in the twelve western European countries (Sweden is first), in terms of the percentage of GDP devoted to social security payments (29%). Social security is financed by social service contributions from the public/employers.

There is now a mixed delivery system for social services, partly as a result of the decentralization acts of 1982-2003, which redistributed responsibilities between the national government and local communities. Local governments became the locus of social welfare money that is financed by taxes, not by social service contribution. The role of local governments in the provision of social services is based on the principles of assistance and proximity. When the local governments were delegated more social service provision, they turned to CSOs and began outsourcing to them, in part to save money and in part to avoid the restrictions that apply to public sector employees, as well

²⁷ This country study is based in part on Edith Archambault, "Social Services in France: A Public-Private Partnership," in *Changing Administration—Changing Society: Challenges for Current Social Policy* (Peter Herrmann and Sabine Herrenbrück, eds.)

as other reasons peculiar to France. Another reason for outsourcing appears to be that the demand for social services greatly exceeded the capacity of the local authorities to provide them. This is due in part to the advocacy of many groups representing disadvantaged groups (the handicapped, the elderly, etc.)

The government also introduced significant new legislation that encouraged CSOs to participate in social service provision. In 1989, for example, a law was enacted encouraging “intermediary organizations” that provide jobs for people experiencing social difficulties. In 1992 and 2004, there was legislation encouraging (through cuts in the amounts of social contributions for employees and other incentives) the creation of “neighborhood jobs,” such as housekeeping, child care, and care for the elderly, and this served to encourage more CSOs to become active in these areas.

As CSOs have become more involved with social service provision in France, the sector has become stratified. The large institutional CSOs are said to be more or less quasi-public institutions, subject to heavy regulation (described below) and accounting rules that are similar to government accounting rules. They tend to receive most of their funding from the local authority. On the other hand, smaller organizations tend to have more diversified funding, and they are not subject to such heavy regulation. In addition, they tend to use more volunteers, while the larger organizations are completely professionalized and work in a managerial style.

2. Government responsibilities

The government views the situation with regard to outsourcing as one that it must play a key role in guiding. The state normally provides the standard for certain types of services (e.g., education); it assumes the responsibility for certain basic services when there is a strong consensus as to their importance and usefulness and where there is a direct link to the state (e.g., with regard to justice services); and certain highly technical services such as medical services are ordinarily provided by state-run institutions. With regard to the social services that it does outsource, the state also plays a role in overseeing the activities of the CSOs, as discussed below.

3. Percentage of government support in CSO total revenue

The Johns Hopkins Project revealed the sources for sector revenue in the years studied were 35% from fees, 58% from government, and 8% from private philanthropy. Another view of the support for the sector and the role of the sector in providing employment can be found in the following chart.

Table 1 Non-profit social services in France: number, employment and value added, 2002

Services intended for	Number of NPI	Paid Employment	Wage bill Social contr. Included (\$ billion)	Value Added (\$ billion)	%
Disabled Children	737	105.900	2.456	3.088	6.79
Children and Youth in grief	5.017	84.560	2.291	2.880	6.33
Disabled adults	1.263	107.120	2.413	3.034	6.67
Adults in grief	5.640	64.660	1.556	1.956	4.30
Elderly homes	1.600	57.710	1.266	1.458	3.21
Infant day care	2.847	22.540	395	419	0.92
Polyvalent social services	11.701	161.120	3.884	4.883	10.74
Disabled workshops	748	58.420	1.225	1.413	3.14
Home care services	3.525	84.890	1.201	1.388	3.05
TOTAL SOCIAL SERVICES	<i>33.078</i>	<i>746.920</i>	<i>16.688</i>	<i>20.519</i>	<i>45.13</i>
TOTAL NON-PROFIT SECTOR	128.191	1.435.330	35.919	45.471	100.00

Source: Kaminski, 2005

4. Types of CSOs engaged in service delivery

France is a civil law country, and the types of CSOs there are typical of other civil law countries – associations and foundations. In general associations provide most of the social services.

5. Types of services provided by CSOs

The following chart not only describes the types of service provided by CSOs but also compares the percentage of the services provided by CSOs to the percentages provided by the government and the public sector.

Table 2 The share of public agencies, non-profit organizations, and other private organizations in the delivery of personal social services in France, 1996.

Status of organization		Public Agencies	Non-Profit Organizations	Other Private Organizations
Handicapped people	number of establishments	8.1%	89.1%	2.8%
	employment	11.0%	85.2%	3.8%
Protection of children	number of establishments	14.3%	82.6%	3.1%
	employment	26.3%	70.3%	3.4%
Adults in social difficulty	number of establishments	11.3%	86.5%	2.1%
	employment	17.1%	81.0%	1.9%
Elderly homes	number of beds	58.0%	29.1%	12.8%
	employment	59.5%	27.8%	12.7%
Child day care	number of establishments	60%	40%	
Housekeeping services	number of establishments	30%	60%	10%
Home care services	number of places	?	70%	?

Family home help	number of services	?	96%	?
------------------	--------------------	---	-----	---

Sources: SESI, Uniopss.

6. Incentives provided to encourage CSOs to participate in social service outsourcing

As described above, France has provided some special incentives to encourage CSOs to become social service providers in certain areas. In addition, it provides grants, contracts, and third party payments as financial incentives to encourage CSOs to assist in the provision of social services. The third party payments may come, for example from social security received by certain households (for example, a household may receive social security to allow it to finance the purchase of child care services). Service vouchers are thus used to create a more market-oriented mechanism for social service provision. Local authorities also provide in-kind support, such as free office space and equipment.

7. Identification of CSOs and verification of capacity to provide services

The French government and local authorities use three different legal processes for identifying CSOs to work on specific social service issues. These include:

- Authorization and accreditation of organizations;
- Granting of the status of public utility organization; and
- Agreements between organizations and state agencies that specify the standards for service performance.

Each of these, and in particular the first and the third, may involve the granting of monopolies with respect to service sectors.

Authorization and accreditation involves an a priori control over the project and its feasibility. The recognition of public utility status is difficult to obtain and requires an organization to prove its past records of achievement. Agreements have the result of

making an organization into a quasi-public body.²⁸ Each of these procedures can be quite burdensome for smaller organizations, and they tend to be crowded out in favor of larger service providers. One additional factor is that there has tended to be a shift away from large long-term grants to special financing based on contracts (Archambault & Boumendil, 2001).

8. Monitoring and evaluation by government; reporting requirements

Under an agreement the state administration keeps very close tabs on what the organization does. Strong conditions of morality and financial solvency are required, including conditions for insurance. Special articles of incorporation and bylaws may need to be adopted, and the Minister may require that members of the board be appointed at his/her request. In addition, the books, the activities, and the general operations of the organization are audited by the auditors of the state administration. The two other ways of establishing relationships for outsourcing do not have as strict controls, but there is no question that organizations in both cases must keep good books and records and are required to submit reports annually.

A law passed in 2006, the Organic Law on Financial Laws, requires all health and social service organizations that work closely with the state to compute special efficiency indicators. These are not strictly quantitative, but they must also address outputs, outcomes, and impacts on clients/beneficiaries. This essentially relies on new social utility methodology, presently favored in the sector. There are also some efforts at self-regulation and standard-setting, particularly in the provision of services to the handicapped.

9. Training or capacity building for CSOs

The situation in France is such that the large CSOs already have capacity –they have existed for so many years and have done so much work that at this point that they don't

²⁸ One thing that an agreement allows an organization to do is advocate on behalf of the issues related to their purposes. See E. Archambault & J. Boumendil, "Dilemmas of Public/Private Finance," in Ascoli & Ranci, op.cit.

need to have any capacity-building. This leads to certain developments, which are discussed in the next section.

10. Successes and failures

Because of the excessive bureaucratization of the sector at present, the innovative aspects of many organizations are significantly reduced. Their capacity to react rapidly to a changing environment and to provide answers to new social issues is impaired. In addition, volunteering has been significantly reduced, except in advocacy organizations and smaller emerging organizations.

11. Estimated economic and fiscal impact

(see charts 1 and 2)

12. Specific program example

Les Amis

A non-profit making association providing homecare and home help services for the elderly in Paris. There is good internal coordination between the two services and there is good collaboration with external services. The aim is to keep elderly people in their own homes for as long as possible. There is a quality driven approach, although this is not measured by performance indicators.

- Older people living alone
- Voluntary/Community/CSO sector
- Locally based quality improvement measures
- User orientated service
- Flexible working hours
- Equal opportunities and work/family life
- Staff involvement in decision-making

Les Amis began as a home help service and since 1981 has been provide home help and home care services. It aims to provide services to elderly people to enable the to remain in their own homes. The underlying ethos implies a commitment to the clients to offer a

quality of service to enable people to remain in their own homes under satisfactory conditions. This means that care has to be comprehensive, and this requires that the association calls on a range of services from other providers as well. There is good internal coordination of services and work is organised so that the services complement each other. Transparency and good communications play an important role. External coordination with other providers works well and is based on good relationships with social services in the local council, the remote alarm service, and other providers. The work of the GPs, however, is organised in accordance with a different ethos from that of being at the service of the individual and their knowledge of geriatrics and social gerontology are particularly inadequate.

The association is funded from a combination of public sources and financial contributions from clients. In 1999 the association had a total of 1,200 clients who were receiving at least one of the services. The bulk of clients are women over the age of 85 years, many live a long life and about one-third are severely dependent. There are 300 paid employees who are largely women. All staff have permanent contracts. Many of the home helps and nursing auxiliaries work part-time; all staff wishing to work full-time are allowed to do so on a short or medium-term basis; and full-time staff are allowed to work part-time in order to combine family and work responsibilities. The director knows that the work done by the front-line staff is extremely difficult and that the quality of the services ultimately depends upon them; in addition to paying a decent wage providing favourable and flexible working conditions is recognition of their worth.

The quality-driven approach exists without scales or indicators being applied to assess quality. It is based on feedback and complaints from the residents and their families. The association is very sensitive to their views and those of the staff on the ground. The quality is also reflected in the quality of the front-line staff. The status, recognition, pay and training provided to home helpers is considered to be a crucial aspect of the quality of the service. However, recently a cut in public funding for home helpers has had an impact on their training.

C. Germany

This Country Study emphasizes a trend in moving from design contracts, which specify the ways in which services should be provided, to performance based contracts, which allow CSOs more lee-way in service provision. The Study also discusses the long-term legally-mandated partnership between government and CSOs in social service provision, which has meant that there is a large CSO sector in Germany involved in social service provision.

1. Government policies and guidelines

Germany is a country with a large presence of the CSO sector in social service provision. German social policy has encouraged CSOs to be involved with social service provision since the first decades of the 20th Century. In 1922 the Empire Law on Welfare established the parity between public and non-public providers of services. At the present time, the Federal Republic of Germany's welfare system is based on the permanent cooperation of public-sector and non-statutory agencies. The German model of outsourcing is truly unique in the world.

A massive network of CSOs, headed by six large conglomerates, shares with the government in the provision of social welfare services. The "free welfare associations" include Catholic (Caritas), Protestant (Diakonisches Werk), and Jewish (Central Welfare Association for Jews) social welfare agencies. Also included are the Arbeiterwohlfahrt (Workers' Welfare Association), Deutscher Paritätischer Wohlfahrtsband (a nondenominational, nonpartisan association), and the German Red Cross. Together they represent a major presence on the welfare scene, with an estimated 1 million equivalent fulltime workers and 1.5 million volunteers (Bundesarbeitsgemeinschaft der Sozial Wohlfahrtspflege (Federal Association of Voluntary Work – BAGFW), 2008). They run 68,466 institutions in health care, youth and family services, as well as services for the handicapped, elderly, and the poor (BAGFW, 1990). The table in part 5., below shows that the private social welfare organizations in Germany account for over 60% in such fields as family services, services for the elderly, etc. According to the BAGFW, "the social net would tear apart if it were not for their contribution" (BAGFW, 2008).

There were three traditions that influenced the development of the German welfare system. The first was Catholic social teaching, which stressed the importance of self-help as well as the important role of the family. This gave precedence to CSOs over state agencies. Because of this practice, charitable organizations, including the “social arm” of the major churches and the Workers’ Welfare Association (growing out of the Labor Movement), came to play a more important role in the provision of social services than in most other welfare states. The second tradition was that of conservative state-paternalism that wanted people to be healthy. Third, there is also a more liberal tradition promoting a market economy and a free enterprise system.

The German social and economic model, including the welfare system, is an example of what is called a “corporatist” model, which is defined typically by interest group cooperation rather than competition found in the pluralist Anglo-American systems. Corporatist systems tend to be highly stratified, delivering specific benefits to targeted groups. The overall goal is to achieve a balance in society by avoiding social competition that would lead to groups of winners and losers and thus threaten the stability of the state (as happened in Germany’s Weimar Republic in the 1920s). Ideologically, corporatism in Germany has been influenced by both religious and state traditions emphasizing social harmony, order and stability.

Other factors have influenced the development of the current outsourcing paradigm in Germany. These include:

- Since the beginning of the early 1990s the squeeze on the budgets at all levels of government dramatically increased, in part because fulfilling the Maastricht (EU) criteria demanded strict budgetary austerity;
- Public debt began skyrocketing in the wake of the enormous public expenditures incurred in the process of German Unification;
- The “neo-liberal” call for a “lean State” and NPM (called “New Steering Model” in Germany) promise of an economically efficient administration attracted growing attention across political party lines and on all levels of government as an approach

and panacea for coping with the budgetary plight.

2. Government responsibilities²⁹

The German system of social service provision is highly decentralized, but also highly bureaucratically and legally structured. The principal responsibility for the planning, financing, and provision of social services, in particular with regard to the family as a target group, is held by the local authorities in the framework of their statutory tasks. They may also take on voluntary tasks, and generally, they have much freedom in priority-setting and organization of tasks assigned to them. The Federal level of government is mainly responsible for guaranteeing the social service system, including the formulation of general objectives, conditions and standards for social service provision. In particular, the Federal Ministry for Family Affairs, Senior Citizens, Women, and Youth is involved in the arrangement of political issues, and in the support of social service providers on the federal level with regard to methods, working forms, contents and value-orientations. The German States are mainly responsible for the provision of necessary means for the local communities and non-public CSOs in order to carry out their legal tasks. They also must manage the regular establishment of institutions and services and the supply of social services covering regional demands. The states and the local authorities have tended until recently to provide multi-year subsidies to organizations that provide social services. Additionally, the States are involved in carrying-out supervision functions for the Federal government (BMFSFJ, 2004; BMGS, 2004; German Federal Government, 2004; Social Security Law, 2004).

German public regulation, based on the so-called “subsidiarity principle,” stipulates that the local authority can only set up a social service, if no other non-public organization aims to do so. Recent legal revisions changed the contractual relations between the state and social service providers, replacing the principle of prime costs reimbursement by the

²⁹ Much of this discussion is based on Petra Claudius, “Co-operation between Social Service Providers – a Comparison between Germany and Greece,” *Social Work and Society*, vol. 6, No. 2, available at <http://www.socwork.net/2006/1/researchnotes/claudius>.

establishment of performance-orientated compensations. Nevertheless, non-public bodies that are providing social services for the family, either acting on behalf of the public sector state, or independently, receive material and/ or immaterial support on behalf of the local authorities and the States (Social Security Law, 2004).

The German Federal state has no direct control over the supply of social services being provided by legally recognized bodies of the CSO sector (Bahle, 2003). According to the German Social Security Law, the local authorities have to respect the independence of these bodies concerning the setting of objectives, carrying out the tasks, and the arrangement of their organizational structure. However, the local authorities have the right to examine the appropriate use of public means employed by them (Social Security Law, 2004).

According to the German Social Security Law, public bodies are obliged to carry out their work most effectively by co-operating with the non-public bodies. Also, the Law explicitly mentions that the co-operation should be based on partnership ideals. The issue of co-ordination of social services is not mentioned with specificity in the respective welfare laws (Social Security Law, 2004). Generally, on the local level there are several committees and round tables in all fields of social services, which are aimed at bringing together the respective social service providers (Pfennig and Bahle, 2002). Furthermore, the big German welfare organizations are by law involved in national decision-making and law-making processes. With regard to social services, they must be consulted in governmental decision-making in all issues touching on those areas (Pfennig and Bahle, 2002).

It is also important to note that under the current Federal law on social insurance, persons in need of care can themselves choose among all legally recognized and accredited providers of services. In other words, there is use of a reimbursement system to outsource, and this means that negotiations about the terms and levels of reimbursement for care rendered have by tradition been the most important part topic for the voluntary

bodies.³⁰ One comment on such a system is that the competition among providers is not based on products or services but rather on costs. Some have criticized this, noting that it may lead to a lack of “personalized” care (Bahle, 2002).

3. Percentage of government support in CSO total revenue

The figures developed by the Johns Hopkins project for the years studied indicate that 32% of the sector’s support came for fees, 64% from government, and 3 % from philanthropy.

4. Types of CSOs engaged in service delivery

According to the German Social Security Law, public bodies include all legal persons of the public law. With regard to the non-public sector, there is a differentiation between CSOs that belong to the free welfare associations and other organizations. The CSOs may have the legal form of registered associations, not-for-profit foundations of the civil law, not-for-profit private limited companies, and not-for-profit co-operatives (BMFSFJ, 2004; BMGS, 2004; German Federal Government, 2004; Pfennig and Bahle, 2002; Social Security Law, 2004).

5. Types of services provided by CSOs

Nonprofit, For-Profit, and Public Shares of Social Service Employment in Germany, by Field

<i>Industry</i>	<i>For-profit Sector (%)</i>	<i>Nonprofit Sector (%)</i>	<i>Public Sector (%)</i>	<i>Total employment in industry</i>
Family services	9.4	73.1	17.5	28,566
Services for the elderly	17.7	67.6	14.7	67,140
Services for the handicapped	9.5	83.7	6.9	96,518
Nursing homes	20.2	63.0	16.8	128,510

³⁰ A. Evers & C. Strünck, “Answers without Questions? The Changing Contract Culture in Germany and the future of a Mixed Welfare System,” in Ascoli & Ranci, op. cit.

Child day care	1.0	62.3	36.7	155,874
Vocational training	17.6	21.5	60.9	202,898
Clinics and hospitals	14.2	34.2	51.0	722,734
Other health institutions	47.6	36.2	16.2	91,586

Source: Anheier 1991.

6. Incentives provided to encourage CSOs to participate in social service outsourcing

There are no special incentives to encourage CSOs to become involved in social service outsourcing. They see themselves as partners in social service provision.

