



## ALTERNATIVE MODELS OF FINANCING SOCIAL SERVICES

**Eurodiaconia** is a European network of churches and Christian NGOs providing social and healthcare services and advocating social justice.

## Mission

Eurodiaconia is a network of churches and Christian organizations that provide social and health care services and advocate for social justice. Together we work for just and transformative social change across Europe, leaving no-one behind.

## Vision

Driven by our Christian faith, our vision is of a Europe where each person is valued for their inherent God-given worth and dignity and where our societies guarantee social justice for all people, including the most vulnerable and marginalized.

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# TABLE OF CONTENTS

<b>INTRODUCTION</b>	<b>4</b>
<b>1. WHY THIS UPDATE?</b>	<b>5</b>
<b>2. WHY IS THE PROVISION OF SOCIAL SERVICES THROUGH PUBLIC PROCUREMENT A CHALLENGE FOR OUR MEMBERS?</b>	<b>6</b>
<b>3. ALTERNATIVE MODELS TO PUBLIC PROCUREMENT OF SOCIAL SERVICES</b>	<b>7</b>
3.1 Grant.....	8
3.2 Service vouchers .....	8
3.3 Personal budget .....	8
3.4 Open house model .....	9
3.5 Code of the third sector .....	9
3.6 Licensing system .....	9
<b>4. IDEAL MODELS OF FINANCING FOR EURODIACONIA MEMBERS</b>	<b>10</b>
<b>5. RECOMMENDATIONS</b>	<b>11</b>
5.1 Key recommendations to the european commission .....	11
5.2 Key recommendations to member states, regional and local authorities.....	12

# INTRODUCTION



## Policy Report Update

This report update sheds light on current funding models that Eurodiaconia members and social service providers work with, the challenges they face with the existing models and aims to identify alternative funding models. Based on the experience of our members on the national level, we issue recommendations to improve the sustainability of financing of social services.

Eurodiaconia is a network of 58 organisations in 32 European countries, based on the Christian faith, providing social services across Europe. Our members represent more than 30.000 social and healthcare providers, and over 1 million social care staff across Europe who are at the forefront, working for social justice and providing inclusive health and social services to those who need it the most.



# 1. WHY THIS UPDATE?

Social services are delivered to persons in need and play a crucial role in improving the quality of life of people and in providing social protection. They ensure that people enjoy their human and social rights and live in dignity. Social services of general interest are those that respond to the needs of vulnerable citizens and are based on the principles of solidarity and equal access. They can be both of an economic or non-economic nature. Examples include social security schemes, employment services and social housing.<sup>1</sup>

However, social services require adequate funding by public authorities either directly or indirectly to ensure quality services to persons in need. The European legal frameworks – public procurement and state aid – both play a crucial role in forming the sector’s funding ecosystem. To make funding easily accessible for social service providers, the European legal frameworks must be adapted to social change. Against this background, in 2021, we published the report ‘[Funding gaps for social services – The perspective of Eurodiaconia members](#)’, discussing funding models Eurodiaconia social service providers work with. The report also identified the challenges they face with these models and gave, based on our members experience, recommendations on how to improve the sustainability of financing of social services.

Due to demographic change, the impact of COVID-19 and the ongoing Russia’s aggressive war on Ukraine coupled with changing societal needs and rising energy costs, the situation today has evolved, social service providers are yet again confronted with a crucial need for sustainable funding. People experiencing poverty increasingly face even more precarious situations and the crises have worsened social inequalities throughout all Member States. Eurodiaconia members across Europe report an increase in demand for all types of social services, which requires innovative and sustainable funding to meet the demands. Providing social services through public procurement remains a challenge for some Eurodiaconia members.

This year, we received additional information on alternative funding models for social services from some of our members, complementary to last year’s data collection. As such, this report update presents the challenges Eurodiaconia members are facing with providing social services using public procurement.

Eurodiaconia has been at the forefront of the debate on quality, accessibility, funding, staffing, and availability of services which is reflected in our [High-level group report on Social Services](#).

