A Close Look at the Third Sector in Spain: challenges and opportunities in a changing environment
The Third Sector plays a major role in satisfying the many social needs of the population in areas of action which are beyond the reach of other organizations and institutions. The Third Sector’s importance in Spain is borne out by the almost 30,000 organizations that make up the sector, the more than seven million people they attend to annually, the €10,500 million managed or the more than two million people, including volunteers and employees, who work daily in the fight against poverty and social exclusion. Particularly relevant is the Third Sector’s role especially in hard times, for example, during the years of the economic crisis. During this period, sector organisations played an essential role in mitigating the undesirable effects of the crisis for the population.

We, at the PwC Foundation, are aware of the Third Sector’s importance and the value that it brings to our society and have embarked in the preparation of this report, Radiografía del Tercer Sector Social en España: retos y oportunidades en un entorno cambiante (‘A Close Look at the Third Sector in Spain: challenges and opportunities in a changing environment’).

This report has been drawn up by the Economics department of Strategy&, PwC’s strategic consulting arm, and has engaged the collaboration and support of almost 300 leading sector organizations, that have taken part in interviews, working groups and surveys in order to offer their vision of reality from an excellent perspective.

The goal pursued by the PwC Foundation through this study is to support the sector organizations, encouraging a process of analysis and reflection on the present and future of the sector.

In order to do this, we have focused on two lines of study.

On the one hand, we have carried out a comprehensive analysis of the sector’s key financials, mainly those relating to funding since 2008, and the outlook for the coming years.
On the other, we have reflected on and have identified, alongside the sector organisations, the challenges facing the Third Sector, current and future. In addition, we propose a series of measures and lines of action in order to ensure the sector’s sustainability and viability and guarantee that it continues to be a basic pillar of our country’s economic and social development model.

We observed that following the end of the economic downturn in 2012, the level of funding of the sector started to recover slowly. This recovery is set to continue in the future and pre-crisis levels are expected to be reached by 2020 in real terms. However, for the recovery to pan out, it will be essential for the Public Administrations to commit to the Third Sector. Only then will it be able to continue its social action projects and attend to the needs of its beneficiaries.

In addition, the sector will have to adapt to the disruptive changes we are facing, and will therefore have to reflect on the challenges shaping its future, develop a consensus around the key matters that may determine its viability and sustainability and set out forward-looking proposals in order to take advantage of the opportunities that will arise in a fast changing environment like the present. Specifically, the points of interest currently include, among others, the sustainability of the financial model, legislative compliance and internal controls, progress in matters related to results measurement, the sector’s reputation or the approach to digital strategies.

We, at the PwC Foundation, trust that this report will prove useful and will help the Third Sector to take on the challenges and opportunities that it faces with the determination and efficiency necessary to maintain its vital role in society.
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**Key financials of the Third Sector**

**What do we understand by the Third Sector?**

- Social cooperatives
- Charity organizations¹
- Residential facilities for groups at risk of exclusion
- Foundations
- DNGOs
- Special centers for employment and investment
- Associations of public interest
- Environment
- International cooperation²

Despite the fall in recent years, **12.8 million people** are still at **risk of poverty and exclusion** in Spain.

There are **30,000 entities** actively working in the **Third Sector** with more than **2 million volunteers and employees**.

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¹ Charities: Cáritas, Cruz Roja and ONCE Foundation.
² International cooperation includes development, emergency, human rights and peacekeeping organizations.
Following several years of growth, in real terms **funding fell** by 5.1% in 2017, compared with 2016, and amounted to €10,500 M

*Funding is expected to grow by 3.3% annually in real terms in the next few years although it will not reach pre-crisis levels until 2020*

There is still **heavy reliance on public funding** (62% of the total)
The growing importance on the public agenda of the needs of those people who are at risk of poverty or exclusion shapes the Third Sector’s vital role in the social and economic development of Spain. TS organizations currently satisfy a large number of social needs, which might otherwise go unattended, through a solid structure of employees and volunteers who work daily to meet society’s demands.

Occasionally, when we refer to the Third Sector, it is difficult to define exactly what it includes. We are fully aware of the difficulty involved in arriving at the right definition and in this report, we consider it to include those private entities, formally organized, voluntary in nature and non-profit whose main purpose is to promote the recognition and effective exercise of social rights in order to more towards a more cohesive and inclusive society, including international cooperation and environmental organizations.

The period 2008-2012 reflects the impact of the crisis that brought about a significant fall in funding.

In order to meet society’s demands, there are currently around 30,000 organizations and more than 2 million people in the Third Sector which receives €10,500 million in funding. In this respect, the lack of economic resources to meet demand is one of the sector’s main concerns since funding in real terms is still below pre-crisis levels (2010).

Evolution of funding

The evolution of funding in the last decade can clearly be divided into two stages: the period covering the years 2008 to 2012, marked by the late albeit severe impact of the crisis that triggered a notable fall in the sector’s funding; and the period running from 2013 to 2017, which saw the start of a recovery.

The four year period 2008 to 2012 was marked by the start of the crisis, that brought about a sharp fall in economic resources for the sector. The effects of the crisis took time to take hold. Funding increased until 2010, subsequently falling by 15.8% a year, in real terms. This fall was triggered by the decrease in private contributions and particularly, public contributions, reflecting the complex situation then facing the administrations to reduce budget deficits. The effects of the fall in funding were further amplified by the rise in social needs brought about by the increase in the population at risk of exclusion.
The period 2013-2017 was characterized by a change in the trend in the aftermath of the economic recession. The recovery that began in 2013 was prompted by a general increase in most sources of funding and particularly, the roll-out by Central Government of active policies to enhance employability. Although it is true that in the period 2013 to 2016 funding grew in real terms at a rate of 8.9% a year, the elimination of resources to promote employability and the prolonging of the public budgets, were setbacks on the road to recovery. In 2017 funding fell in real terms by 5.1% compared with 2016, and at approximately €10,500 million is, in nominal terms, at pre-crisis levels. However, in real terms pre-crisis funding levels will not be reached until 2020, meaning that the sector has been unable to make progress in its social action projects during this time.