7. Relationship between government and CSOs and between CSOs and beneficiaries

In changing from a model of state subsidies through large block grants, commentators write that the motif of the NPM model in Germany is the service enterprise – these CSOs contract with the public authorities to provide services. In principle, this should serve as a model for reconstructing the administration of projects from “intervention authority” to service provider. This transformation process is supposed to be accomplished by transferring business management mechanisms from the private to the public sector (Schaarschuch, 2003).

Two levels can be differentiated in this sort of relationship:

- At an organizational and institutional level the aims of the NPM should be achieved by the tools of contract management, budgeting, combining of the specific professional responsibility and resource responsibility, service or output orientation, and the implementation of controlling and quality management measures.
- At the level of the concrete services, i.e. the interaction of the local administration officers (or social workers), the aim is to form the relationship according to the service model. This means that the action is no longer oriented towards the passive ‘client’, but towards the wishes and needs of the so-called ‘customer’.

The hypothesis states that this orientation towards the customer, or consumerist model, helps to optimize the balance between supply and demand and leads to an increase in effectiveness and efficiency of social services.

There is little novelty in some crucial concepts of NPM as applied in Germany, for instance in “outsourcing” and “competitive tendering” of social service delivery. They appeared already to be in place in German local administration, for example, through the subsidiarity principle as suggested above (Hendriks and Tops, 1999).

8. Monitoring and evaluation by government; reporting requirements

As Germany developed its own take on NPM, under the “New Steering Model,” many commentators believe that it strengthened the influence and control of the elected councils over the local administration, particularly by reshaping the budgetary process. Different from the traditional input-oriented and detailed and itemized budget, the new output-oriented and “lump sum” (global) budget is meant to focus the attention of the elected council on the “big” decisions in local policy making (instead of being absorbed by “tiny” and minor matters). The budgetary output indicators, controlling reports and (political) contracts are designed to increase the capacity of the elected councilors to hold the administration and the chief executive accountable. As discussed in 10, however, that has not always worked.

9. Training or capacity building for CSOs

As indicated, CSOs in Germany have long been involved with social service provision, which greatly reduces the need for training and capacity-building.

10. Successes and failures³¹

The conceptual and instrumental hub of the New Steering Model has run into major problems if not an “impasse” (“Sackgasse” (Dead End Street), Reichard & Wegener, 1998) for a number of reasons. The “product catalogues” on the elaboration of which many localities concentrated their initial efforts often turned out to be over-detailed and cumbersome, while, at the same time, still lacking the crucial indicator-based specification of performance goals (outputs) and related resources/costs (inputs) as the precondition of a viable cost-achievement-accounting system. Furthermore, the (financial, personnel, technical, etc.) costs required to install, update and operate such elaborate product-based system often were prohibitively high (Grunow, 1998). In the mean-time many municipalities have now turned to simplified and technically less unwieldy modes of cost-achievement-accounting.

In a similar vein, the new budgeting system has had rough going. With the current budgetary squeeze the new budgeting procedure has so far often served, under the guise of “lump sum” budgeting, to put a ceiling to the allocation of resources to the various departments and sectors of local administration and to shift to them the conflict-ridden responsibility and burden of distributing the scarce resources. By the same token, some commentators believe that strengthening the role of the elected councils vis-à-vis the local administration, particularly through budgetary output measures and controlling feed-back loops still seems far from realization. The elected local councils as well as the local citizens have, to some degree, been bypassed and left out by the NSM-guided modernization drive. It should come as no surprise that, as recent surveys suggest, the members of some local councils have become increasingly disenchanted with NSM modernization (Grömig/Gruner, 1998). Administrative reform in local administration, under the pressure of budgetary retrenchment, was pursued, at an incrementalist and

³¹ This section is based in large part on Hellmut Wollmann, “Agenda setting in public sector reform policies in Germany: A divergent trajectory towards public sector modernization?” available at <http://www.spea.indiana.edu/IPSA-RC32/Archive%20Papers/ipsa.rc.32.paper.h.wollmann.new.doc>.

adaptive pace, using both efficiency-related and “citizen-oriented” concepts. While this may be an appropriate approach, it has not yet been fully implemented.

11. Estimated economic and fiscal impact

In Germany, it is principally the local authorities that finance social services, followed by the States contributing about 34% of the expenditures and the Federal State with only 1% (Thimmel, 2003). Developments in the area of social service provision are related mainly to increasing economical pressures. There have been new financing arrangements between the public and non-public sector, in terms of contracting, which forces the latter into task-linked and time-limited arrangements with the public bodies (Bode and Evers, 2004). Additionally, in recent years more and more smaller organisations, independent unions, projects and initiatives, as well as private commercial providers have “joined” local state authorities and the big welfare organizations, undermining the latter’s privileged position (Thimmel, 2003).

12. Specific program example

Alten Service Zentrum Eching - The Social Service Center for the Elderly in Eching

The Service Center is run by a non-profit making association which is a member of the Joint Welfare Federation and has concluded a service agreement with the local authority. The Center was developed in order to improve the housing and quality of life for older people and to create an integrated local care facility facilitated by a coordination office, a single management team in order to provide a seamless service to support people in their own homes in a client-centred way. Good evidence of an integrated service with good outcomes in terms of working conditions for staff.

- Older people living alone
- Voluntary/Community/CSO sector
- Locally based quality improvement measures
- Coordinated and integrated service
- Direct user involvement and participation

Final June 2009

- Training and staff development
- Staff involvement and participation in decision making

The Service Center for the Elderly was opened in 1995 in Eching, a commune of about 12 000 inhabitants in Bavaria. Various services are provided under one roof in new purpose-built premises in Eching town center by a non-profit, non-denominational registered association *Älter werden* in Eching ('Growing Older in Eching'). The association is a member of the Joint Welfare Federation and has concluded a service agreement with the local authority. Eighty per cent of the association's 500 members are aged 60 or over; all are residents of the commune of Eching. The association provides services for about 100 clients and employs a total of 30 staff in the various services. The starting point for the establishment of the centre was the updating of the local development programme to improve the housing situation and the quality of life for elderly inhabitants of the commune. This was triggered by a sharp rise in the elderly population of the commune and by shortcomings in the supply structure at that time.

Funding is from fees for services which are paid under the care-insurance scheme, local authority funding, and some funding from flat-rate user charges and membership subscriptions. The building and its facilities were financed by the local authority and leased back to the association. The center is the only provider of care services in the commune - apart from one private commercial provider - and is not therefore in competition with locally based welfare associations.

The service center provides an integrated local care facility and a widely acceptable alternative to a retirement home or nursing home by improving the provision of domiciliary care. The center also has a new client-centered organisational structure. It is intended that the center should be an integral part of the community, a meeting point for young and old and a place of communication. The emphasis is on the provision of services to those elderly people who are in need of care and assistance. The center offers a range of social, domiciliary, home help, nursing and medical care, short term care and sheltered housing. Coordination takes place through a central coordination office, which operates as a booking agency for services. A single management team has been created

for short-term care, day care and outpatient care, to ensure that clients can switch smoothly from one type of care to another without any loss of information. Regular staff meetings and case conferences also ensure that information is exchanged between staff. The close physical proximity of all the services means that the 'short-routes' principle can be adhered to and that staff and clients know each other well, which considerably facilitates exchanges of information.

The employees on the nursing side work in accordance with the rotation principle; in other words, from week to week they move between outpatient care, the short-stay nursing ward and day care. This practice has been followed from the outset to relieve the strain imposed by repetitive tasks. The employees are not confronted solely with serious infirmity or with senile dementia and can also rotate between different sets of working hours. According to the management of the center, this considerably complicates the task of compiling duty rosters, but the improved working conditions are worth this extra effort. For the employees, the continuous rotation between workplaces enables them to acquire new skills and makes their work more interesting. As far as working hours are concerned, employees can influence the preparation of duty rosters by entering their preferences in a register kept for that purpose. These preferences are taken into account wherever possible; if staff wishes cannot be accommodated, further discussions take place to find the most acceptable solution. Levels of staff participation and staff-centred management are high and working conditions are very good and staff turnover is very low.

The work of the Eching service center is regarded as a community task in which senior citizens can participate by means of self-help and by assuming responsibilities at various levels of the service structure. The fact that the center is run on behalf of the local authority by an independent local association is an innovative form of organisation, which gives senior citizens codetermination rights as members of the association and representation on its executive bodies. Users have been involved in the decision-making process from the very beginning.

Final June 2009

In 1998 the center devised a quality-assurance strategy, the basis of which was a survey of staff and users. The actual strategy paper was drawn up by the staff of the centre in collaboration with the management. Key elements of the strategy include a program of in-service training, interface optimisation and the creation of an updated policy document. The Eching project has a high degree of transferability, and the approach has already been adopted by other local authorities. As far as working conditions are concerned, it should be stressed that the integration of various services has been particularly effective in reducing stress and giving employees more acceptable working hours.³²

³² Source: <http://www.eurofound.europa.eu/areas/socialprotection/casestudies/ge2.htm>.

D. The Netherlands

This Country Study is focused on one specific example from the Netherlands – Early Childhood Education and Care (ECEC). It demonstrates the country’s decision to move from a producer-side out sourcing mechanism to a consumer-side mechanism in an important area of social service provision. It also demonstrates a method of giving local governments control over decisions with regard to providers through block grants made to them from the national government. By moving from subsidies to the child care centers themselves to a voucher system under which low-income families of can “buy” ECEC for their children from the providers they prefer, it stresses the importance of beneficiary input.

The Netherlands is a country with an enormous CSO sector. Lester Salamon’s research (2004) indicates that recent estimates set the CSO sector workforce in the country at 14.4% of the economically active population, nearly 50% higher than the CSO workforce percentage in the U.S. CSO providers dominate education, welfare, and health services. About 70% of all elementary and secondary school children attend private schools. The Johns Hopkins Project noted that for the years studied 39% of the revenue of CSOs came from fees, 59% from government, and 10% from philanthropy. By all criteria, it is clear that the CSO sector in The Netherlands is a significant factor in the nation’s economy.

In this Country Study, rather than focusing on all the questions raised by the Terms of Reference, we have decided to look more narrowly at one specific area of social service provision, early childhood education and care (ECEC). The reason for this is the recent experience of making a change in how the government supports ECEC providers is a good policy example to be reviewed in China.

Based on an OECD Study in 2004, the following statistics about children in the Netherlands are relevant to the outsourcing process. Studies into the well-being of children and statistical data on the school and work careers of Dutch youth indicate that 85-90% of Dutch youth is doing well. The remaining 10-15% are children and youth ‘at

risk', i.e. they have special needs and/or they have psychiatric problems and/or they live in very unfavorable family circumstances (child abuse, poverty). Statistically many of the 'at risk' children and youth are members of minority groups. About 2-3% of (older) youth is considered to be seriously problematic and socially alienated: e.g. they are involved in serious (often violent or drug-related) crime, they have addiction and/or psychiatric problems and the like.

In recent years, children and youth have regained an important place on the Dutch political agenda. There is a growing awareness of the importance of youth to the present and future society in the Netherlands. At this moment there is a broad political basis for the idea that society has to invest in youth and has to take youth seriously, not only for the sake of the young, but also for the sake of the sustainable development of a socially and economically flourishing society. As a consequence, the attention given to the young child and the family is increasing as well. There is a growing emphasis on policy aimed at the young child and his/her family, with the objective of furthering favorable conditions for child rearing and giving children ample opportunity to develop themselves into responsible and self-supporting citizens in modern Dutch and international society. The provision of good ECEC is also thought to be very helpful in avoiding some of the problem situations associated with 'at risk' children. Given all these considerations, there has been major emphasis in reaching all Dutch children through the ECEC policies of the government.

National ECEC policy and provision is a shared responsibility of several departments of the national government. The main national government actors are:

- The Ministry of Health, Welfare and Sport (VWS), which has national tasks and responsibilities in the areas of childcare, parent support, child development programs, youth health care, specialized youth care, youth work and sports;
- The Ministry of Education, Culture and Science (OCenW), which is responsible for maintaining and monitoring the national system of mainstream and special education, pre-school education and educational disadvantage policy;

- The Ministry of Justice, which is responsible for the national system of child protection and fostering, and for crime prevention;
- The Ministry of Social Affairs and Employment (SZW), which is responsible for policies concerning the combination of work and care tasks and the provision made for parents of young children that have or want to find a paid job; and
- The Ministry of Internal Affairs and Kingdom Relations (BZK), which is responsible for integration policies for ethnic minorities and for the Greater Cities Policy (GSB).

From 1997 onwards municipalities were given more responsibilities with regard to education and primary schools. The decentralization of welfare policy started earlier - in the mid-1980s. Of course, the budget for decentralized policy and provision was also transferred from the national to the local level, in most cases as a block grant that was added to the Municipal Fund. In some cases, the decentralized budgets are earmarked, to ensure that local authorities will spend the budget on a specified provision or policy. Decentralization of responsibilities from the national government to provincial and local authorities is an ongoing process that has not reached its limits yet.

As policy-making is also being deregulated, the responsibilities and influence of other parties have increased. For instance, in the childcare sector the role of employers has become more prominent. Organizations of parents, labor unions, and supporting institutions also are more involved in decision making. The general aim of the Dutch government is to move responsibilities back to where they belong: to those who are directly involved in providing ECEC services and those who benefit from them. Shared responsibility and self-regulation are important issues in this move towards decentralization and deregulation of national government policy.

Nevertheless, the national government retains a number of responsibilities and tasks such as devising national rules and regulations (and legislation), developing and implementing national Policy Frameworks (in some areas of ECEC provision and policy), developing national standards and attainment targets (education), promoting innovations, national monitoring and evaluation, and controlling the quality of provision. The general

Final June 2009

principle behind the division of responsibilities between the different levels of government (national - provincial - local) is that of complementary administration: i.e. the national government covers those tasks that can be more efficiently organized at a national level.

At all levels of government there is an ambition to promote inter-sector and inter-agency co-operation and develop more comprehensive policy and programs. In the area of ECEC, the recent development of the so-called BANS is important. In the 1998 Coalition Agreement, the Dutch government announced a new way of dealing with the complementary administrative tasks of the different departments and levels of government. The basic idea is that for a number of policy areas, New Style Partnership Agreements (*Bestuursacorden Nieuwe Stijl – BANS*) are drawn up, stating mutual policy goals, plans and agreements of the national, provincial, and local governments. One of the selected policy areas is Youth Policy. The Ministry of VWS has an initiating and coordinating role to play in developing this Youth Policy BANS. At present, a shared view of youth policy is being developed and implemented. In this process, the group of 0-6-year-olds is given a high priority.

Up until 2008, direct subsidies were given to ECEC providers that are CSOs. Beginning in 2009, the subsidy scheme is altered dramatically. Through the Tax Department, parents with an income under EUR 45,000 will receive directly the amount that the government contributes to child care on their behalf. The direct subsidizing of the facilities will themselves will cease as a result. Child care facilities will compete in terms of price and quality, since parents will be able to opt for a different care establishment if the price is too high or if the quality is found wanting. In sum, child care organizations will increasingly be subject to market forces.

The social policy rationale for the decision to grant the subsidies in the mid-1990s was to encourage more women with small children to remain in the workforce, thus encouraging long-term population growth.

Final June 2009

The pre-2009 method of delivery of the subsidy was through Childcare Incentive Schemes – municipalities made subsidized child care spaces available in, e.g., playgroups, which are the most popular form of provision of ECEC for 2.5- to 4-year-olds in The Netherlands. They are usually established by private bodies with the legal status of foundations. Many of these foundations are independent; others are part of a larger co-operative structure, frequently a child care organization or a general welfare foundation.

Various acts and regulations (national and local) define the parameters for the providers of ECEC services. Licensing was mandated for those centers that were permitted to receive subsidies prior to 2005, which achieved the goal of ensuring that policies as to staffing ratios, educational content, etc. were met. The Policy Document on Welfare 1995-1998 refers to the establishment of a national quality assurance system. The minimum standards to be imposed on childcare facilities by the municipal authorities are laid down by order in council. These minimum requirements applied to all childcare centers, whether they are subsidized or not.

The Child Care Act of 2005 altered the legal structure for granting subsidies. A parent board is required to support and monitor progress and the local municipality is responsible for regular health and safety inspections. In the education sector (provision for 4- to 6-year-olds), quality control is ensured by the school inspectorate, which undertakes systematic and holistic analyses of whole schools, noting in particular the ways in which schools give account of their pedagogical policy to parents. What is important here is a de-regulation of the sector and a move toward greater self-regulation.

The 2004 OECD report says that “The new Act no longer prescribes specific quality requirements in relation to the child care centre. This allows the sector more room to determine its own regulations in order to ensure that child care facilities satisfy the legal requirement to provide responsible child care. Operators must make an inventory of safety and health risks themselves. They must also be able to demonstrate that they pay attention, among other things, to the number of children per supervisor, the size of the group and the educational background of staff members. Furthermore, the child care

centre operator may only deviate from the advice of the Parents' Committee if he/she provides a written explanation for doing so.”

Changes were made in the licensing mechanism in part as a result of research indicating a lack of overlap between parent and provider goals. Changes were made in the subsidy delivery system to reduce the cost of the subsidies and to target them on the people who need them and cannot afford private ECEC.

These were said to be the problems with the old regime and the rationales for changing it:

- Cost – the amount spent on the program was greater than expected;
- Potential cheating -- many people were concerned about subsidies for individuals providing care in their homes on a less formal basis. The number of people claiming those subsidies was growing, but remained a very small percentage of the total number of providers.

Results of the change:

- More autonomy for centers and parent groups;
- Subsidies that are more targeted to meet the needs of the people;
- Making child care provision more subject to market forces.

E. Hungary

This Country Study discusses several instruments or tools of outsourcing social services – government grants (national and local), government contracts, a new support fund for CSOs, and a special tax law that allows designation of one percent of a person’s tax liability to a CSO. The wide range of instruments used, including the tax designation scheme, are indicative of Hungary’s move to create a partnership with the CSO sector after 1990. The tax designation scheme has gained wide acceptance in other Central and East European countries and in some local prefectures in Japan.