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<sup>1</sup> [https://ec.europa.eu/info/topics/single-market/services-general-interest\\_en](https://ec.europa.eu/info/topics/single-market/services-general-interest_en). (24.10.2022)

## 2. WHY IS THE PROVISION OF SOCIAL SERVICES THROUGH PUBLIC PROCUREMENT A CHALLENGE FOR OUR MEMBERS?

Public procurement describes a way through which public authorities purchase goods and services, for example the provision of social care and support services and is predominantly governed by Directive 2014/24/EU of the European Parliament and of the Council of February 2014 on public procurement.<sup>2</sup>

Our members experience difficulties with the practical use of public procurement, as the directive leaves a lot of freedom to Member States on how to implement the directive. Therefore, Member States use the system differently and we observe important differences on how public authorities contract social services. This leads to a very different delivery of social services across Europe and explains why the systems and legislations regarding the funding of services vary a lot among Member States.

Last year for example, our member Diakonhjemmet in Norway informed us about the challenges the city of Oslo has faced with reserved contracts. The Oslo municipality was sued in the EFTA court by commercial actors for reserving the procurement of nursing home services for non-profit organisations even though the Public Procurement Directive states that "Member States may provide that contracting authorities may reserve the right to organisations to participate in procedures for the award of public contracts exclusively for those health, social and cultural services". If the case is decided against the Oslo municipality's practice of reserve contracts, that will imply reduced opportunities for non-profit organisations to participate in tenders that are also open to commercial service providers. This makes it urgent for the European Commission and Member States to promote alternative models of financing social services as well as clarify existing rules and ensure their correct implementation.

This and other challenges highlighted by our members remain urgent, especially in these times of

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<sup>2</sup> The directive is a binding legislative instrument that has been implemented in all EU Member States. Its fundamental underpinning principles are equal treatment, non-discrimination, transparency, and proportionality. Article 77 of the directive on provisions for light regime allows Member States to reserve the right to participate in procedures for the award of public contracts for pre-defined social services exclusively for certain organisations to ensure their continuity. Member States can therefore narrow the circle of participants to such organisations that participate in delivering these services to end users, with the maximum duration of the contracts for three years. The short time frame explains why some Eurodiaconia members find provision of services through public procurement to be unsustainable, bureaucratic and overly cumbersome. Also, Article 76 of the same Directive states that 'Member States shall ensure that contracting authorities may take into account the need to ensure quality, continuity, accessibility, affordability and comprehensiveness of the services, the specific needs of different categories of users, including disadvantaged and vulnerable groups, the involvement and empowerment of users and innovation. Member States may also provide that the choice of the service provider shall be made based on the tender presenting the best price-quality ratio, taking into account quality and sustainability criteria for social services.

crises and staff shortages. Reducing bureaucracy and simplify reporting mechanisms is a key demand to overcome burdensome and time-consuming administrative formalities and help smaller organisations continue the provision of their services. In this regard, improving access to funding opportunities and accelerate proceedings with the aim to diversify funding is one key issue that we hear from our members in this time. In some countries, for instance in Croatia, Estonia, Czech Republic and Malta, state budget is one of the primary sources of funding which social service providers receive.

However, service providers are often confronted with devious selection processes due to a lack of quality criteria with the lowest price often being the final criterion. This increasingly exerts pressure towards the labour market. In countries like Denmark and Bulgaria, municipalities are a main source of funding for social services, mainly received through taxes.

Even though people in need of social services should have access to affordable and quality services, many current funding schemes are challenging the availability, accessibility, and sustainability of these services. Despite governmental funding, many social service providers struggle financially with insufficient state funding. Moreover, most managing authorities across different Member States tend to favour best price tenders over quality. This makes it difficult for not-for-profit organisations to compete with for profit organisations participating in tenders.

Our members from Austria and Romania reported a lack of common quality system in public procurement as well as the lack of sustainability of the projects to be a major challenge and confirmed the lack of quality criteria in many selection processes. Moreover, delays on payments under public contracts make it hard for social service providers to deliver continuous quality work. To read more about the main challenges service providers face when it comes to public procurement as well as current sources of financing service provision, please have a look at our [High Level Group Report](#).