Citation:
Source: PwC analysis based on information from Eurostat, Ministry of the Treasury, IHS Market, IMF, INE, X Solidaria, UAFSE, CECA, AEFr.
2017 was a turbulent year, during which, following a period of growth, the sector voiced concern. On the one hand, the fall in funding in 2017 was a setback in the recovery process that was under way. This has necessarily had to be an inflection point in the return to growth, which requires all stakeholders, and particularly the Public Administration, to be engaged and committed. On the other hand, in 2017 there was a change in the way the funds obtained from the 0.7% of personal income tax were allocated. This change has triggered significant uncertainty in the sector given that it can lead to territorial imbalances and an inefficient allocation of resources.

The initial conclusions that may be drawn point to the fact that the change in the model has increased the number of organizations allocated funds through personal income tax. Specifically, in 2017 an amount similar to that for 2016 was distributed but the number of organizations receiving funding rose by 2.6. In addition, the proportion of organizations receiving less than €50,000 increased notably, from 35% in 2016 to 58% in 2017. More worrying still is the fact that in 2017 150 entities received €10,000 or less, and four of them less than €1,000. These are extremely small amounts, with which it seems impossible to undertake any kind of action.

"2017 was affected by the political situation and budget extensions which represented a setback for funding”.

"The new approach to allocating the amount collected through personal income tax will have an impact on the territorial distribution and scope of projects".
With respect to the period 2018-2022, funding is expected to increase in real terms by 2.9% a year, mainly thanks to public funding (regional and local) and funding by the organizations themselves and their members. Nonetheless, forecasts are contingent on the Administrations’ commitment to the Third Sector and this means that there can be no repeat of situations such as the fall in central government contributions seen in 2017.

**Impact of megatrends**

In order to ensure that the sector continues to be relevant in society and can continue to develop, it will be essential to adapt to the disruptive changes taking place worldwide. These changes will be prompted by five global trends that PwC has named megatrends: (i) demographic changes; (ii) accelerated urbanization process; (iii) climate change and lack of resources; (iv) major technological breakthroughs; (v) changes in global economic powers.

These megatrends will have a major impact for the TS in the medium and long term and the sector has to be ready, foresee and successfully address them in order to leverage the opportunities for growth and development and take on the challenges and threats. In this respect, it will be necessary to carry out an exercise of critical strategic reflection on how these global changes will impact from two perspectives, namely, that of the funders and the beneficiaries.

Within this context, the main challenges identified together with TS organizations have been grouped together into four groups – strategic vision, economics, relational and internal.

“For the coming years (2018-2022) moderate growth is expected in TS global income”.

Executive summary
**Economic challenges**
The sustainability and economic stability of TS organizations is one of the sector’s main concerns. Their heavy reliance on public funding raises budgetary concerns and therefore limits planning and execution capacity. In order to address this challenge, it is essential to diversify sources of funding and roll out new financing arrangements where project commitment is medium to long term.

**Strategic challenges**
TS should be able to anticipate changes in social demand, that will require, among other things, strategic reflection enabling organizations to draw conclusions on how megatrends are impacting demand and define the role that they look to play in providing social services in the future.

Moreover, the demographic revolution that we are witnessing will change the way the sector organizations relate to their funders and beneficiaries. Adapting the TS necessarily calls for action such as rolling out flexible arrangements for donors or reflection and coordination between sector organizations in order to optimise the rendering of social services.
**Relational challenges**

There is a consensus about the need to enhance collaboration between sector organizations and other public and private entities. Building temporary alliances with other TS organizations to carry out projects and boosting relations with the Public Administrations in order to turn sector organizations into a strategic partner are some of the actions to be promoted.

Another of the challenges facing the sector is to make headway in matters related to governance and transparency. Adopting efficient forms of governance similar to those in the corporate sphere is considered necessary to improve the organizations' governance. In the case of transparency, more information should be provided to stakeholders, including the results of impact assessments.

Lastly, the sector should drop reactive communication and leverage its good reputation in order to transmit messages to society about its work. In order to do so, it is essential to drive joint actions aimed at promoting the sector's reputation.

**Internal challenges**

Although the sector is highly professionalised and has qualified personnel, attracting and retaining talent is still a major issue in view of the need for essential profiles in certain areas. It is necessary to promote the development of more qualified professionals and improve talent recruitment procedures, taking as a reference the methods used in business.

The sector cannot afford to lag behind other sectors of the economy in the digitalisation process and should eliminate resistance to digital transformation, making an effort in culture and training and attracting new talent with the right qualifications.

Compliance with legislation and internal controls is one of the sector's main concerns. In order to achieve progress in this area, mechanisms need to be defined and established, enabling legislative compliance to be assured and permitting fast and diligent action in the event of non-compliance.

Lastly, in the immediate future it will be essential to measure and communicate the impacts of the programmes carried out by sector organizations, which are insufficiently reported at present. In order to do this, progress should be made in implementing a systematic and homogenous methodology for the sector.

In the following sections, we take a detailed look at all these matters, which are the result of an extensive analysis performed alongside players in the sector.
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