1. Government policies and guidelines³³

Before the changes (often referred to as “the Change”) in the political system in Hungary in 1990, humanitarian and social service activities and the public and community tasks which are the distinctive features of a modern society were almost exclusively within the competence of the state through a centralized process of service provision. The social and economic changes that occurred in Hungary after the socialists lost power have created a situation in which it has become obvious that conditions for a three sector model (government sector, CSO sector, business sector) needed to be established. It had also become obvious that the public tasks which were before that time entirely within the competence of the state were not capable of being executed completely or partly by the state authorities. The transformation of the socialist state raised the question of the new division of public and private services. Decreasing state property (utilities were transferred to the local municipalities along with the flats, roads, and buildings in which administrative work was done), and the lack of resources for financing the previously

³³ Much of the analysis in this section is derived from a paper by Dr. Gabor Posch titled “The Role of the Budget in the Financing of Public Benefit Organizations in Hungary” and one by Nóra Teller and Eszter Somogyi, titled “Public Services in Hungary: The scope of public services and related legislation.”

extended public services, resulted in the decrease in public spending on public services. Consequently, this spending had to be reorganized and, finally, decentralized to the local level.

The changes in the role of the state regarding the fulfillment of public tasks required the establishment of CSOs that could serve the public aims and through which the civil society would be able to gain a bigger role in the long run regarding the satisfaction of its own public needs. Therefore the independent supply of some part of those public tasks that exceed and overload the budget capacity of a state would be necessary and cooperation in the supply of the state tasks was deemed to be necessary.

Local self-governments have specific functions connected to the delivery of public services. Since Hungary introduced a three-tier governmental system in 1990, there are different responsibilities divided among these tiers. The system is based on local self-governments, county self-governments and the central government. The principal idea behind the reorganization of public services delivery was that since the local level has the most accurate knowledge about local needs, it can therefore steer the delivery of services to the most appropriate provider.

There is evidence from surveys of civil society that local municipalities in Hungary are increasingly reliant on CSOs for the delivery of social services, especially those connected with health and education (Cartwright & Associates, 2008). There are also problems associated with the system of outsourcing, as discussed below.

2. Government responsibilities

Central government funding is of necessity concentrated on mainstream public services (such as services to families and children and health care), while other services (e.g., homelessness, community development) come within the purview of local governments (Osbourne et al., 2008). At the local level, the right to define the range and scope of service delivery is established in paragraph 8 of the Law on Local Self-Governments passed in 1990. However, on the list of the 27 so-called “particular” duties of local self-governments, the regulation also names those services that are compulsory local

responsibilities. These responsibilities include: the provision of kindergartens and primary education; basic health and social services; assuring the rights of minorities; and, in communal areas, the provision of healthy drinking water, public lighting, and the maintenance of local roads and cemeteries. In the case of the capital and its districts, some further obligatory performances are defined by law. The state assures the completion of its mandatory tasks by allocating financial tools and allowing the local self-governments to impose local taxes and borrow money.

According to paragraph 43 of the Hungarian Constitution, the Law on local Self-Governments is not the only regulation that may prescribe duties that are to be performed on the local level. These are the sector laws and the so-called “Competency Law” that set further obligations, such as the operation of public libraries, or, in other areas, depending on the size and population of the settlement, the different levels of obligatory social service, health and education service, and waste disposal. This means that the main framework of the definition of public services is the Law on Local Self-Governments; however, the definition of “particular” duties of local governments may be extended and specified by other regulations as well. The situation gets even more complicated considering that local governments may take on local public services. There are 3200 local self-governments and 19 counties, which commentators suggest, leads to many complexities (Kozma, 2008; Osbourne et al., 2008).

3. Percentage of government support in CSO total revenue

The Johns Hopkins project found that for the years studied, the percentage of revenue received from fees was 55%; from government 27%; and from private philanthropy 18%. More specific data can be found in the following charts (detailed statistical information is not available in English for later years).

The Non-Profit Sector According to its Income Sources in 1994-1995

Income sources	Income		Distribution, %	
	Sum, in millions of Ft			
	1994	1995	1994	1995
Normative budget support	3.617,6	3.707,8	2,5	1,9
Non-normative budget support	19.971,0	24.722,7	13,9	12,6
Support gained from the central base	-	6.003,3	-	3,1
Normative support from the local governments	433,2	590,7	0,3	0,3
Non-normative support from the local governments	5.738,2	5.889,1	4,0	3,0
Total support from the state	29.760,0	40.913,6	20,6	20,9
Total private support	30.587,2	43.414,5	21,2	22,2
Total income from the basic activities	33.883,8	55.284,2	23,5	28,3
Total income from the managing activities	43.151,0	53.815,1	29,9	27,5
Total income	144.131,9	195.627,3	100,0	100,0

The Non-Profit Sector According to its Income Sources in 1997-1998

Income sources	Income		Distribution, %	
	Sum, in millions of Ft			
	1997	1998	1997	1998
Normative budget support	8.435,7	11.559,3	3,0	3,2
Non-normative budget support	25.667,8	32.394,1	9,0	9,0
1% of the personal income tax	1.770,1	2.362,1	0,6	0,7
Support gained from the central base	14.153,5	12.221,3	5,0	3,4

Final June 2009

Normative support from the local governments	472,3	1.066,4	0,2	0,3
Non-normative support from the local governments	12,829,9	15.047,	4,5	4,2
Support from the budget institutions	..	4.857,6	..	1,4
Total support from the state	63.329,3	79.507,8	22,3	22,2
Support from business organizations	19.680,2	20.683,4	6,9	5,9
Support from population	6.568,8	7.272,6	2,3	2,0
Foreign support	16.299,5	20.569,3	5,7	5,7
Support from non-profit organizations	9.393,8	10.857,1	3,3	3,0
Total private support	51.942,3	59.382,4	18,2	16,6
Dues income from private persons	8.238,6	9.928,6	2,9	2,8
Dues income from legal persons	13.808,3	17.110,8	4,9	4,8
Basic activities price and dues income	64.091,0	91.565,7	22,5	25,3
Basic activities application income	9.352,2	15.776,2	3,3	4,4
Total income from the basic activities	95.490,1	134.381,3	33,6	37,3
Finance operations income	23.043,9	25.162,2	8,1	7,0
Managing income	46.878,2	50.365,7	16,5	14,1
Total income from managing activities	69.922,1	75.527,9	24,6	21,1
Credits and loans	2.099,3	8.567,3	0,7	2,4
Other income	1.579,1	1.322,8	0,6	0,4
Total income	284.362,2	358.689,5	100,0	100,0

Source: KSH non-profit organizations in Hungary in 1995, 1998 years

The “Civil Strategy” promulgated in 2004, aimed to increase the level of government funding available to CSOs (Civil Strategy, 2004). It noted that the sector is “under-financed by the government and local authorities) and that it had been “subject to a policy of ‘governmental domination’...and paternalism.” The Strategy, which the government states is based specifically on the English Compact system, aimed to increase funding for the sector to 40% by 2005, and this was accomplished according to Osbourne and his co-researchers. The Directorate of Civil Relations also suggested that any policy of contracting out must be accompanied by the transfer of adequate resources (Directorate of Civil Relations, 2004).

4. Types of CSOs engaged in service delivery

Final June 2009

CSOs that are permitted to provide social services include associations, foundations, religious groups, individuals or joint entrepreneurs involved in social service activities. The support for the different types of organizations in terms of their support in 1998 is in the following chart (again, newer data are not available in English):

Organizational form	State support	Private	Base activities	Managing income	Other	Total
Foundation	22,8	38,6	14,8	21,7	2,1	100,0
Public foundation	40,7	9,6	40,5	9,0	0,2	100,0
Association	22,7	14,9	33,5	25,7	3,2	100,0
Public assembly	19,1	3,0	69,4	7,4	1,1	100,0
Trade union	2,5	11,1	56,9	29,3	0,2	100,0
Professional, employers' organization	6,9	6,7	60,6	25,0	0,8	100,0
Public benefit association	17,5	1,2	52,7	22,3	6,3	100,0
Non-profit organizations' institution	62,1	9,2	24,5	4,1	0,1	100,0
Total:	22,2	16,6	37,3	21,1	2,8	100,0

Source: KSH Non-profit organizations in Hungary in 1995, 1998 years

5. Types of services provided by CSOs

The types of services provided by CSOs for the 1995 and 1998 calendar years can be found in the following chart:

Legal protection	75,2	69,8
International relations	59,6	50,3
Civil protection	54,3	53,2
Social supply	46,3	46,4
Culture	36,4	19,6
Public safety protection	34,2	36,0
Health care	27,2	29,1
Education	26,3	31,7
Politics	14,2	14,9
Religion	8,3	12,5

Source: KSH Non-profit organizations in Hungary in 1995, 1998 years

6. Incentives provided to encourage CSOs to participate in social service outsourcing

The Hungarian Parliament enacted Law No. 50 on the National Civil Fund on 23 June 2003. It aims the strengthening of the operation of civil society organizations and the development of the third sector through grant supports. All private foundations and CSOs (excluding employers' and employees' interest groups, political parties and insurance associations) that are registered and operating in Hungary at least for a year can gain support from the Fund. The grants are distributed by the Boards composed of representatives of civil society organisations. The principles of the grant-support system are laid down by the governing body, the Council, which has a majority of delegates from civil society organisations as well.

The exceptional aspect of the National Civil Fund is the decision-making process; civil society representatives - free from government influence - are responsible for decisions. The applicant organizations can be sure that their applications are considered by the delegated members who dispose the available resources.

The first call for applications appeared in May 2004 attracting great interest among the eligible organisations. At this stage more than 6 billion HUF (approximately 24 million Euro) was granted as non-refundable grant support for the successful applicants. Although this amount is not enough to fulfil all the desired programs and aims, it facilitated the operation of many CSOs and helped the implementation of various programs and, most importantly, the development of the sector.

7. Identification of CSOs and verification of capacity to provide services

One method of financing for CSOs in Hungary is through the provision of direct budgetary support. Some support for CSOs that are designated "public benefit organizations" always appears in the Budget Act each year in the preliminary estimates in the section in the budget that deals with the field of service for the specified organization (e.g., child care; assistance for marginalized populations, etc.). The designated

organizations gain the authorization for the use of the preliminary estimates upon the decision of the Parliament on this matter, and they are authorized pursuant to their external and internal regulations.

Access to the budget support and the process of reporting in the practice can be quite different than in some of the social organizations and foundations. The access to public funds can be realized differently depending whether it is within the framework of program financing or outside it. Financial resources can be provided automatically or based on an agreement between the public authority and the public benefit organization.

- a. In the case of program financing the public benefit organization must prepare a program review, which must be authorized by the head of the section or his representative. If the program is authorized, the Treasury pays the support.
- b. In cases which fall outside the program financing different methods are used. Those organizations which are mentioned in the section on the presidency must submit a time schedule and detailed plan for the usage of the preliminary estimates to the Treasury; after that the Ministry of Education signs a contract for the support, in which contract the parties – in harmony with the accepted tasks – must determine the payment schedule and the accounting conditions at the Ministry of Social and Family Matters about the organization's task, and depending on its activity they automatically transfer the amount or sign the contract, upon which the payment is determined.

Another way to access the budget resources is to use tenders or procurement. This type of support was estimated to be 3500 million forints in the 1997 budget. The tender system diverges according to different ministries and local authorities in various fields of activities. Decisions on who wins a tender must be within the boundaries determined by the law. A common distinction between this method of outsourcing and the direct budget method is that the delivery of these financial resources definitely occurs within the boundaries of the contract law, where the parties have the right of disposition about the conditions of settlement on the support. A researcher noted that even as late as 2000,

grants tended to be the more typical type of support in Hungary, as opposed to contracts (Struyk, 2003).

A third way in which the government provides financial support to CSOs is through the “One-percent” law. This completely new form of donation was introduced in Hungary by Act CXXVI of 1996 (the so-called “1% Law”). According to the law, Hungarian citizens can give 1% of their previous year’s paid income tax to a CSO of their choice. At the outset, the process of donation was often not effective due to missing links between the organisations and the taxpayers. But the leading organizations in the CSO sector remedied this and after massive campaigns for support succeeded in encouraging taxpayers to designate that one percent of their taxes be paid over to a CSO. The data on giving between 1997 and 1998 can be found in the following chart

Some data about organisations receiving contributions through the 1%Law (Churches and religious organisations not included)

	1997	1998
Number of beneficiaries	15,558	16,580
Number of beneficiaries excluded due to non-compliance with applicable laws	137	347
Number of beneficiaries not replying to the survey	4,742	4,593
Number of beneficiaries who refused 1% donations	1,147	1,000
Number of beneficiaries excluded by APEH decision	1,189	607
Number of beneficiaries accepting 1% donations	8,343	*9,963

According to a report published in 2004, CSOs in Hungary received only 10% of their total support from the one-percent law (Sasakawa Peace Foundation, 2004). In this survey, smaller CSOs benefited the most, with 25% pf their total incomes coming from the designations; larger organizations received only 4% of their total incomes from the designations.

8. Monitoring and evaluation by government; reporting requirements

Some commentators stress that there is an increase in requirements for accreditation, as well as a new system for inspection of social service providing entities (Kozma, 2008). Others stress the fact that the system in Hungary has not developed into an entirely professional one, noting that the manner in which CSOs implement government policy in Hungary continues to evidence a tendency toward state dominance and dependence. Thus, a premium is placed on negotiation and communication, as opposed to professionalism (Osbourne et al., 2008).

9. Training or capacity building for CSOs

The government is helping build capacity of CSOs providing social services by making IT support available (Kozma, 2008). Other sources do not concentrate on this issue, but the Case Study provided by Osbourne et al. suggests that capacity-building does take place where necessary.

10. Successes and failures

The system of budget support for public benefit organizations is said by commentators to be very complex and contradictory. Their role in providing public tasks and therefore their relationship towards the state organs is not regulated appropriately. The practice in the distribution and the financial accounting is quite diverse, and is not satisfactory. The common work and responsibility of the state and the public benefit organizations is to form the future steps, possibilities, and conditions based on experience. But the Case Study developed by Osbourne et al. illustrates how difficult that is. It clearly takes some time to evolve a trusting relationship between CSOs and government when there was a history of distrust (Kuti, 2004, 2006).

There are also reported conflicts with interest groups and a strong belief that local autonomy is being lost in the current structure. In addition, commentators noted the lack of independence of the CSOs, which hampers their ability to be effective and equal partners—because of their extreme reliance on government funds they are not able to

Final June 2009

disagree with state policies and be better advocates for change. To some extent this appears to be an historical phenomenon, rooted in a distrust of the state coming from the Communist era.

11. Estimated economic and fiscal impact

The revenues flowing from the government budget to CSOs using direct funding was as follows in the years 1997-2000. As can be seen, the amount of direct government support increased annually.

In Millions of Ft.

	1997	1998	1999	2000
Foundations	3119,8	3.172,0	2.529,4	3.220,1
Social Foundations	7.145,0	10.729,1	5.260,5	10,704,4
Public Benefit Associations	300,0	418,0	–	1.306,0
Social organizations	1125,1	1277,8	8.055,7	9.955,8
Total :	11.689,9	15.596,9	15.845,6	25.186,3

Note: In September, 2000. The exchange rate between USD/HUF was 1:203.

12. Specific program example

Osbourne et al. describe a Case Study, which we are reproducing here in a much shorter version (they give an entire history up through 2006). The particular CSO, the Periferia Association, which was founded in 1995 by a group of newly graduated social work students, in the town of Nyiregyhaza. They all worked as volunteers, and they sought to address problems of homelessness in the town. Their first approaches to local government for funding were unsuccessful, but after two highly publicized deaths of homeless people, they were able to receive a grant of 60,000 HUF to cover their costs for one year.

In 1997, Periferia Association received its first legitimate contract for service delivery with local government, to provide a street-worker service – though still for one year only. However if this contract gave it a limited degree of stability, its leaders were concerned about the impact of this grant upon its wider role:

So now we had money but what did it cost us, in real terms? Well it just felt like begging. If we get government money then we have to do what they want, no argument. They define the contract, not us. Also it is clear that we were not expected to campaign around issues that might harm the image of government. That wasn't in the contract, of course, but everyone knows that this is the case. (Founding member of Periferia Association)

Periferia was a new group to us. So we wondered whether we should give them money or not. But some of our staff knew them from College so in the end we did. But we made sure we kept control whilst we decided whether we could trust them or not. (Local Government Manager in Nyiregyhaza)

A further pressure emerged from this embryonic institutional relationship with local government. Government officials in both Social Services and Housing felt that Periferia Association had established an effective *generic* model of street-work (that was appropriate for implementation in both contexts rather than being industry specific). Consequently, local government began to pressurize the Association to diversify this model away from homelessness alone and to start working with such issues as child protection and prostitution. Moreover the actual contract between Periferia Association and the local authority was so vague as to allow almost any work to be included within it.

Nonetheless, according to its founding leaders, by 2001 Periferia Association had managed to diversify its income away from sole reliance upon local government that mediated this pressure somewhat. Having become licensed in 1999 by local government as a legitimate social care provider it now received normative support from central government (based upon demographic indicators) as well as service delivery contracts with local and central government.

It is important to note significant differences in the management of these respective contracts, though. At the national level, local groups like Periferia Association had little presence or influence. The resource allocation process remained a paper one, shrouded in mystery:

Final June 2009

We have no real say. It's like a kindergarten, you know. We get a candy if we've been good all day – but we are not told in the morning what 'being good' means. So you have to guess and hope that you get it right. There is only a fixed amount of candy as well – so if you 'win' then someone else 'loses' and vice versa. It's all about lobbying in the end. What you need are good negotiating skills, not a good idea. (Periferia Association member)

At the local government level, in contrast, Periferia Association did develop a degree of indirect influence upon public policy:

Local government will never admit our influence, but it is there. We cannot have a direct influence on policy, of course, except in a cosmetic fashion of supporting developments once they have been agreed. But we can have influence by whispering at the back door. We can feed ideas and information into the system through our local networks so that those in local government come to think of them as their own. So rather than be center stage, we influence indirectly. It's a legacy of the communist era, of course. Then it was impossible to be seen to influence government policy. But you worked through your network. This approach has been persisted. (Periferia Association leader)

This growing indirect influence was confirmed by the Vice-Mayor of Nyiregyhaza:

Of course politicians don't like giving tasks to non-profit organizations or acknowledging their influence. It makes them feel less important. But we are also pragmatists. So we listened to Periferia. If we liked their ideas they became our own, if we didn't like them then they did not. So they did influence us – but it was between us, not in public. (Vice Mayor of Nyiregyhaza).