### **3. ALTERNATIVE MODELS TO PUBLIC PROCUREMENT OF SOCIAL SERVICES**

Social services can be financed through services fees, donations, privately, or through other sources of funding, such as state and municipal budget. Additional sources of funding are EU funds, for example ESF funding or funding from the European Structural and Investment Funds which social service providers can apply for. The allocation of funding can be very different and based on the type of social service delivered. Moreover, client payments often account for significant revenues of social service providers. Some countries in Europe developed alternative models to public procurement of

social services. These include for example instruments like subsidies, also known as grants, Service Vouchers, or innovative contract systems.

### 3.1 GRANT

When awarding a grant, a governmental body makes a direct financial contribution to support or stimulate specific projects in the social services domain. These grants or subsidies need to be strictly differentiated from public contracts, as they are different instruments with different laws applying. Subsidies cannot be enforced by the governmental body and do not fall under the scope of the Public Procurement Directive (“PPD”) or the Procurement Act. In the **Netherlands** for example, subsidies are often used by Dutch municipalities in the social domain.

### 3.2 SERVICE VOUCHERS

Countries like **Finland** or **France** on the other side makes use of “Service Vouchers” to guarantee the right of every person to have access to services provided at home, also referred to as “services to the person”. This allows the service user to be the central person in deciding where, from whom and when to receive care services. In France, services to the person give rise to various tax and social security benefits and can be paid by the universal service voucher (“chèque emploi service universel”, CESU in French). In Finland, the voucher system was integrated into social legislation in 2004 and fully or partly financed by the municipalities who also decide on the criteria for recognizing private service providers as service voucher producers. Moreover, public service provision is not included in the voucher system and thus an alternative to the use of service vouchers.

### 3.3 PERSONAL BUDGET

A similar system is the provision of personal budget and can be found in countries such as France and England. This system is growing in popularity as it allows persons in need of care to have more control over how to receive support. In this case, service users receive an amount of money which empowers them to choose the service that best suits their needs. Different allowances exist also for persons with disabilities who have the opportunity to obtain a disability compensation benefit (*prestation den compensation du handicap (PCH)*), a personal allowance designed to finance the needs of persons with disabilities who have lost their independence.

Likewise in **Austria**, every person with care needs gets a care allowance, the amount depends on the degree of care needs. Additionally, the Federal provinces in Austria support care services with funds. In most of the federal provinces, the cost of out-of-pocket payments to care services depends on the income of the client. The Federal provinces then top up the gaps to the market price. When it comes

to residential care, residents must invest their care allowance (except for 47.5 EUR), furthermore, they must contribute with 80% of their income.

### 3.4 OPEN HOUSE MODEL

Another procurement model used in countries such as **the Netherlands** or **Germany** is the “Open House Contracts” model. While this is already well established in the Netherlands, it’s a rather new type of reserved contracts used in the German social service provision system. In these agreements, the contracting authority predefines legally binding terms and unconditionally offers each service provider a license to offer particular services or sell particular commodities as long as they agree to the predefined terms. The contracting authorities then reach an agreement with operators that provide services at predetermined conditions. This ensures not only the security of care but also the diversity of service providers and freedom of choice for the insured persons. In this case, the service agreement is concluded between the service provider and the beneficiary.

### 3.5 CODE OF THE THIRD SECTOR

In **Italy**, the so called “Code of the Third Sector” is an alternative model for the provision of social services and an attempt to restructure the chaotic and fragmented nature of legislation in this field. It applies to “Third Sector Organizations” only and regulates the foundation, registration, monitoring and budgetary obligations, financing and preferential fiscal treatment applying to the various Third Sector Organisations.

### 3.6 LICENSING SYSTEM

In **Germany**, one alternative model for the provision of social services is the “licensing system” within the framework of the socio-legal triangular relationship which are not subject to public procurement law. In this case, the government or governmental agency must fulfil the social benefits claims vis-à-vis the beneficiary but may use an external service provider. No selection decision is made by the governmental authority and no remunerated exchange contract is concluded so that the beneficiary has the greatest possible freedom of choice and organisation when using these benefits.

## 4. IDEAL MODELS OF FINANCING FOR EURODIACONIA MEMBERS

To address the challenges described and implement alternative models, some of our members suggest further ideas of alternative funding models on the national level. According to one of Eurodiaconia's member in **Czech Republic, Diaconia ECCB**, an ideal model would be similar to funding in the educational sector, with a normative amount allocated per enrolled pupil. In the case of social services, it would be a specific amount allocated per person which receives support. In this case, Diaconia ECCB could calculate exactly how much the operational subsidy will amount each year. A guarantee of the payment of regular expenditures (subsidies) and multi-annual financing would be beneficial.