F. Russia

This Country Study discusses the difficulty of setting up purchase-based, producer side contract processes of outsourcing social services in a country in which the prior model of service provision had been government-dominant. It thus emphasizes design, training, and capacity-building issues for both government and CSOs.

Like other formerly Communist countries, Russia has a tradition of public service delivery by the state (including local authorities), with the idea of outsourcing such delivery gaining only recent acceptance. Nonetheless, a research study published in 2003 looked at specific government policies as well as the results of actual government competitions for social service provision contracts. That study, published by Raymond J. Struyk of the Urban Institute, is titled “Contracting with NGOs for Social Services -- - Building Civil Society and Efficient Local Government in Russia.” This section of the report relies heavily on Struyk’s study.

The study looked at pilot projects for the delivery of services in three cities (Perm, Novogorod Veliki, and Tomsk) in 2000/01 as well as a follow-up round of competition in Perm in 2002. The demonstration projects were designed to be learning tools and were funded by a USAID-supported project to improve the design and administration of social assistance programs at the local level. The first section of this Country Study looks at the contracting process in 2000/01, while the second looks at the contracting process in Perm in 2002. The final section addresses issues that are based on the study conducted by the Urban Institute in Russia.

A. Contracting Pilot Project in Three Cities 2000/01

1. Government policies and guidelines

Under the division of responsibilities among national, state, and local governments in the Russian Federation, local governments have nearly exclusive responsibility for the administration of social assistance and social service programs. For some services the

procedures are tightly defined at the level of the national federation. For others (such as serving the homeless and victims of domestic violence), local governments have considerable leeway. They can choose to provide the services themselves or contract them out. Federal funding is most important for service delivery, but it was unreliable during the period studied. As a result local government funding was crucial to the ability to render the services to the beneficiaries.

All three of the cities studied with regard to the 2000/01 competitions had legislation in place by 1999 that would permit them to outsource social services to CSO providers. Only Perm had experimented with a grant program for CSOs performing social services prior to the study. None of the cities had had any experience with social services being contracted out, but there was experience with other kinds of government contracting. In addition, in each case the services to be provided under the contracts were in addition to services provided by the local authorities as part of their responsibilities.

2. Government responsibilities

The responsibilities of the governments in these pilot projects were

- a. to design the process of bidding;
- b. to carry out the process of bidding;
- c. to create contracts for each of the qualified CSOs;
- d. to choose and notify beneficiaries of the possible services to be provided;
- e. to monitor and evaluate performance.

The study analyzed the ways in which the governments carried out their responsibilities in the contracting process.

3. Design of bidding process

Each city prepared an announcement of the competition and publicized them in the local press. Notices were posted in CSO support centers, and in some cases CSOs that could

be expected to render the services to be rendered were contacted by the local authorities and encouraged to bid.

4. Bidding process

To be eligible to bid each CSO had to be licensed to provide the services that were to be the subject of the contracts. The competitions were open to all legal forms of organization, which made it possible for local agencies to also be involved in bidding. A selection panel was appointed to judge the proposals, and rules for judging the proposals were included in an order from the Mayor’s Office. In each city there was a real competition – the ratio of competitors to contracts awarded was 4:3 in Perm, 3:1 in Novgorod, and 15:9 in Tomsk. The following chart shows the types of services provided, the number of CSOs awarded contracts, the number of beneficiaries to be served, etc.

Summary of Contracting and Service Delivery Experience

	<i>Novgorod</i>	<i>Perm</i>	<i>Tomsk</i>
The Competition			
1. No. of competitors	2 NGOs 1 municipal agency	4 NGOs	15 NGOs
2. No. of winners	1 NGO	3 NGOs	9 NGOs
3. Selection panel used scoring sheets	No	Yes	Yes
4. Selection panel followed competition guidelines	No	Substantially	Substantially
Services ^a			
5. Dates services provided	From 3/2001 to 12/2001	One year from 12/2000	6 months from 1/2001
6. Target population	Noninstitutionalized elderly cancer patients unable to take care of themselves	Physically disabled children	Physically disabled young people (age 10-18)

7. Type of services	21 types of support services stated in federal regulations plus 19 paid services	Social rehabilitation services and life skills training	Social rehabilitation services and life skills training
8. Targeted no. of beneficiaries	25	Not less than 20 per NGO	Not defined
9. Actual no. of beneficiaries	5 ^b	At least 20 per NGO	Not known
10. Who selects beneficiaries?	Contractor	Contractor	Contractor
11. Beneficiaries receive services specified in contract	Few	Yes, but contract permits significant variation	Yes, but contract permits significant variation

Monitoring

12. Individual case records maintained by the contractors?	No	2 of 3	No
13. Active monitoring by the contractor?	Occasionally	Yes	None
14. Active monitoring by city agency of services delivered?	Not started	Yes	Yes ^c

Client Satisfaction

15. No. of clients interviewed	3	7	5
16. Clients informed of services to be provided?	Poorly	Limited	Limited ^d
17. Clients satisfied with services actually provided?	Yes	Yes; services received defined by the family in accordance with medical advice	Yes

Coordination with municipal agency

18. Quality of working relations with the municipal agency	Very poor	Very poor	Good for 1 of 3 contractors studied
--	-----------	-----------	-------------------------------------

Source: Data collected by the Urban Institute and the Institute for Urban Economics.

- a. In Tomsk information on service provision and monitoring is based on interviews with three of the nine contractors. In the other cities, all contractors were interviewed.
- b. The assessment was after only one month of service delivery; more clients are likely to be added.
- c. Monitoring only began in the fifth month of service delivery.
- d. One contractor in three provided a full list of services to the clients.

5. Contract creation

Each city prepared a contract to govern its relations with the CSOs that were contracted to provide them. The draft contracts were reviewed by the legal, finance, and economic departments of the city government. Nevertheless, the contracts awarded had several flaws:

- a. The services to be provided were specified poorly;
- b. Absent in all the contracts except the ones in Novgorod was a statement specifying to whom the services were to be provided (in other words, it was left to the contractor to make this decision rather than the government);
- c. There were problems with monitoring (see below);
- d. Contractual provisions on sanctions were not well-developed;
- e. There was no indication of sanctions for the government bodies if they paid late.

6. Choice and notification of beneficiaries of the contracts

As indicated previously, the contracts did not specify to whom services were to be provided except in the case of Novgorod. Thus, the competitions were for instruments

that looked a lot like grants, which would allow the grantee more latitude as to what services to provide to which individuals. In the case of Novgorod, although the process looked more like a real procurement process, it was also flawed for several reasons, not the least of which was that the agency delayed in specifying which individuals were to receive the services; a month after the contract went into effect only five elderly people were being served.

7. Monitoring and evaluation

The study found that in monitoring contract performance there was too much emphasis placed on tracking expenditures. The contracts did not permit flexibility for the CSOs to move resources among budget lines. In addition, the contracts were silent as to what monitoring would be possible beyond simply reading reports. The tradition of performance monitoring was very weak prior to the execution of the contracts. The study concludes that municipalities were not thinking that CSOs could be held to strict accountability for delivery of a specified set of services to a particular population.

8. Training or capacity-building for CSOs or local authorities

Despite the fact that governments did not think CSOs would be able to deliver services according to a strict set of criteria, the governments in question did not do any training or capacity-building of the CSOs with regard to the procurement process beyond meeting with them in bidders conferences and sometimes individually. Further, the pilot projects did not involve much training for the city authorities. No substantive training or capacity building was required as the CSOs were already licensed to provide similar services.

B. Contracting Pilot Project in Perm 2002

Between the two competitions in Perm, attention was paid to the following:

- Improving the guidelines for holding the competition;
- Developing a model contract that built on the principles in the competition documents;

- Developing of reporting forms, with more discretion to be given to contractors with regard to the use of funds (an outcomes based approach rather than strict adherence to budget categories);
- Training and capacity-building for CSOs in service delivery and for local government in monitoring service delivery.

While the competition itself was based on a concrete and clear technical assignment for the deliver of social services, there were significant problems with the outcomes. These can be placed in two general categories and both have to do with failures of the local government.

- The first is the failure to adequately assess needs in advance of the competition. Although the services to be delivered were adequately specified (group training courses for children/teenagers with cerebral palsy and one training course for parents of such children/teenagers), many parents and children did not want them. They felt that they had already coped with much of what was being offered. This meant that the contractors were required to select beneficiaries after the contract had been signed.
- Linked to the first problem is that fact that in not assessing needs itself, the local government forced the contractors to do the leg work after the contracts were signed which greatly increased their costs (in some cases by as much as 50%). The effect of the costs of actually finding appropriate beneficiaries shifted risk to the contractors.

A strong conclusion from the second competition is that local governments doing the contracting must themselves learn more about how to conduct competitions – the skill set of designing them is not one that “goes with the job” of being a city administrator. Thus, although the project described in this study was one that had technical assistance from the USAID funding and experts hired for the project, there were persistent problems in the way the competitions were managed, on the part of the contracted CSOs, but also on the part of government officials not understanding their appropriate roles.

C. General conclusions from the study

The study reached some conclusions that have implications for other countries beginning an outsourcing program for social services. These include the following.

Local governments are not convinced that the “new public management” ideas are worthwhile. New Public Management as a philosophy of governing essentially requires outsourcing. The local officials may be suspicious of CSO personnel and believe they lack requisite skills to perform social services (as opposed to the better trained civil servants). They may also be uninterested in outsourcing because there will be some job losses in city government. It could therefore be clearly said that local governments themselves may not be ready to outsource social services, and they may lack the skill sets to set up successful programs, dooming the ones they do set up to failure.

Local governments think CSOs are not ready for outsourcing by using tenders. Many local governments think CSOs are too small and inexperienced to provide specified services according to a contract. They thus prefer to make grants to CSOs. While it is true that many CSOs do not have the organizational skills, the management capacity, or the staff training to undertake projects, this should not deter local governments from contracting with CSOs that do have the requisite skills and capacity. In addition, training CSOs should be a priority for local governments as they seek to down-size and better respond to local needs.

CSOs may not be interested in contracting. It may seem that CSOs would like to receive more funds no matter how they can get them, but some are clearly deterred by the extra work that contracts require in terms of management and oversight. They would therefore be happy to receive grants, if they are available. CSOs may also feel that contracts move them away from their core missions and/or the beneficiaries they previously served. There is also a need to move to multi-year funding in order to attract more CSOs into contracting, but the Budget Code of Russia did not permit this at the time of the study.

Legal systems are weak. CSOs may well be concerned about being in an inferior legal position to the local government authorities in contract disputes. The authorities are notoriously late in paying bills, which places a huge strain on the CSOs.

G .Australia

This Country Study looks at tensions between the CSO sector and the government during the development of a producer side contracting regime, and the need for shifting to a more collaborative approach to social service outsourcing. The new, more liberal government has moved toward the creation of a national level Compact, which should create a better and friendlier set of relationships between the sectors. The study also discusses at length a monitoring system, which has been put into place in the state of Victoria, designed to ameliorate conflicts in the future with regard to assessment of outcomes of projects.

1. General Background³⁴

History. The Commonwealth of Australia is a relatively young country. In 1770 Capt. James Cook took possession of the continent-sized nation in the name of Great Britain. Six prison colonies were created in the late 18th and 19th centuries; they federated and became the Commonwealth of Australia in 1901. The new country took advantage of its natural resources to rapidly develop agricultural and manufacturing industries and to make a major contribution to the British effort in World Wars I and II. In recent decades, Australia has transformed itself into an internationally competitive, advanced market economy.

Government. Australia is a federal parliamentary democracy. It consists of 6 states and 2 mainland territories, plus other minor territories. The Constitution formally divides responsibilities between the states and the federal government. The constitutional powers given to the federal government were mainly concerned with external or national affairs, such as defense, immigration, currency, and marriage laws. Each state and territory has its own legislature, which deals with such matters as hospitals, education, the police, the judiciary, roads, public transport, and local government. The Queen of England is the titular head of state, represented by the Governor General whom she appoints on the

³⁴ Drawn largely from the CIA World Fact Book. <https://www.cia.gov/library/publications/the-world-factbook/geos/as.html> and the chapter on Australia in *Charity Law & Policy* by K. O'Halloran, M. McGregor-Lowndes, and K. W. Simon, Springer 2008.

recommendation of the Australian Prime Minister. Its legal system is based on English common law. It has a bicameral parliament consisting of the Senate (76 seats) and the House of Representatives (130 members), elected by popular vote every 3 years.

CSO legislation. There is legislation affecting CSOs at the Commonwealth level (the Corporations Act 2001) and at the state and territory level.

2. Government policies and guidelines.³⁵

Australia was stamped at its colonial birth with the imprimatur of English laws and institutional infrastructure. Over the following centuries, as Australia assimilated immigrants from other nations, responded to local and regional pressures, reached accommodation to some extent with the culture of its 300,000 indigenous people, and acquired increasing autonomy from the U.K., this legacy was gradually customized to fit the very different circumstances of an emerging nation. This process that was adjusted considerably to allow for a marked increase in the social, cultural, and legal influence of the U.S. in the years following World War II (e.g., the Associations Incorporation Acts of South Australia and Western Australia appear to virtually replicate New York statutes of the 1800s).

English charity law legislatively derived from the 1601 Statute of Elizabeth (see Country Study on England) and as developed by judicial precedent was transferred wholesale to Australia. Decisions of the higher courts in England still carry at least persuasive influence. Unlike England, Wales, and Canada, Australia moved away from dependence on trusts as the designated legal structure and instead cultivated the corporate model as the preferred vehicle for charitable activity.

In order to receive state funding, not-for-profit organizations must be incorporated as not-for-profit companies under Commonwealth (federal) law, as not-for-profit associations or cooperatives under state law. Each piece of national or state legislation includes transparency and accountability requirements, and those under the Commonwealth Corporations Act 2001 are the most stringent. On the other hand, there are no national

³⁵ Some of this section is drawn from Charity Law & Policy, op cit. supra.

accounting standards for CSOs in the country as there are in many other OECD countries (and in China). This means that financial statements of CSOs are often difficult to compare in any meaningful fashion.

As will be discussed below, the Commonwealth government has until fairly recently been unwilling to engage in the development of a Compact between the state and the social-service-providing CSOs. Due to severe academic and practical criticism of the contracting process as well as the election of a new, more liberal government, that attitude has changed, and the development of a national Compact is underway as this Country Study is being written. In addition, various states have created Compact or Compact-like frameworks for sector-state relationships that aim to create an attitude of partnership as opposed to confrontation between the state and civil society organizations that perform social services.

3. Government responsibilities³⁶

Government authority with regard to social-service-providing CSOs is mixed, both at the national level and the state level. Because Australia never adopted the English regulatory model, centered on the specialist role of a Charity Commission, general regulation of the sector rests by default with the Australian Tax Office (ATO) as the central regulatory authority, thereby ensuring that the ethos of charity law in Australia is driven essentially by revenue garnering concerns. In other respects, the institutional infrastructure is much as it is in England and Wales. The courts and the state attorneys general, the government agencies with responsibilities for determining eligibility for rate relief, exemption from customs duties, and for supervising fundraising activities are all vested with broadly similar powers and duties as in other common law countries. For example, legislation regulating the conduct of fundraising activities is administered by the local Office of Fair Trading.

Government funding is regulated outside these general processes by government departments that purchase social service provision from CSOs, using the model of New

³⁶ The first paragraph of this section is drawn from *Charity Law & Policy*, op. cit. supra.

Public Management.³⁷ At the national level the Department of Families, Housing, Community Services, and Indigenous Affairs (FaHCSIA) accepts applications for government funding to manage a diverse range of programs and services designed to support and improve the lives of Australians.³⁸ To ensure fairness and equity to all applicants, FaHCSIA is required to assess each application received as outlined in the Application Guidelines for each program. FaHCSIA's website states: "[s]ubmitting an application does not guarantee funding." The site publishes specific tenders so that Australian CSOs can become aware of when government funding is available for projects in their area of interest. On the other hand, FaHCSIA reserves its right to source providers outside of a selection process, including by direct selection, restricted selection processes, or by negotiating the expansion of an existing agreement with a current provider.

FaHSCIA imposes accountability requirements with respect to projects it funds. A study by Margot Rawsthorne and Sheila Shaver (for 2002/03)³⁹ regarding accountability requirements for FaHSCIA funding "showed that the increased accountability requirements had a mixed impact on the functioning of [CSOs] contracted [in the survey on which the paper is based.] In most cases it made little difference, which suggested that the data collected through reporting requirements was primarily meeting the needs of the department and of limited relevance to the management of services. Reporting was viewed as an obligation by most contracted organizations rather than a tool with which to genuinely engage in quality improvement. Respondents viewed reporting requirements as improving the functioning of their organizations only in relation to public accountability and documenting their work. The reforms appeared to have had limited success in

³⁷ Rose Melville, writing in 2008 talked about the genesis of this approach in 1983 under the Hawke-Keating government; she suggests that "As changing social conditions and changes to governance arrangements have expanded the community services sector's role over the last two decades, government investment has not kept pace with increasing costs or needs. Consequently, parts of the sector continue to experience critically low levels of funding, which have resulted in reduced investment in infrastructure and personnel."

³⁸ FaHCSIA website, available at <http://www.fahcsia.gov.au/Pages/default.aspx>.

³⁹ This study was commissioned by the Department under its former name the Department of Families and Community Services (FaCS). Margot Rawsthorne and Sheila Shaver, Social Policy Research Centre, University of New South Wales, available at (FaHCSIA website, note 38 supra).

achieving their desired goal of significantly improving operations. It was suggested that greater dialogue and consultation with peak organizations and individual organizations may have been required to achieve these goals.”

The authors suggest further that “[j]ust over one-quarter of respondent organizations said that the reporting requirements had improved their planning and targeting. From a service delivery perspective, it was disappointing that the reporting requirements had limited positive impact on the planning and targeting of services. In theory, the reporting requirements provided information for services to better understand their client groups and identify gaps—allowing them to develop strategies to address service gaps—but this did not occur.”

In response, FaHCSIA intended to introduce a new performance framework for service providers in 2008, which would show that the commissioned research had provided a useful evaluation of past practices; the Department also intended to suggest a process for consulting the community sector during policy development. Instead of immediately proceeding to create a new performance framework, however, the Department began consultations aimed at creating a government-CSO Compact,⁴⁰ which are now taking place. With regard to state governments and their Compacts or Compact-like instruments, see below.

4. Scope of government funding.⁴¹

According to the Johns Hopkins Comparative Nonprofit Sector Project, in 2004 Australian civil society organizations derived 63% of their revenues from the sale of goods and services, 31% from government (grants, contracts, and reimbursements,) and only 6% from philanthropic sources, which places it above the U.K. and the U.S. in

⁴⁰ This reflects the Compacts in various parts of the United Kingdom, and is based on the success of those instruments.

⁴¹ This paragraph is drawn from the Introduction of the book, *Strategic Issues for the Not-for-Profit Sector*, ed. Jo Barraket, UNSW Press, 2008, *Charity Law & Policy*, and ACOSS, *Summary of Findings*, *op cit infra*.

reliance on fee income and below them in reliance on government funding and philanthropy.

In Victoria, the Department of Human Services website says that more than 70 per cent of the department's budget is spent funding organizations to deliver services to individuals and community groups in Victoria. According to the National Council of Social Service (NCOSS)⁴² of New South Wales (NSW), the not-for-profit sector contributes between 5 and 6 percent of the gross state product of NSW.

5. Types of CSOs engaged in service delivery

Charitable corporations, the predominant form of social service providing entity, are registered as companies limited by guarantee. In 2001, corporate law, previously a state responsibility, was ceded to the federal government and there is now uniform federal legislation. Companies limited by guarantee must register with the Australian Securities and Investment Commission, but it has no specific brief in relation to the regulation of charity or government contracting. A subsequent effort to achieve comprehensive reform of charity law was eventually abandoned in 2004. Other organizations that may engage in social services include trusts and unincorporated associations, but, as stated above, they are generally required to be incorporated bodies in order to receive government funding.

6. Types of services provided by CSOs

Not-for-profit organizations provide education for over 30% of school children, over half the private hospital beds, the majority of arts and cultural institutions, and community services such as housing, aged care, counseling, and emergency aid as well as facilitating sports, leisure, and religious interests. Traditional sector areas such as health, aged care, and childcare have been coming under increasing competition from the for-profit sector, a trend that is facilitated by government procurement policies and the lack of access to capital by not-for-profit organizations. Currently, charities and other not-for-profit organizations, particularly those delivering health, education, and community services,

⁴² The National Council of Social Service (NCOSS) has branches in each of the states. The peak body is the Australian Council of Social Service (ACOSS).

are struggling to adapt and respond to the challenges, not only in order to achieve their missions but in many cases simply to survive and be relevant to the new environment.

It is important to note that in Australia both giving and volunteering are significant factors in the CSO community and significant sources of support. According to research conducted in 2004, the following statistics are relevant with regard to social services:⁴³

- Community and welfare services were significant beneficiaries of giving, receiving from all individual donations about one in eight dollars, better than one in four hours of all volunteering and almost a third of all business giving.
- Education CSOs received about the same proportion of overall individual donations and business giving, about one in twenty dollars from these sources. This field received comparatively more by way of volunteering, accounting for one in eight hours volunteered.
- Health CSOs, including medical research organizations, were significant beneficiaries from all sources of giving, receiving about one in six of the total value of donations by individuals, one in ten hours volunteered and almost one in five of the total value of business giving.

The significance of the contribution of volunteer time to the resources of the CSO sector has also been recognized quite recently in Queensland, where the new Compact “upholds the critical role of volunteers in building a stronger, healthier community and a sustainable future.”⁴⁴

7. Incentives provided to encourage CSOs to participate in social service outsourcing⁴⁵

Australian tax laws provide an important incentive for not-for-profit organizations engaging in community service. A charity broadly defined is entitled to tax exemption whereas only a Public Benevolent Institution is additionally eligible for donation deduction. Only about one-third of charities are PBIs.

⁴³ ACOSS, Summary of Findings, 2004.

⁴⁴ Queensland Compact (see Appendix A).

⁴⁵ Drawn largely from Strategic Issues for the Not-for-Profit Sector, op cit., supra.

The other basic incentives are monies provided by the national and state governments. Eight years ago Mark Lyons identified five differing models of Australian community service funding arrangements taking the form of

- a. gifts and grants with conditions (philanthropist, submission, and planning);
- b. market-driven funding arrangements of competitive tender for services; and
- c. quasi-voucher subsidy arrangements.⁴⁶

Although all forms of funding are still used, the bulk of funding has moved towards the market end of the spectrum.

The “funding agreement” is the principal written document governing the funding relationship between governments and community service organizations and is essentially a legally oriented document. In Australia neo-liberal doctrine had elevated markets and private enterprise at the expense of state-provided functions.⁴⁷ The welfare model of state-provided services in fulfillment of citizens’ rights and entitlements was replaced by notions of contracting out services, of a hollowed-out state and the creation of markets or quasi-markets for community services. Drilling down further, this role of government departments is described by Lyons and other commentators as “New Public Management,” which adopts private sector management techniques, with government departments acting as facilitators of public goods rather than as direct providers.

According to Lyons and others, the modern trend is exemplified by competitive tender and quasi-voucher models, which involve procurement contracts for services either by governments or qualifying individuals with vouchers. Concern over the lack of accountability of grants and gifts, a main purpose of shifting to procurement, led to an increase prescriptive command and control conditions and greater reporting requirements for both accounting for funds and performance. Some research, however, shows that this

⁴⁶ M. Lyons, *Third Sector: The contribution of nonprofit and cooperative enterprises in Australia*, Allen & Unwin (2001).

⁴⁷ This view is shared by Melville (2008) and Rawsthorne & Shaver (2007)

shift has produced neither better service delivery nor meaningful accountability (Rawsthorne & Shaver 2007). These procurement contracts have also constrained public advocacy by the affected not-for-profit organizations.

On their side, not-for-profit organizations have been highly critical of the modern methods. They see these developments as being an imposition of reporting against metrics, which they regard as inappropriate, costly, and failing to improve the quality or efficacy of services. Until recently, when the new national government and some state governments began to approach CSOs with more respect, there was a notable decline in trust between the governments and community service organizations. The complex legal arrangements involved in outsourcing to not-for-profit organizations have shifted legal and financial risk to community service organizations even though often they cannot control the risks or shoulder these burdens.

Some prominent critics feel that horizontal relationships such as the joint venture need to replace inappropriate market or hierarchy choices for the production of community service public goods. Governments need to recognize that procurement-style accountabilities grounded in a classical contractual framework prevent government funders from applying more innovative and appropriate legal structuring to the required tasks. At the same time, using joint venture structures has implications for small not-for-profit organizations, which lack capacity to sustain complex and resource intensive joint venture management and governance relationships (McGregor-Lowndes, 2008).

8. Identification of CSOs and verification of capacity to provide services

Government grants generally require a not-for-profit organization to make a submission to the relevant government department and to demonstrate capacity to provide the services for which the grant is sought. Under the more prevalent procurement model, the government generally promulgates a request for bids, which sets out the purposes of the request for bids and the criteria. Each bidding organization must make a submission stating what it can do and demonstrating its competence.

9. Monitoring and evaluation by government; reporting requirements

The service standards and accreditation requirements that aim to maintain the quality, appropriateness, and cost efficiency of the social services provided by CSO providers include financial viability and other reporting requirements in national level contracts and in contracts entered into in all the states and territories. In NSW, for example, the reporting mechanisms are not standardized across grants. Thus, service providers receiving more than one grant must account separately for each one. According to NSW NCOSS, in NSW there is no set of generic standards, as there is in Victoria (discussed in this section), and this adds considerably to the burden on the organizations. For example, NW NCOSS estimated that CSO service providers spend as much as 50 to 60 percent of their time on meeting accountability requirements instead of providing services.

According to Melville's 2008 paper,"[s]ince the late 1990s, all state and territory governments have been involved in drawing up formal partnerships with the community services sector. Casey and Dalton (2006: 32) provide a good overview of these on a state-by-state basis. However, there is very little documentation of the particular factors driving these developments at a state level and there are few documented narratives of the development of the community services sector in individual Australian states. The development of government-community services sector partnership agreements is in its infancy in Australia, so there is little evaluative data available." Because there is, as yet, insufficient information from all the states and territories, it is easy enough to conclude that the situation in Victoria and described here represents a good practice that should be emulated. There is also some good information to be drawn from the Queensland Compact, which, though still in its infancy, shows the potential for such agreements between the CSO Sector and government.

Victoria Department of Human Services Monitoring Framework. An example of a monitoring and evaluation program that has the necessary processes to provide excellent outcomes for the outsourcing of social services can be found in Victoria; it was developed by the government's Department of Human Services (DHS). According to the

DHS website, the PAEC “Report on the Department of Human Services - Service agreements for community, health and welfare services” (April 2002) highlighted the need for the department to apply a more systemic approach to the review and monitoring of organizations funded through service agreements. Additionally, the Victorian Auditor-General’s Office had recommended the department strengthen the monitoring of compliance with service agreements with a more formally reported service review process using risk-based programs.

The introduction of the Monitoring Framework in 2005 was deemed to be consistent with the department’s duty of care responsibilities for clients who are vulnerable and at risk. Monitoring is a critical part of the department’s quality assurance approach designed to ensure that clients receive proper care and a service that meets appropriate standards and is in accord with community expectations.

The Monitoring Framework provides the department and organizations with greater clarity and direction in monitoring activities. It introduces a formal statewide framework and a more transparent and consistent approach by regional and divisional staff to service agreement accountability and monitoring processes.

An important aim of the Monitoring Framework is to develop an approach to monitoring organizations that is consistent with the aims of the Partnership Agreement between the Department of Human Services and the health, housing and community service sectors.

Its purposes are to

- formalize basic monitoring requirements;
- improve monitoring consistency and communication across the department’s regions and divisions;
- use risk management principles for early detection of potential problems ; and
- allow the department to work jointly with organizations to improve performance where necessary.

It works in the following manner:

The department assigns to each organization a Monitoring Coordinator, usually the Program and Service Adviser (PASA); this person takes a “whole-of-organization view” when conducting an annual Desktop Review. For organizations funded by multiple regions, this will be a cross-regional view. It is anticipated that the Monitoring Framework will reduce duplication of monitoring, particularly for organizations that provide more than one departmentally funded program or are funded by multiple regions.

The components of the Monitoring Framework are as follows:

- ongoing Core Monitoring;
- an annual Desktop Review; and
- a possible Service Review (and possible Action Plan).

These components can be broken down into their parts.

For example, Core Monitoring relates to:

- an organization’s legal status;
- financial accountability requirements;
- the register of its assets;
- service performance reporting and delivery;
- fire risk management;
- incident reporting and management;
- pre-employment/pre-placement safety screening (police checks); and
- complaints management.

The Desktop Review comprises a short series of questions designed to consider key areas of risk. Only a few questions relate to performance. The review is conducted by the department, and the organization is not involved with it. Key risk factors include:

1. Highly vulnerable or statutory client groups;
2. Departmental funding exceeding \$5 million;
3. Service complexity;
4. Management and frequency of complaints and incidents;
5. Service performance and reporting; and

6. Financial sustainability and reporting.

For the majority of organizations, the Desktop Review result will indicate that the current working relationship and monitoring practices in place are adequate. Core Monitoring will continue for these organizations. For a small number of organizations, the Desktop Review result will indicate that a closer working relationship and better internal monitoring practices are desirable. The department will contact the organization to arrange a discussion for a Service Review and the development of a possible Action Plan.

Service Review

The Service Review will only be conducted with organizations where the Desktop Review has identified a high level of risk or issues of concern. The Service Review, in the context of the Monitoring Framework, provides an opportunity for the department and the organization to meet jointly to raise issues and concerns and develop solutions to these items.

The Service Review will:

- be undertaken within the principles of partnership
- be an opportunity to work together in a solution-focused manner
- work towards improving services for clients.

The Service Review will not be adversarial or punitive. In conducting a Service Review, a draft agenda will be sent to the organization outlining the issues to be discussed during the meeting. These issues will relate to any of the following performance areas:

- service delivery
- organizational management
- financial management(only raised when financial issues are identified in the Desktop Review).

As part of the Service Review, the department will seek information from the organization about the performance area(s) listed on the agenda. The organization also has the opportunity to raise items for discussion. It is expected that the Service Review will provide better results for the organizations and the people they serve.

Organizations are expected to benefit from the entire Monitoring Framework by:

- a reduction in duplication of the monitoring effort;
- being monitored as a total entity rather than as a sum of individual parts--the Monitoring Coordinator will ensure that there is a coordinated approach for the monitoring of each organization;
- not having increased reporting requirements;
- having skilled departmental staff to undertake the Service Review in a collaborative manner;
- having the opportunity for solution-focused, issues-based discussion at the Service Review meeting;
- having jointly developed and agreed Action Plans, where appropriate; and
- having a written record of the discussions between the organization and the department.

10. Training or capacity building for CSOs

The Australian governments do not have comprehensive or systematic programs for training or capacity building for CSOs. Some not-for-profit organizations and especially umbrella or apex organizations do much by way of training and advice to increase effectiveness and raise standards of practice. Some of these are nation-wide charities which have developed a role representing the interests of charities to government as well as promoting proper models of governance and appropriate legal structures for charities while encouraging their use of modern methods of management and administration.

11. Successes and failures

The Failure of Charity Law Reform. Australia has followed the traditional English view of charity law, according to which the purposes of an organization must be devoted to the relief of poverty, advancement of religion, education, or other community benefit recognized by the law as charitable. Despite the apparent flexibility of the fourth “head” of charity, it has not been liberally interpreted, with the result that many needs of modern, evolving societies are not regarded as falling under any of the four heads. To deal with

this situation, the Prime Minister set up a formal Inquiry into the Definition of Charities and Related Organizations in September 2000. The submission of the report on the inquiry in 2001 led to protracted wrangling, which finally culminated in May 2004 to announce that “the common law meaning of a charity will continue to apply, but the definition will be amended to include certain child care and self-help groups and closed or contemplative religious order. The Government has decided not to proceed with the draft Charities Bill. The collapse of the charity review process was a serious setback for the prospects of updating the law so as to better address contemporary social policy issues in Australia, including the circumstances of the indigenous people, the plight of asylum seekers, and the multi-cultural or racial tensions.

Absence of a Central Regulatory Body. The absence of a central register, which does more than merely record an entity’s existence and name, with related registration requirements has meant that there is no onus on Australian charities to regularly make a full and publicly accessible disclosure as to their finances and activities. Similarly the lack of such information greatly weakens the role of the ATO, compared with the Charity Commission in England and Wales, in relation to supervising and inspecting the charitable sector. The lack of a central regulatory body with the capacity to collate all relevant financial data in ways that promote accountability and transparency is increasingly seen as a significant deficiency.

A hopeful sign – the Queensland Compact. The Compact for Queensland was launched in late 2008 after a lengthy consultation process and some bumps in the road. It calls for the creation of a Compact Governance Committee, which will be comprised of a total of 10 senior representatives from the parties to the Compact, including 5 government representatives and 5 sector representatives, plus an independent Chair. Members of the Committee are to be appointed by the relevant sector or government agency that they represent.

Various aspects of the agreed Compact are relevant to the desire to achieve better service delivery while at the same time enhancing quality of service and accountability. The four goals of the Queensland Compact are to:

1. Build strong working relationships.
2. Improve engagement in planning and policy
3. Improve the sector's capacity and sustainability
4. Continue to improve service quality and innovation

Achieving many of the stated goals will require the government to reduce duplicative bureaucratic requirements, to actively consult the CSO sector about planning and outcomes, and engage with the sector with more respect.

In order to achieve Goal 2, for example, *The Queensland Government agrees to:*

- Adopt genuine consultative approaches that seek input into policy development and planning early enough to make a difference;
- Improve the evidence base used for planning, policy development and funding decisions; and
- Improve alignment of data collection requirements within and across departments.

As another example, in order to achieve Goal 3, *The Queensland Government agrees to:*

Actively reduce administrative duplication, compliance costs and unnecessarily prescriptive funding agreements and to recognise that organizations may have multiple funding streams.

The extent to which these lofty goals will be implemented in fact remains to be seen. But the existence of the Compact suggests that there will be efforts to streamline bureaucracy, create a more interactive process of policy development and implementation, reduce risk-shifting by providing for longer funding cycles, etc.

H. Hong Kong SAR

While this Country Study is based on English language information available, the Social Welfare Department provides on its website, www.swd.gov.hk/en/index/, significantly more information in Chinese. Thus we suggest that the readers of this report consult the Chinese language materials on outsourcing. They clearly reflect a close partnership between CSOS and the government of Hong Kong SAR.

1. Government policies and guidelines

In Hong Kong there are two different types of subventions for CSOs – Lump Sum Grants and other types of subventions. The first of these, the Lump Sum Grant Subvention System is to enhance efficiency and effectiveness, improve quality, encourage innovation, strengthen accountability and provide flexibility, with a view to deploying resources in the most cost-effective manner to meet changing needs in the community. The Lump Sum Grant (LSG) arrangements were introduced in 2000-01 for voluntary adoption by non-governmental organizations (NGOs). Under LSG, NGO management has autonomy and flexibility in the deployment of subvention resources to meet the service needs. As at 1 April 2008, 162 out of 173 NGOs have joined LSG system and the subvention for these NGOs represents 99% of the total recurrent subvention.

Those NGOs that have not decided to join LSG system will continue to receive subvention for the various units given government support under the four conventional modes of subvention as follows:

- **Modified Standard Cost System:** The Standard cost is based on Personal Emoluments calculated at mid-point salaries of the recognized posts. Within this limit of provision, NGOs are allowed the flexibility in employment of staff.
- **Model System:** Subvention is provided on the basis of the recognized cost of the unit which is adjusted for inflation annually.

- **Lump Sum Grant Mode:** Units are subvented on a lump sum basis. Under this system, there is no clawing back of surplus.
- **Subsidy Scheme:** For purchasing social welfare services from organizations, a fixed unit cost has been agreed in the form of a contract signed between the Department and the NGO administrator. There is neither topping up of deficit nor clawing back of surplus.

In addition, the following types of government support are available:

Partnership Fund for the Disadvantaged

The Partnership Fund for the Disadvantaged (PFD) was set up in 2005, to provide various kinds of welfare services to disadvantaged persons through tripartite relationship among the Government, business and welfare sectors. The Government will provide matching grants to donations made by business organizations to support non-governmental organizations (NGOs) promoting social welfare projects. In order to encourage non-governmental organizations (NGOs) to provide service to vulnerable individuals or families being affected by the current economic downturn, a maximum grant of three million for each project will be considered for proposals on employment assistance, counseling and/or professional support (e.g. financial management) for these vulnerable groups. For other projects serving the disadvantaged groups, the maximum would maintain at two million.