For **Deaconess Foundation**, an ideal situation in **Finland** would involve permanent funding from the public sector, national government, and municipalities. As an organisation, they are working on developing their capacity on project funding to improve in this area. Moreover, they recommend more cooperation on common projects with different organisations across the EU as a means to attract more funding.

For **Fundatia Filantropia Timisoara** in **Romania**, a balance between public and private is the way forward for funding social services. Public funds should ideally complement private funding for the provision of services. However, most of the respondents push for the NGO sector to get more permanent and stable funding from the local municipalities, national governments, or European funds.



## 5. RECOMMENDATIONS

Based on our research among Eurodiaconia members and the feedback received, the situation for service providers has not improved much, rather, the pandemic and following energy crisis have aggravated the conditions for many. Our network therefore reiterates the following recommendations made last year to improve access to funding for social services across the EU.

### 5.1 KEY RECOMMENDATIONS TO THE EUROPEAN COMMISSION

1. The European Commission should continue improving the accessibility of EU funds by simplifying the application processes and reporting procedures. In this context, it is crucial to remove bureaucratic obstacles and administrative formalities. Furthermore, making sure that the Member States set clear and proportionate administrative requirements to avoid burdensome and time-consuming application processes. Better still, public authorities should organise training on how to access funding programmes, such as ESF+ funding, at national, regional or local levels. In addition, capacity-building programmes should be developed for NGO service providers.
2. In the light of the current energy crisis and rising cost-of-living prices, it is even more timely now that the EU needs to undertake a review of the effectiveness of the use of Public Procurement in funding social care services. Relevant updates should be introduced where needed, especially in the social clauses. Also, any revision to State Aid law at the EU level should positively support the commissioning of social services by reviewing the existing provisions and how effective they are in supporting social services. Moreover, the European Commission should also promote the use of other models of financing social services as seen above that are compatible with EU rules, like the use of personal budgets and service vouchers which empowers the service users to decide how they should be supported.
3. The European Commission should also provide clear guidance on EU funding opportunities to managing authorities.
4. We demand that the EU adopt a basic, long-term social investment strategy to create supportive ecosystems for social services, enabling them to be robust and serve their crucial societal function. Temporary instruments like the Recovery and Resilience Facility, as well as programs like the European Semester, EU Funds (ERDF, ESF+), and other financial instruments, should all prioritize social investment.

## 5.2 KEY RECOMMENDATIONS TO MEMBER STATES, REGIONAL AND LOCAL AUTHORITIES

1. When tendering for social services, Member States should keep tender volumes at a level that is deliverable by NGOs or separate the contract into lots.
2. Member States should develop a coherent and reliable funding stream to social service to ensure their functioning and quality, foster successful social experimentation and social innovation projects, and maximise the efficient use of EU funding, including by pooling together resources from different funding programmes. Furthermore, they must ensure that EU funding plays a transformative role in shaping social services and social infrastructures that are additional to (and not the replacement of) national and regional budgets. Sustainability of funding will ensure the sustainability of services and, consequently, the quality of services.
3. Member States should ensure that public budgets guarantee adequate finances for the provision of social services. These services are not only an effective investment but are also crucial for building resilient and cohesive societies. Public budgets should be complemented by private funding. However, when private funders are involved, public authorities must ensure that investors act in the general interest of the providers and that private financing is subject to high transparency requirements.
4. Public authorities, financial institutions, and foundations should promote the use of hybrid funds that are composed of both public and private funds.
5. Public authorities should furthermore involve representatives of CSOs and social enterprises in an open dialogue on why and where "new" financing instruments are necessary and on how to favour long-term rather than short-term financing and hybrid financing (public and private). "New" financing instruments should complement existing financing methods rather than replacing them.

Eurodiaconia will continue to report and follow the development of alternative models of financing social services across Europe. By working together with our members and reflecting on their needs and experiences on the ground, we aim at making a difference and push for improvements in the adequacy, quality, accessibility, affordability and sustainability of social services provision.



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