The Rent/Rates/Government Rent Subsidy

This program is available to NGOs providing non-subvented welfare services. It is operated in cooperation with the HK Housing Authority and Housing Department. The Housing Department (HD) regularly provides the Social Welfare Department (SWD) with an updated list of vacant non-domestic premises in public housing estates which may be available for welfare lettings to non-government organizations (NGOs).

2. Government responsibilities

The **Service Performance Monitoring System (SPMS)** was introduced, with the aim that the Department of Social Services and NGOs operating subvented services can provide more efficient, customer-focused, accountable and output-driven welfare services. Under SPMS, service performance is to be assessed on the basis of the Funding and Service Agreements (FSAs) and a generic set of Service Quality Standards (SQSs) drawn up between the Department and NGOs operating subvented services. To encourage service operators to take greater accountability for the performance of their service units and to reach cost-effectiveness in service performance monitoring through one-stop management, the Department improved some assessment methods from April 2003.

Funding and Service Agreement (FSA)

Funding and Service Agreements (FSAs) and Service Documents (SDs) are binding documents between SWD as a funder and the service operators. Both parties are required to observe the terms of respective agreements for different services as laid down in the documents.

These documents define the obligations of SWD to service operators, the role of SWD in overseeing the performance of the service operators, the kind of services to be provided, the performance standards, and the basis of subvention.

The following **monitoring instruments** are used:

Essential Service Requirements (ESRs) specify some basic features of the infrastructure for the service provision according to the type of service provided. They may include staff qualification, availability of appropriate equipment, compliance with particular service manuals, opening hours, etc.

Service Quality Standards (SQSs) define the level of which, in terms of management and service provision, service units are expected to attain. The SQSs are developed according to four principles which set out the core values of welfare services. These four principles are:

- to clearly define the purposes and objectives of the service and make its mode of delivery transparent to the public;
- to manage resources effectively with flexibility, innovation and continuous quality improvement;
- to identify and respond to specific service users' needs; and
- to respect the rights of service users.

There are 16 SQSs, each of which is elaborated by a set of Criteria and Assessment Indicators. They are generic descriptions of the basic requirements so as to enable service operators to have appropriate methods tailor-made for a certain service type or a particular service unit in meeting the SQS requirements.

The measurement tools include both performance tools and design tools. For some service types, a set of Output Standards with agreed levels of achievement is specified in the respective Funding and Service Agreement / Service Document.

Output Standards are quantitative measures of the key activities related to the provision of a particular service. They are set according to the type of service provided. Examples of outputs include enrollment rates, number of registered members, achievement rate of individual care plans, average attendance per organized group, number of organized activities, etc.

For some service types, a set of Outcome Standards with agreed levels of achievement is specified in the respective Funding and Service Agreement/ Service Document.

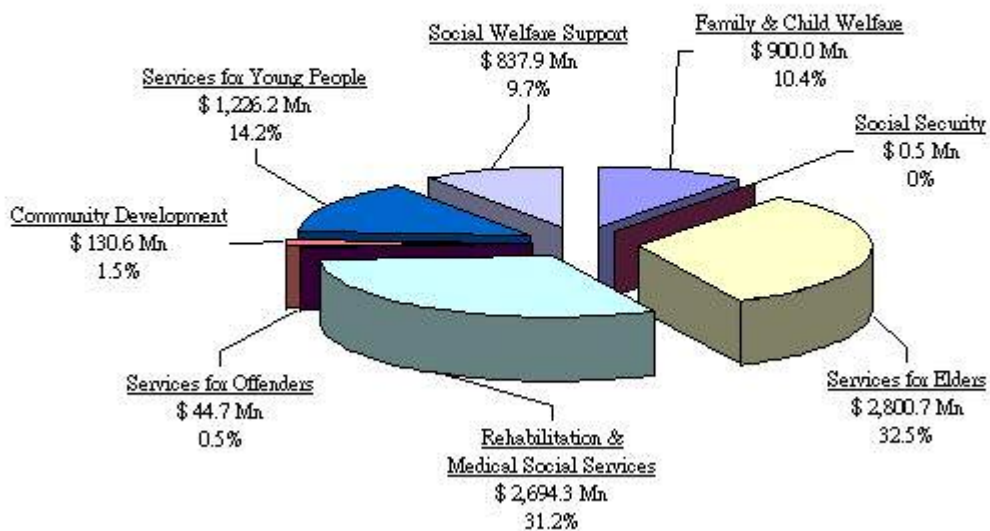
Outcome Standards measure the effectiveness of the service. They are set according to the type of service provided and the data are collected through systematic use of specific measurement tools such as questionnaires or comparison between pre-test and post-test

performance. Outcome Standards may refer to the positive change of service users after receiving the services provided by the unit, e.g. improvement in support network, enhanced capability in managing family problem, lower stress level after attending programs, etc.

Commentators on the new evaluation techniques are concerned about “value for money” driving the process and a shift from partnership relationships to the contracting culture.⁴⁸ However, Chan also points out that customer accountability is on the rise in Hong Kong. In the same volume, Yuen Chi Chuen discusses the relevance of important aspects of social work supervision to developing good approaches to the provision of social services that are outsourced by government agencies.⁴⁹

3. Amount of money made available to CSOs

Subventions for Recurrent Expenditure by Programme 2009-10 (Provisional Amount)



⁴⁸ See Chan Kam Tong, “Prominent Issues Affecting Non-Governmental Organizations in Hong Kong and Its [sic] Implications for Social Work Education,” in *Social Services Administration in Hong Kong: Theoretical Issues and Case Studies* (Chan Kam Tong & Diana Mak eds, World Scientific, 2003).

⁴⁹ See Yuen Chi Chuen, “The Dynamic Relationship among Different Forms of Supervision,” in *Social Services Administration in Hong Kong*, supra.

4. Types of CSOs engaged in service delivery

In Hong Kong the social service providers are not-for-profit companies and charitable trusts, reflecting the colonial heritage of the region.

5. Types of services provided (see pie chart in 3)

I. Republic of Korea (ROK)

This Country Study looks at a grant program that has been put into place by the ROK government to support projects by CSOs. It also addresses mechanisms permitting better and more collaborative sector-government relationships, through a committee in the Office of the Prime Minister. Critics of the grant program suggest that the monitoring process is too bureaucratic for smaller CSOs.

1. Government policies and guidelines

Finding English language sources for actual examples of government outsourcing of social services to CSOs in ROK was difficult. Nevertheless, ROK has one special program for government funding for CSOs that should be of interest to China. This Country Study will delve a bit into general issues with regard to outsourcing in ROK, but will emphasize in particular the Not-for-profit Private Organization Support Act of 2000 (NPOSA), the funds provided pursuant to it, and the processes used to provide them.

Prior to the adoption of NPOSA the relationship between CSOs and government was at times quite antagonistic, in large part because the advocacy CSOs played a significant role in opposition to the elected government. The Prime Minister's Office characterized the CSOs in ROK as being on the one hand "dependent" and on the other "confronting" (Report of Office of the Prime Minister, 2005).⁵⁰ The dependent CSOs would be those closely linked to ministries, while the confronting ones would be those engaged in advocacy. More recently, however, CSOs of all types, including grass roots CSOs, have been contributing greatly to the development of civil society in the country (Suk, 2002). With the presidency of Kim Dae Jung, the government began to provide grants to CSOs, which had been provided previously only to pro-governmental organizations. US \$15

⁵⁰ Dr. Irish and Prof. Simon visited with the Secretary of Civil Affairs in the Office of the Prime Minister in January 2005, when they led a delegation of Vietnamese government officials on a Study Tour to South Korea and Japan. Some of the information in the Country Study comes from the presentations made during that visit.

million were annually distributed to the CSOs that applied for the grants, and the scale and the performance of their activities were used as a criterion in determining the size of the grants (Lee, 2005).

It is also important to note that the dependent CSOs were closely linked to the government and to service provision in partnership with the government under special legislation that exists in ROK (and is like that in Japan). Although the Civil Code has long provided for both general associations and foundations “engaged in scholarly work, religion, charity, social interaction” or other not-for-profit activities, there are also special laws relating to medical organizations (the Medical Act), private schools (the Private School Act), and social welfare organizations (the Social Welfare Act). Organizations incorporated under any one of these acts are very strictly regulated by the government ministry that permits their incorporation. For example, under the Social Welfare Act, government regulates CSOs established to provide social welfare services, including those with facilities for the elderly, orphans, the poor, victims of sexual crimes, those with disabilities, etc. The government retains the right to cancel any subsidies or contracts and even operating permits if no other remedy can enforce government guidelines and orders (Kim, 2005). The CSOs that are chartered under these pieces of legislation are ones that have generally engaged with the government through government tenders for specific contracts.

Furthermore, another piece of legislation provides for strict government controls of organizations that obtain the status granted by the Act Concerning Incorporation and Operation of Public Interest Organizations (PIO Act, 1975). Under this act, most service-providing organizations are required to register with the ministries operational in the field or fields in which they work. The PIO Act confers discretionary control by the regulatory authorities with regard to the operations of the registered CSOs (Kim, 2005). In addition, each ministry has established its own internal rules concerning “the Incorporation and Monitoring of Nonprofit Corporations,” which do not have the same status as laws but nonetheless are often strictly enforced to ensure that the activities of CSOs are carefully monitored (Jung et al., 1999; Kim, 2005). Although it is not specifically stated in the Korean sources, it is clear that the monitoring and supervision guidelines of the PIO Act

would cover instances in which a ministry or its local branch outsourced service provision to a CSO.

Under NPOSA the situation is a little different. Preceding the adoption of the legislation, the Office of Civic Cooperation was set up in the Ministry of Government Administration and Government Affairs (MOGAHA).⁵¹ At that time MOGAHA began to reach out to CSOs and to encourage those that were not already affiliated with specific ministries to seek government support. Because the total number of CSOs in ROK is growing (the Prime Minister's Office estimates their current numbers at 25,000), the need for a more effective and less dependence creating form of interaction was seen as a means to encourage civil society to develop in the ROK.

2. Government responsibilities toward the sector in the case of NPOSA

Prior to the adoption of the NPOSA, the Korean government perceived the importance of deriving a desirable model of cooperation between the government and CSOs, and it therefore did research into what instances had led to good, cooperative relationships in other countries. As a result of its decision to widen cooperation, the Office of the Prime Minister began informal negotiations, which eventually resulted in the establishment of a Committee on the Development of Civil Society Relations in that Office. This Committee has the following Objectives and Scope of Research; it is also implementing certain changes in the granting process due to the consultations it undertook with the CSO sector.⁵²

⁵¹ Dr. Irish and Prof. Simon visited this office in January 2004, when they led a delegation of Vietnamese government officials on a Study Tour to South Korea and Japan. Some of the information comes from the presentations made during that visit. Unfortunately the Ministry's name has now been changed and English language information on subsequent developments is not available of the website of the Ministry of Public Administration and Security. Additional information was supplied by the Office of the Prime Minister, which includes a Secretary of Civil Affairs.

⁵² These items are drawn from the Office of the Prime Minister's Report, 2005.

Objectives

Act as an advisory committee to the Prime Minister to create a foundation for development of Korea's civil society in the 21st century, and to comprehensively research & improve issues relevant to activating civil society organizations.

Committee Members: 22 members, 1 technical expert; 12 members are from CSOs, 7 from academia and relevant fields, and 3 from the government.

Scope of Research

- a. Issues related to establishment of a desirable relationship between the government and civil society.
- b. Issues related to amendment of laws and system pertinent to activities of civic organizations.
- c. Issues necessary to activate civic organizations.
- d. Other issues deemed necessary by the Chairman of the Committee.

Implementation of the First List of Recommendations by Ministries

As a result of the Committee' Consultations, the following recommendations are being implemented:

- a. Acknowledgement of personnel expenses in government-supported projects
*Beginning in 2004, personnel working expenses acknowledged within certain percentage (2-5%) of total project support amount.
- b. Acknowledgement of multi-year projects
*Beginning in 2004, pilot multi-year projects were selected and conducted in a separate competitive process-and will be implemented in a larger scale after review of the year's results.

c. Allowing use of public buildings by CSO sector

*Recommended national and local governments to publicize the availability and procedures for use of public buildings and facilities by CSOs.

d. Exchange programs for government employees and CSO activists

*NGO educational institutions have been included in the list of institutions for government employee, and enrollment of civic organization activists now allowed in government educational institution (National Institute of Professional Administration, Korea Institute for Defense Analyses).

e. Support for IT for small organizations

*Budget for informatization project of public interest—private organizations was allocated for fiscal year 2005, to be included in government-supported IT projects of the Ministry of Government and Administration & Home Affairs.

f. Further reduction in postage rates and simplification of procedures

*Research project to improve postage reduction system is underway, and the improved procedures will be publicized in postal offices.

e. Percentage of government support in CSO total revenue

Statistics from the John Hopkins Project reveal that for the years studied, the CSO sector received 71% of its revenues from fees, 21% from government, and 4% from private philanthropy. This is one factor behind the adoption of NPOSA. Following the determination in 1999 to increase government support, the following chart from MOGAHA illustrates what happened:

1999 ~ 2004 Subsidies Provided to Private Organizations

(Unit: Number of Projects/Hundred Million Won)

	1999		2000		2001		2002		2003		2004	
	No. of Project	Amount	No. of Project	Amount	No. of Project	Amount	No. of Project	Amount	No. of Project	Amount	No. of Project	Amount
Total	1,838	150	1,612	150	1,790	150	1,890	150	1,806	150	1,440	100
Min. of Gov. Admin. & Home Affairs	140	75	195	75	216	75	237	75	237	75	154	50
Local Government	1,698	75	1,417	75	1,574	75	1,653	75	1,569	75	1,286	50

* Average amount per project in 2004: 31 million Won (Min. of Government Administration & Home Affairs), 3.9 million Won (Local Government)

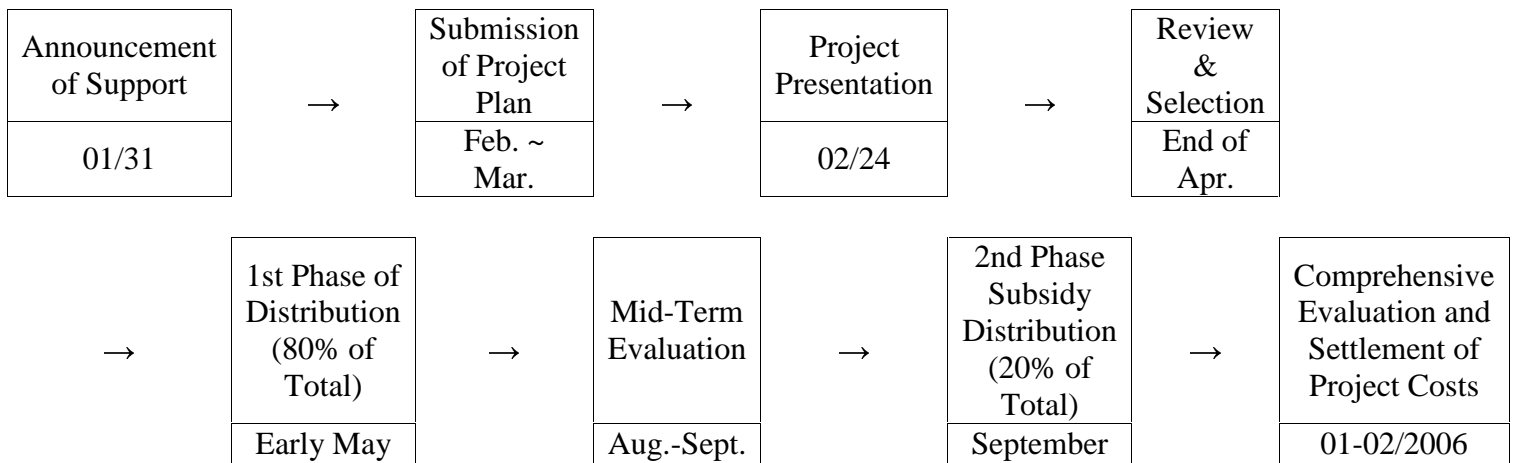
3. Types of CSOs engaged in service delivery and financed by NPOSA

In general the CSOs that provide social services financed by the government in ROK are incorporated associations or foundations. The rise of the idea of social enterprises in ROK has also emerged, and there is legislation from 2007 permitting the registration of such organizations (Park, 2008).

4. Types of services provided by CSOs under NPOSA (MOGAHA report, 2005)
 - a. Social Integration: promotion of a sense of community, reduction of regional conflicts, assistance to Koreans in need, peace movement, cooperative activity between North and South Korea, etc.
 - b. Building a Cultural, Civil Society: courtesy, order, and hygiene-related movement, improvement of public toilets, lifestyle reform, development of cultural consciousness, etc.
 - c. Volunteer Activities: exhibition of volunteer activities, program development, management of volunteers, establishment of private social safety net, etc.
 - d. Public Safety: disaster prevention activity, safety culture, education/training/public relations, disaster rescue, etc.

- e. Promotion of Human Rights, Protection of Weak Classes: promotion of human rights, protection of women, children, youth, senior citizens, disabled, foreign workers, etc.
 - f. Saving Resources Conserving Environment: reduction of food wastes, recycling of hidden resources, nature conservation campaign, etc.
 - g. Building foundation of NGO's Expansion of Citizen Participation: educations of democracy for citizens, public-private partnership, participation of citizens in local community, networking, etc.
 - h. Promotion of International Exchange and cooperation: international exchange and cooperation activities, volunteer, medical and relief activities abroad.
5. Identification of CSOs and verification of capacity to provide services under NPOSA (MOGAHA report, 2005)

2005 Work Flow for Project Support of Private Organizations



Announcement of Support (provision 4 Article 7, Enforcement Decree Article 9)

Method of Announcement: 2 major daily newspapers, NGO Times, The Official Gazette, website of the Ministry of Government and Home Affairs, etc.

Contents of Announcement: eligible organization, project category, required documents and submission period, review and selection, manner of subsidy distribution, project evaluation and settlement of costs.

Submission of Project Plan

Submission Period: Feb. 1 ~ Mar. 31 (2 months)

Required Documents: project application form, introduction of organization, project proposal

Review & Selection (Provision 2 of Article 7, Enforcement Decree Article 8)

Determine selected project and subsidy amount fairly and transparently in the Committee to Select Public Interest Project, according to the Review Chart for Selection of Project.

Points of Considerations for Project Selection

- Uniqueness, economic feasibility, extensiveness of impact, whether the project effectively address a social problem, satisfaction of citizens
- Reasonableness of applied budget, ratio of amount borne by organization, evaluation of project from previous year
- Organization's expertise, sense of responsibility, development capability and records of recent activities for public interest, etc.

*Weight given to each criterion to be determined by the Committee to Select Public Interest Project

Check with other ministries whether duplicate support has been provided (Other ministries in national government including the Government Information Agency, as well as local governments)

- If project scope is identical, (extensively similar) revoke selection (excluded in the selection process) or withdraw subsidy.

Announce the review and selection results on the press and MOGAHA website.

6. Monitoring and evaluation by government; reporting requirements under NPOSA (MOGAHA report, 2005)

Distribution of Subsidy

In principle, distribute subsidy in 2 phases

Final June 2009

- 80% following review and selection (May), 20% after mid-term evaluation (Aug. ~ Sept.)

For short-term project, distribute 100% following the review and selection process.

Mid-Term Evaluation (Evaluation of Progress)

Evaluation Period: August ~ September (When project progress is around 30~40%)

Evaluation Items: Achievement of project goals, appropriateness of project management and accounting method, examination of difficulties and problems in project implementation, etc.

Evaluation Method: Evaluation of Documents (Step 1), Interview (Step 2), On-site Inspection (Step 3), etc.

Evaluation Result: Determination whether 2nd Phase Subsidy will be distributed.

Comprehensive Evaluation (Final Evaluation)

Evaluation Period: January—February, 2006

Evaluation Items: achievement of project goals, public benefits from the project, appropriateness of accounting method, etc. Upon completion of the project a project report must be submitted in January

Evaluation Method: Evaluation of Project Report (Step 1), Interview and Workshop (Step 2), Exhibition of Achievements (Step 3)

Settlement of Project Costs

Settlement Period: January—February, 2006

Settlement Items: Determination of remaining amount, focusing on inspection of accounting regarding the use of subsidies – whether any conditions for subsidy distribution have been violated

Settlement Results: Collection of inappropriately spent amount

Possible penalties – if a false project report is submitted, the person who submits it may be subject to imprisonment for not more than 3 years and a fine of not more than 10 million Won. Improper use of grant funds is punishable by imprisonment of not more than one year and a fine of up to 5 million Won

g. Training or capacity building for CSOs

Korean commentators state that small grass roots CSOs are under-resourced and unskilled and suggest that the government should do more about capacity-building for such entities (Suk, 2002). Suk recommends the development of a government fund that would assist such CSOs, and that would also have a monitoring function over their performance. If such a fund were established, the more independent CSOs would be able to provide better public services, with less government dependence.

7. Successes and failures

Suk's 2002 article addresses the need for two things – an increase in government funding for the sector and a reduction in paper-work, especially for the smaller grass roots CSOs. He states that “the government must simplify the application process and reinforce accounting transparency.”

J. United States

This Country Study emphasizes the multitude of instruments for outsourcing that can be used in a large and diverse country such as the United States or China. It discusses specifically problems related to different kinds of contractual regimes, a trend towards grants, and the increased use of vouchers for the purchase of health and education services. Another special feature of the system for outsourcing in the U.S. is the tax credit for low income taxpayers who use child care services. This is an indirect consumer-side instrument that allows freedom of choice while at the same time subsidizing the centers.

1 General Overview

Distilling the experience with regard to outsourcing of social services to CSOs of a country as vast and complicated as the United States (U.S.) is difficult. Yet it may be possible to learn things from American experience for the development of the processes in China, which is also a large and complex country. One of the most difficult issues for purposes of distilling American experience into a rational Country Study is that outsourcing is done at all levels of government (federal, state, and local), and it takes many different forms. These include, for example, expense reimbursements for amounts paid to not-for-profit (and for-profit) providers of medical services through the national programs of Medicare (the elderly) and Medicaid (lower income families). The national programs provide support to states that may then be supplemented by state funds. Other outsourcing instruments also include specific performance-based contracts awarded to CSO contractors at the local and national levels, as well as many different forms of grants, vouchers, etc., coming from all levels of government. It is impossible and to some extent irrelevant to cover all the different forms of outsourcing in this short Country Study.

On the other hand, the experience in the U.S. suggests something that is very different from the experience in England, where the general policies with regard to outsourcing are set at the national level. This Country Report about the U.S. is therefore much more fully

based on a diversity of “experiments” with what works and what does not, rather than on an explicitly worked out framework for dialogue and cooperation between government and the sector.

Historically this is very much a product not only of the Anglo-American legal tradition (as described in the Country Study on England) but also of the peculiar nature of the ways in which the nascent CSOs sector interacted with the nascent state as the U.S. evolved from a set of thirteen colonies of the British Crown. Many of the newly independent country’s most prominent cultural and educational institutions were CSOs (e.g., Harvard University; the free library in Philadelphia), funded at first entirely through private subscription and later through a combination of sources (Hammack, 1998). Later, when Alexis de Toqueville visited the U.S. in the early 19th Century, he made noteworthy remarks about the importance of the CSO sector for American democracy (de Toqueville, 1835). It therefore seems impossible to overstate the importance of the CSO sector for the development of the U.S. and for the reliance of the government on CSOs to perform certain types of services.

Unfortunately, this also means that there has been a huge amount written about the U.S. CSO sector, much of it about outsourcing. Many papers and book chapters have been written on the subject.⁵³ This presents an additional difficulty for the Country Study – just how are we to take massive amounts of information and make them accessible in a small and easy to read format? Clearly this has required us to look only briefly at certain forms of outsourcing and to concentrate on matters that seem relevant to China. Other forms of outsourcing, such as the child care tax credit made available to lower income taxpayers, may not have immediate applicability in China, but they are worth considering as outsourcing policy is developed.

⁵³ For example, in the book in which Dr. Salamon’s chapter on “Government-Nonprofit Relations in International Perspective” appears, *Nonprofits and Government* (Elizabeth T. Boris and C. Eugene Steuerle, eds), Urban Institute Press, Washington, DC, 2004; there are two chapters on the subject, which will be relied on in this Country Study. One, by Woods Bowman and Marion Fremont-Smith, is titled, “Nonprofits and State and Local Governments;” the other, by Stephen Rathgeb Smith, is titled “Government Financing of Nonprofit Activity.”

2. Government policies and guidelines

Stephen Rathgeb Smith has looked carefully at all the government tools that support the CSO sector in the United States (Smith, 2006). These include direct grants and contracts, fees for services, tax credits and deductions, tax exempt bonds, and regulations. We will concentrate our discussion on grants and contracts and fees for services. With regard to grants and contracts, Smith notes that as public funding of CSOs began to increase in the 1960s, the grants and contracts issued by all levels of government tended to lack stringent guidelines and regulations. In order to make the system more effective and ensure that government agencies were exercising enough oversight over the activities of the CSOs that received the funds, the guidelines for outsourcing became more stringent. In some cases they even specified beneficiaries under a system of design contracting. The guidelines for contracting increasingly call for reimbursement of services performed that are tied to specific outcome measurements (performance-based contracting, discussed in more detail below). Nevertheless Lester Salamon has noted that grants continue to be a method whereby the national government gives money to state and local governments, which then spend it on social services provided by CSOs in various fields, such as education (“No Child Left Behind”) (Salamon, 2009).

Another form of outsourcing that is relevant to the Chinese situation at present is fee for service outsourcing. This includes, for example, the reimbursement to consumers of health care costs provided by CSO providers, rental payments from a disabled person to a CSO housing provider, etc. While it is sometimes difficult to account for the amounts of fee income received by individual CSOs that come from government funding, it is important to note that this source of income is significant in many cases. Government has made the choice in such programs not to directly fund the CSOs but rather to allow consumers to choose providers, creating a more market-based outsourcing system.

Outsourcing through the child care tax credit is a system under which the users of child care are permitted to take a credit against their federal income taxes for certain specified

amounts they spend on child care. This credit (which reduces the tax dollar for dollar) is available only to low income people and is thus targeted to the population that most needs it. Prior to using a credit, the tax code had allowed a deduction, but that system provided too much benefit to higher income wage earners. Like vouchers tax credits, which allow consumers to choose providers have a tendency to force providers to excel in the services they provide or fail through market mechanisms).

3. Government responsibilities

In looking at government responsibilities with regard to outsourcing, it is important to distinguish between the two different types of contracting regimes discussed by Aristigueta and Foote (2009). Like Smith (2006), these two authors show the movement from “design” contracting to “performance” contracting. The latter type of contracting began to be adopted in the 1990s with the ascendancy of New Public Management ideas for public administration. According to Aristigueta & Foote, the use of performance contracting has been reinforced by federal legislation as well as legislation in some states, as indicated below. The concept was formalized in 1991 at the federal level with Policy Letter 91-2, issued by the Office of Federal Procurement Policy in the Office of Management and Budget. The federal Government Performance and Results Act of 1993 and the Acquisition Regulations of 1997 incorporated and reinforced the new requirement. The federal government expected that performance-based contracting would apply to 50% of service contracts by 2005.

At the state level a study by Elisa Vinson in 1999 says that performance contracting -- long used in such government services as highway maintenance and solid waste management -- has becoming increasingly attractive to state human services agencies. Often frustrated by declining performance, rising costs, or both, they wanted to pay for results, not activities. Six agencies that adopted performance contracting are described in the paper: Oklahoma’s Community Rehabilitation Services Unit, North Carolina’s Division of Social Services, Illinois’s Department of Children and Family Services, Florida’s Department of Children and Families, Minnesota’s Refugee Services Section, and Maine’s Department of Human Services.

These agencies arrived at performance contracting by different routes. Maine and Florida were directed by the state legislature to begin the process; implementation in Oklahoma, Illinois, and North Carolina began from within the agency; and Minnesota was influenced by federal performance measurement requirements.

Performance contracting models vary by amount and timing of payments, the extent to which incentives and disincentives are offered service providers, the frequency of providers' reports on performance, and the extent to which providers are involved in developing performance indicators. The six examples described in Vinson's paper fall into two categories:

- Performance contracting that ties payments to outcomes. Oklahoma, North Carolina, and Illinois have such contracts.
- Performance contracting that contains performance specifications and outcome targets. Florida, Minnesota, and Maine have such contracts.

Given the importance of this shift in the U.S. and assessing its applicability for social service outsourcing in China requires an understanding of what the two different systems mean in practice. According to Behn and Kant (1999):

- a. Design contracting seeks to regulate the behavior of the service provider on the theory that there is only one good way to provide the service. It is characterized by payment for inputs or processes; adversarial relationships between government and CSOs; regulations set by government agencies drive the behavior of CSOs; there is high certainty about what will happen in terms of service provision; and CSOs have very low responsibility.
- b. Performance contracting gives more flexibility of CSO-government relationships. It is characterized by payment for results; cooperative relationships between CSOs and government agencies; payments for results drive behavior; there is a lower certainty that certain outcomes will happen; and CSOs have high responsibility about performance outcomes.

Researchers suggest that there is an inherent tension between payment for activities or outputs (design contracting) and payment for results/outcomes (performance contracting). Contracting for social services is more complicated than contracting for commodities or highway maintenance for two reasons. One is that a market for the service does not exist prior to the decision by an agency to fund it – if government does not buy it, no one will. Second, neither the agency nor the CSO knows precisely what the CSO should do to achieve the mission of the government agency.

A way to understand these two ideas is to posit a homeless shelter. There is no actual market in which provision of such a shelter could be sold and bought – if the government does not either provide it itself or ask a CSO to provide it, the service will not be available to the homeless population. Assuming that the government decides to ask a CSO to provide the service, it is unclear to what extent the service will be used. This is clearly demonstrable during the current economic crisis, when the demand for homeless services has increased dramatically. If the mission of the government agency is to achieve less homelessness in a specific part of the city, economic circumstances require that CSO service providers be allowed flexibility in achieving that goal. This is true because they are the ones actually working “on the ground” to manage the shelter.

Various researchers have tried to make suggestions about the skills of CSO service providers that are needed to make performance contracting work. They emphasize leadership (including adaptability and resourcefulness); communication skills; and good internal management systems. For the government, stress is laid on working with contractors to achieve a workable strategic plan and performance measures as well as the use of multi-year contracting. In addition, government agencies should provide technical support with regard to data management.⁵⁴ For both sides stress is laid on training for both government staff and contractors.

⁵⁴ It is interesting to note that for-profit firms such as Microsoft have developed data management programs for CSOs.

4. Percentage of government support in CSO total revenue

The Johns Hopkins Project statistics disclose that for the years studied, U.S. CSOs received 57% of their revenues from fees, 31% from government; and 13% from private philanthropy. It should be noted, of course, that the amount of fee income includes money from government paid through such programs as Medicare and Medicaid or, for example, through school vouchers.

5. Types of CSOs engaged in service delivery

In the U.S. most CSOs engaged in social service provision are not-for-profit corporations incorporated under the laws of the 50 states or the District of Columbia. The state of incorporation does not determine where a CSO may carry out its business/perform services. Some charitable trusts are engaged in social service delivery, but these types of organizations tend to be grant-making rather than service-providing organizations. Many organizations that serve the public in the social service field are faith-based organizations. Since it was initiated in 2002 by then-President Bush, there has been a faith-based social service initiative – although it is controversial, President Obama has nonetheless signaled that it will continue.

6. Types of services provided by CSOs

Researchers mention many types of social services provided by CSOs, including the following:

- a. Day care for children;
- b. Elder care;

- c. Health care (in the United States this is such a significant subsector and it absorbs so many resources that many people simply ignore it in statistical information about the CSO sector)⁵⁵;
- d. Private education (this should be viewed as including only the private education aimed at the lower income sector);
- e. Help for drug, alcohol and gambling dependence;
- f. Support for people with disabilities;
- g. Counseling for people with marital or family problems;
- h. Access to self-help groups;
- i. Help for immigrants and other marginalized populations;
- j. Poverty relief (housing schemes, homeless shelters, food banks, etc.); and
- k. Assistance to victims of abuse or neglect.

7. Incentives provided to encourage CSOs to participate in social service outsourcing

While there are no general incentives available to CSOs to encourage them to engage in social service outsourcing, CSOs that are engaged in such projects are exempt from income tax. In addition, most of them are permitted to receive tax deductible charitable contributions. The U. S. Internal Revenue Code distinguishes between “charities,” which are entitled to receive deductible contributions and “social welfare organizations,” which are not. The latter may engage in advocacy, and that is the single most important characteristic that distinguishes them from “charities.”

8. Identification of CSOs and verification of capacity to provide services

The reality is that there are so many CSOs currently providing social services in the U.S., there is very little need to identify which ones are good providers except through the experience gained over the years. The relationships between CSOs and the government

⁵⁵ Salamon, for example, excludes health care services from his analysis of the U.S. CSO sector. The reasons for doing so are complex, but they deal in part with trying to eliminate statistical aberrations arising from the fact that the U.S. does not have a public health program except for the poor and the elderly.

do, however, tend to favor larger providers as opposed to smaller CSOs, which inhibits innovation to an extent.

9. Monitoring and evaluation by government; reporting requirements

Performance contracting is called governing for results. It refers to the system of spending and measuring results of spending whereby a government, both the executive and legislative branches, focuses decisions and activities on the end benefits, as well as costs, of government activities and actions. This means maximizing the quality of services and programs to the government's citizens and developing proper ways to measure end outcomes of those services and programs, especially in the opinion of customers.

When performance contracting is used, researchers suggest that the following issues be addressed:

- i. The need for training to differentiate between program evaluation and performance measurement;
- ii. Stakeholder (CSO) involvement with identification of performance measures;
- iii. The need for clarification in the terms of contracts through consistent definitions;
- iv. The creation of training materials on performance measures and evaluations; and
- v. The logic model should include a theory of change – what changes are expected to occur through participation in the program.

10. Training or capacity building for CSOs

As mentioned earlier, most researchers make it clear that training is an important part of performance contracting. This is evidenced by studies from the states discussed by Vinson, 1999.

11. Successes and failures

Commentators suggest that there is a significant amount of risk shifting by government agencies to CSO contractors because the contractors' infrastructure costs are inadequately budgeted. This is probably true in a state like Florida, where the state budget process makes it impossible to award contracts for longer than one year. Vinson notes as well that the Department of Children and Families (DCF) encountered several challenges in the conversion to performance contracts. The first year required a lot of training--state personnel traveled to districts to explain the new contracting procedures, including how to write the contracts so as to include performance specifications. Matching the collective targets of the local contractors to overall agency targets also proved difficult. Local contractors serving populations that are not represented in state DCF agency goals were faced with measuring outcomes they believed were not within their control.

In Delaware, Aristigueda & Foote note that some contracting decisions are fragmented and decentralized, resulting in a wide variation in service arrangements. In addition, state employees are not clear about how to tie pay to performance, which tends to cause them to want to rely on regulatory contracting, where they have more control of what services are to be rendered. To remedy some of these problems, Vinson clarifies that in Florida, DCF is still working on standardizing its contracting procedures across provider agencies and has created a Contracted Client Services unit to help integrate contract management and monitoring.

In Maine providers of services originally had to specify what strategies they would use to accomplish the goals set by the state and how they would measure the indicators established by the task forces. However, it became apparent to the Department of Human Services (DHS) that data collection for the indicators had to be standardized. Without standardization, contract officers had difficulty monitoring performance, particularly given the large number of indicators negotiated in the contract process. Further, many of the indicators lacked validity, adding to the difficulties of interpretation. To remedy the problems, DHS has focused equally on the development of process and the development of outcome indicators for its service areas.

12. Estimated economic and fiscal impact

In her research, Grønbjerg (2001) says that between 1960 and 1995 overall public spending on social welfare more than quadrupled in the U.S. (up 457%), driven mainly by spending for health. Public spending for programs of most direct interest to traditional social services CSOs also rose exponentially – by 513%. Because of the extensive outsourcing to CSOs, they benefited directly from this latter growth.

Nevertheless, she notes that Salamon’s research (1999) indicates that the social service field is “of modest size overall in economic product and absorbs small proportions of philanthropic and government spending.” Other researchers (Urban Institute, 2006) indicate that “human services organizations account for 38 percent of operating charities, but less than 14 percent of expenses and about 12 percent of assets.” This must be taken into account when one looks at the vast number of charitable organizations registered with the IRS in 2004 (approximately 1.1 million).

According to White House tallies, not-for-profit groups received \$15.3 billion in competitive grants in fiscal year 2007, an increase of 3.9% over the previous year. That figure included \$2.2 billion to faith-based CSOs, which have received federal grants of more than \$10.6 billion since the faith-based initiative got underway in 2002.

13. Specific program example

OKLAHOMA⁵⁶

The Community Rehabilitation Services Unit of the Oklahoma Department of Rehabilitation Services (DRS) began its performance contracting system, the Milestone Payment System, in 1992. The state now pays contractors at predefined milestones, when increments of predefined outcomes have been completed. Contractors submit bids for the average cost per client of the following accomplishments, the last four of which are client outcomes:

⁵⁶ For more information, see www.onenet.net/~home/milestone.

- Determination of consumer needs (10 percent of bid);
- Vocational preparation completion (10 percent of bid);
- Job placement (10 percent of bid);
- Four weeks' job retention (20 percent of bid);
- Job stabilization (10 to 17 weeks of employment with fewer than two support contacts per month, depending on the type of disability) (20 percent of bid); and
- Consumer rehabilitated (stabilization plus 90 days) (30 percent of bid).

Providers are paid a percentage of the total average cost of closure per client at each of the six milestones. They bill DRS when they achieve individual clients' milestones. Incentives for creaming are reduced by making higher payments to providers for serving difficult-to-place clients. Clients and their families are involved in setting objectives for employment during the assessment phase. Customer and employer satisfaction after the job stabilization milestone is required for the final payment.

Results

The program reports that providers' costs per placement declined 51 percent between 1992, when performance contracting began, and January 1997, when the transition was complete. The last group of contractors to switch to performance contracting showed an additional 12 percent decline.

The average number of months clients spent on waiting lists was decreased by 53 percent, from 8.14 months under the hourly system to 3.85 months under Milestones, and the average number of weeks spent in assessment declined from 12.1 to 9.9, a drop of 18 percent. The number of individuals who never got a job fell by 25 percent.

The system faced some challenges, including developing operational definitions of outcomes for making payments and getting contractor staff to adopt a philosophy of working for client outcomes.

Part III. Conclusions and recommendations

The experiences described in the Overview and the Country Studies suggest that there are several important lessons for China as it explores the use of various instruments for outsourcing social service provision to CSOs. Some of these lessons involve process, some concern the instruments used, and some address the prospects for continuing cooperation between the CSO sector and provincial and municipal governments over time. In general, while we do not have much information on what is already happening in China with regard to outsourcing, we have been happy to learn that local level experiments are underway. On the other hand, we have also learned that there are problems faced in China that create additional tension with respect to outsourcing, such as the existence of *shiye danwei*, which dominate service provision; *shetuan* that are controlled by ministries and expect to receive the bulk of funding, etc. Despite the fact that we do not directly look at such issues in this report, they do need to be solved in order to move to a more effective national outsourcing regime. We offer the following eight suggestions for ways to guide the development of outsourcing in the future.⁵⁷

1) Outsourcing to CSOs for social services is a crucial policy imperative for China--not so much as a way to reduce government budgets but more concretely as a way to improve the quality of services, to plug gaps in the current service delivery system, to promote innovative forms of assistance, to reduce cumbersome procedures and encourage flexibility, and to tap energies and resources that can enhance the effectiveness of programs.

2) Outsourcing must be done within an appropriate legal framework in order for it to be sustainable. Thus, there must be appropriate rules and regulations adopted at the national and local levels for this to be possible. We note that there is currently a national level Procurement Law, and that regulations under that law are expected to be promulgated soon. We do not know to what extent local procurement regulations follow

⁵⁷ Further detail on some of these recommendations can be found at the end of Section I of this report.

that law, but that should be considered. It may be worthwhile to consider whether CSOs should receive preferences in bidding for certain kinds of services.

3) Outsourcing should involve more than contracting. Multiple instruments are available and each has its own advantages and disadvantages and optimal uses. One size does not fit all. Those discussed in this report include:

- block grants (Germany, Hong Kong)
- grants (Hungary, ROK)
- contracts (all countries)
- loans and loan guarantees (England)
- vouchers (France, Germany, Netherlands, U.S.)
- special tax rules (Hungary, U.S.)

In addition, the Country Studies on Germany, Hong Kong, and France discuss the provision of rent free office space by government as being a key form of support for the social service providers. We understand that local governments in China are experimenting with such programs (e.g., Pudong District in Shanghai).

The fact that many contracts use less quantitative performance (outcome) measures is illustrated by the Country Studies on Hong Kong and the United States. The difficulty of developing an effective contracting program with competitive bidding is illustrated not only in the Case Study on Russia, but also in the one on the U.S.

4) Government must retain an important role in indirect social service delivery systems, but a different role. Government must be involved in setting performance benchmarks, activating networks, orchestrating collaborations, and promoting accountability of CSOs. Some of these tasks can best be done at the local level, but the national government can help formulate training manuals, etc. This will require retraining of government officials in networking skills and knowledge of the operational requirements of various tools—tool characteristics, tool operations, matching tools to program needs. As the Country Study on the Netherlands indicates, the aims of the social

policy may change slightly, and thus the tool used to deliver a service must be allowed to change as well.

6) Some key guidelines must be followed for effective outsourcing, regardless of tool:

- a) **Government must view CSOs as partners and involve them in decisions on program design.** This is illustrated by the Country Study on England and the changes in attitude developing in Australia.
- b) **Government must invest in CSO capacity since CSOs will become the delivery system for government policies.** This will include staff capacity, facilities, strategic planning, etc. Government must play a crucial role in training staff working in CSOs to provide services at a scaled up level. Capacity building is illustrated in these Country Studies: England, ROK (IT support), U.S. (data management and training on new tools), Russia (training on the use of new outsourcing tools).
- c) **Government should allow for full cost recovery for CSOs, including indirect costs as well as direct costs.** This is a constant theme in the Country Studies.
- d) **CSOs must recognize government accountability needs.** In the principal-agent relationship, CSOs should feel obliged to perform well and to adequately meet the needs of the beneficiaries.
- e) **Monitoring by government should be effective (Australia, England), but it should also not be too costly for the CSOs, especially the smaller ones.**

- f) **Performance measures (outcomes rather than outputs) should be favored over design standards wherever possible.** This will give CSOs more leeway in program design.
- g) **Incentive arrangements should be built in to outsourcing arrangements to encourage cost-saving, efficiency, and effectiveness.**
- h) **Beneficiaries should be involved in outsourcing in various ways, such as by being allowed to “purchase” the services using vouchers, through design of programs (see example from Germany), etc.**

6) Government must design outsourcing systems so that they reinforce rather than destroy the distinctive features that make CSOs attractive partners. Government should also recognize that a certain amount of crowding out will occur and that it may need to help facilitate the inclusion of smaller CSOs in large service delivery consortia.

7) Further research on the operation of key tools and their adaptation to Chinese realities is needed as well as improved information on the CSO sector itself.

8) Government should foster controlled experimentation with different tools at the local level.

Appendix A

Compacts and Other Arrangements for Cooperation between the Government and the CSO Sector

1. The **UK Compact** is available on the Compact website at http://www.thecompact.org.uk/shared_asp_files/GFSR.asp?NodeID=100318
2. The **Queensland Compact** (adopted in 2008 for the state of Queensland in Australia) can be found at http://qcross.org.au/upload/4716_FINAL_251108_1358-08_QG_Compact_Booklet_FINAL_LR.pdf.

Most recently there is a “Compact Action Plan”

According to the website of Queensland Council of Social Service, “The Compact Governance Committee has developed an Action Plan that will give effect to key commitments within the Compact, in order to create practical change. The Futures Forum has had significant input into the Plan.

This plan outlines specific actions for the first two years of the Compact with measurable targets. Key priorities that are picked up in the Action Plan include:

- A meaningful and practical communication and engagement strategy to encourage organisations at all levels to work in the spirit of the Compact by embedding its principles in practice
- A commitment to ensure timely access to useful data, underpinned by shared principles between government and the sector
- A move to reduction of red tape, specifically around mutual recognition of quality framework and standards, mutual recognition of criminal history checks, a move to measuring outputs in performance reporting and consistent financial reporting (including the implementation of the Standard Chart of Accounts)
- Strategies to move towards a sustainable human services workforce”

[Download the Compact Governance Committee Action Plan](#)

3. Information about the “Voluntary Sector Accord” in Canada can be found at http://www.vsi-isbc.org/eng/relationship/the_accord_doc/index.cfm.

Appendix B

Examples of Application Processes

1. Futurebuilders (UK)

Follow these guidelines to successfully prepare for a Futurebuilders application.

Talk to us about your proposal before applying

You can call our enquiries line on 0191 261 5200 and talk through any initial questions you may have about Futurebuilders England with a representative, or email info@futurebuilders-england.org.uk for advice or more information at the initial stage of your proposal.

We also run [Futurebuilders Surgeries](#) across the country, where organisations considering applying to Futurebuilders can benefit from valuable tips and advice. The free events include an information presentation, a question and answer session and offer an opportunity to discuss individual proposals with a member of the team. We have found that organisations that attend a surgery before applying tend to perform considerably better at the application stage than organisations that don't.

Whatever you do to find out more about Futurebuilders, it is also essential that you have clear plans about what you plan to do, and what you would use a Futurebuilders investment for.

Make sure you meet our eligibility criteria

A range of organisations are eligible for Futurebuilders investment, including charities, social enterprises, community interest companies, voluntary groups and community organisations. We offer investment packages to third sector organisations working across all areas of public service delivery.

Each of our products has its own set of eligibility criteria. Before you apply, check you are eligible for investment.

[More information about eligibility](#)

Ensure your colleagues and trustees/management board are committed to loan finance

We expect most Futurebuilders grantholders to be intending to apply to us in the long term for a full, loan-based investment. The only exceptions to this are organisations applying for [Small Organisation Tender Fund](#) grants and some Consortium Development Fund applicants.

Loan finance is the key element in most Futurebuilders investments and if you are not able or prepared to take on a loan then we cannot consider you for a [Full Investment](#) .

You must first make sure that the terms and conditions of your constitution allow your organisation to take on a loan and that your members are willing to accept a loan if we offer one. If your constitution does not currently allow you to take on a loan we need to know that you are willing to make the required changes.

Talk to your purchasers before applying

Developing close relationships with commissioners who share your organisation's vision is crucial to its eventual success. If you are working in a competitive tendering environment, it helps to keep an ear to the ground to find out what contracts are coming up for tender – and also to contribute as much as possible, through involvement in local partnerships, to the thinking and planning that public informs service delivery.

By identifying a gap in the market and giving purchasers an insight into your project, you'll get an indication as to whether there will be a demand for your service.

Less formally, engaging commissioners in the early stages of your project will enable you to develop services that they need and you have the specialist skills to deliver . The roles of commissioners and third sector providers should complement each other in developing and delivering public services, and letting us know what links you have established will give you a better chance of a successful Futurebuilders application.

Demonstrate well thought-out cash flows and financial projections

Offering a realistic projection of your organisation's development will give you the best possible chance for investment approval. Your cash flows need to show month-by-month figures for the remainder of your current financial year and the subsequent 12 months, projected on an annual basis for two more years after that.

Final June 2009

Ideally we would like to see you commenting on three overall financial scenarios:

1. A realistic projection of your organisation's development
2. A worst case (where you show the effect of any 'uncertain' sources of income failing to be secured)
3. A best case (where income might exceed your realistic projection)

This will enable you to assess the risks for your organisation and move the process forward.

What next?

Want to read some examples of what your Futurebuilders investment package might look like? Ready to begin the application process?

- [Search our database of investments](#)
[Submit an enquiry](#)

2. New South Wales (Australia)

Application form for Community Development Support Expenditure (CDSE) support from gaming funds

**COMMUNITY DEVELOPMENT SUPPORT
EXPENDITURE**

APPLICATION FORM 2009 - CATEGORY 1 FUNDING

Name of Organisation Applying for Funding:

Council

Area: _____

Primary Contact Person Details:

Title:_____ Name: _____ e.g. Mr/Mrs/Ms
Postal Address: _____ _____
Suburb: _____ State: _____ Post code: _____ _____
Phone: _____ FAX: _____
Email: _____ _____
Secondary Contact Person Details:
Title:_____ Name: _____ e.g. Mr/Mrs/Ms
Phone: _____ FAX: _____
Email: _____ _____

If your application for funding is successful you will be required to:

- make an appropriate level of acknowledgement of the funding source for the project;
- complete an evaluation form at the end of the project.

Has your organisation received CDSE funding from clubs before? Yes No
If yes, in what year, for what purpose and how much?

Has your organisation submitted a report / progress form to the CDSE Local Committee convenor and/or club for previous funding? Yes No N/A

Note: Organisations that have not submitted their report / progress forms should not be considered for further funding.

Signature of Chairperson/Management Representative

3. What local need does your project address?

4. Who will be the main beneficiary/target group/client group for the project? Please be specific (e.g. men, women, children with learning difficulties).

5. From the list below, which grouping best describes your project? Please tick the most appropriate box.

- A1 - Family Support/Emergency or Low Cost Accommodation
- A2 - Child Protection/Child Care
- A3 - Counselling Services
- A4 - Aged, Disability or Youth Services
- A5 - Victims of Natural Disasters
- A6 - Volunteer Emergency Services
- B1 - Neighbourhood Centre/Youth Drop in Activities
- B2 - Community Transport Services
- B3 - Community Education Programs
- B4 - Tenants Services
- B5 - Statewide or Regional Services Developing Social Policies & Providing Advocacy for Local Communities
- C1 - Early Childhood Health/Child and Family Services
- C2 - Community Nursing/Therapy/Mental Health Services
- C3 - Drug & Alcohol/Palliative Care/Women's Health/Aboriginal Health/Dental Services
- C4 - Home and Community Care & Disability Services
- C5 - Health Promotion Initiatives
- D1 - Employment Placement/Advocacy Services
- D2 - Group Training Companies
- D3 - Community Enterprises
- D4 - Local Job Creation Scheme

6. How will you manage and deliver this project? (How will you ensure it achieves its aims?)

7. How will you monitor and evaluate this project?

8. Has your application been supported by any other community organisations or do you intend to work in partnership with any other organisation on this project? (Please provide contact name and telephone number of the supporting organisation/s):

9. What is the proposed commencement date and completion date for the project?

10. Is the expenditure on community development and support to be applied outside New South Wales? If so, how will it be applied? (*For more information please refer to the CDSE Guidelines.*)

11. Is this program, project or service already assisted by an existing local, State, or Commonwealth Government funding program? If so, please give details (how much, which program):

12. Have you applied, or do you intend to apply, to any other registered club or any other funding body for this project (including CDSE applications in other areas)?

Yes No

If yes, please identify:

13. Will ALL the CDSE funding you have requested be spent within the Local Government Area in which you are applying?

Yes No

If no, approximately what percentage will be spent outside the local area?

FINANCIAL INFORMATION

14. What is the total amount of CDSE funding you are seeking for this application?

\$

15. Will your project still be viable if you receive CDSE funding less than the requested amount?

Yes No

16. Please outline below the project budget for your proposal, including funding from this source (Community Development & Support Expenditure) and any other funding sources.

Budget Item	CDSE	Other funding sources
Salaries (specify position)		
Fees (specify – eg, sessional staff, tutors etc)		
Administration		
Program costs (including telephone, stationery, postage, audit, promotion)		

• Capital equipment		
• Rent		
• Other (please specify)		
Total funds		

17. Please attach a copy of your last annual report including financial statements and auditor's report. Have you attached the report? Yes No

18. Please state your ABN/GST status:

ABN _____ GST Status _____

19. Please provide your organisation's banking details

Account Name:

BSB No:

Account No:

ADDITIONAL INFORMATION:

20. Is your organisation a non-profit organisation? Yes No
 21. Is your organisation incorporated? Yes No

If yes, please indicate which form of incorporation below:

- A company limited by guarantee
- A co-operative
- An incorporated association
- An unincorporated association
- Other – please detail below: ⑤

Appendix C

Case Studies of Capacity Building and Loan or Grant Support in England

A **Capacitybuilders** grant of £44,000 has enabled Ellesmere Port and Neston Association of Voluntary and Community Organizations (EPNAVCO) to develop a fully accessible training room and comprehensive program for its members that includes courses ranging from basic information technology through to visual impairment awareness. The new training program provides EPNAVCO with a wider range of resources they can use to assist their members. “We can now offer a range of courses, which include first aid, food hygiene, governance, child protection, and presentation skills. Some of the courses are also accredited - without the Capacitybuilders funding, this would not have been possible” according to Michael Metcalfe, Chief Executive of EPNAVCO.

Futurebuilders invested £695,125 in Martha Trust. Martha Trust provides a home for life for people with profound disabilities and provides support for their families. Martha Trust has three residential homes – Martha House and Frances House located in Deal, Kent and Mary House in Hastings, East Sussex. They also provide day centres on both their Deal sites. Day Care users have full access to all the Trust’s facilities which include a hydrotherapy unit, music and sensory rooms, aromatherapy and massage. The investment comprised a £637,000 loan to refurbish the Hastings site; a £50,625 revenue grant towards the recruitment and development of a Service Development Officer to negotiate contracts with purchasers, monitor changes in national and local policy; and a £7,000 capacity building grant, allowing Martha Trust to be able to review its governance structures and working practices, provide training, and recruit new trustees.

Appendix D

Monitoring Examples

1. The “**Monitoring framework** for health, housing, and community service sectors,” which provides information to organizations funded through service agreements for the State of Victoria in Australia can be found on the Department of Human Services website at http://www.dhs.vic.gov.au/pdfs/mfs_booklet_041005.pdf.
2. An analysis of the **difficulties of monitoring social service contracts** (for adult social services) in the UK can be found at http://www.dhcarenetworks.org.uk/library/Resources/BetterCommissioning/BetterCommissioning_advice/Chap10DGosling2.pdf. It points out that agencies involved in monitoring are understaffed and otherwise under-resourced.
3. The state of Nebraska (US) Department of Health and Human Services has developed a 150 page manual on its **Program Evaluation Monitoring System (PEMS)** for HIV/AIDS, which is available at http://www.hhs.state.ne.us/hew/dpc/pdfs/Web_Subgrant_Manual.pdf. The PEMS system of monitoring was developed by the national Centers for Disease Control (CDC) and is utilized by all states.
4. **Contracting and Negotiation: Effective Practices of Successful Human Service Contract Managers.**(Massachusetts, US) Public Administration Review, Vol. 58, 1998 (attached PDF)