

International Laboratory for Nonprofit Sector Research

scientific seminar «Ten Myths of the Global Civil Society»

Professor Lester Salamon, Director of the Center for Civil Society Studies, Institute for Policy Studies, The Johns Hopkins University. For many years Dr. Salamon directed the Johns Hopkins Comparative Nonprofit Sector Project, a study of the scope, structure, financing, and role of the nonprofit sector in more than 40 countries around the world. As of 2014 Dr. Salamon is a research director of the newly-established International Laboratory for Nonprofit Sector Research within the framework of the Center for Studies of Civil Society and the Nonprofit Sector, NRU HSE

Natalya Ivanova:

So the working language of our today's session is English, and everybody is requested to ask their questions in English, later on as we have a special Q&A session. So we are starting.

With us today is Doctor Lester Salamon, to dispel popular myths prevailing about civil society. So that's his main job today – to dispel these myths. And as Irina mentioned, Mr. Salamon, you know, he is the Director of the Center for Civil Society Studies with John Hopkins University, and since recently he has been international research advisor and co-director of the newly established International Laboratory for Studies of the Non-Profit Sector within the framework of the existing Center for Civil Society and the Non-profit Sector Studies at the Higher School of Economics. So he is our colleague now.

Well, I would love to stress once again that Doctor Lester Salamon is a world-known expert on civil society and non-profit studies. And we all know him, of course, as the Director of the huge, of large-scale project - the Johns Hopkins University Comparative Non-Profit Sector project, which covered almost 40 countries or more and Russia was one of them. So, that's how we know Doctor Salamon and based on his studies of the non-profit sector the world over, especially the scope, particularly the scope, the size, the funding trends, the contribution of the non-profit sector to the economy globally. Doctor Salamon and his team, they were commissioned by the United Nations Statistics Division to develop international manual calling for national statistical services to portray the non-profit sector, to document its contribution to economy in the so-called satellite accounts. And these accounts have been adopted by a dozen or over a dozen countries by now. In addition to his work on the non-profit sector the recent projects of interest of Doctor Salamon include the development of innovative trends in philanthropy and charity, the tools that governments use to involve and use the universal social means. And lots of other innovative trends involving philanthropy and innovative sector development. Doctor Salamon, the floor is yours.

(Doctor Salamon)

I wanted to spend some time talking about some of the mythology that exists about the non-profit sector around the world. This is the sector, as you know, that it is mired in ideology and that ideology in many countries, certainly in opinion of my own, has obscured the reality in this sector in very significant ways with a whole set of beliefs that have never been confronted with actual facts, and that's a very dangerous situation to be, because anybody can put forward any theory at all without any fear of having been contradicted with facts, and what we've been trying to do in our work is to question the myths and see how well they hold up.

And so let me... let me begin by... with the myth that existed right when we started out work, and this was that of the reason of such thing as the non-profit sector. When we started our work some fifteen-twenty years ago... I was joking I was twelve years old when I started this work, it certainly feels that way. There was really no concept of a non-profit sector. People knew that they had in their countries environmental proofs, or they had soup kitchens, they may have had some private hospitals, but the idea that these comprise a sector was not something with that people's minds. In fact, when we started to write about it we were accused of all sorts of things - this is an American concept, that doesn't exist in Europe and I know no non-profits in various countries to speak of, we have voluntary organizations, some people said, but we don't have anything of the non-profit sector. And the interesting thing is that this sense of the absence of a non-profit sector was in a very fundamental way driven by, at least in part, by the way the economic statistics are kept around the world. And you would understand this better if I could show you the pictures that we have created, but since I can't I have to describe it. We have internationally something called the System of National Accounts. This is a universal system overseen by the United Nations Statistics Commission, utilized in every single country including here in Russia to portray the economy, and the System of National Accounts grades economies into five economic sectors, five types of industries.

So, one of these sectors, one of these types of organizations are called corporations, non-financial corporations, the second one is called financial corporations, the third one is called government, the fourth one is called households, and then this is the fifth one. And it's known by the words "non-profit institution serving households". And in the English language it is referred to with its abbreviation which is N-P-I-S-H, non-profit institution serving households, so the statistical community knows it as NPISH, which is a kind of funny term. So, many people would think: 'Oh, non-profit institution, there must be the non-profit sector, no problem. What's your problem with doing research on this sector?' And when we began our research we went to the report on all these different facets of the economy, put up by OECD, the Organization for Economic Cooperation and Development. We looked in the cap columns called NPISH, non-profit institutions serving households, and we found two curious things. One, the good news, only 22 countries in the world reported anything about the non-profit sector in these statistics suggesting that there are only 22 countries with non-profits. That was the good news. The bad news was that we wanted deep report. When you looked at the data you knew in about four minutes, and if you spent any time in any of these countries in four seconds, that the data were dreadfully wrong. They were grossly understated. Anybody who has been in Germany would know that Germany has huge free welfare associations. And these entities run all of the hospitals or most of the hospitals, most of the nursing homes, most of the kindergartens for children, daycare centers, they are involved in the Unit Service field in a massive way, by far one of the largest employers in all of Germany. And when we looked at the data for the non-profit sector it was only reporting about one-ten of one percent of the GDP being produced by these non-profit institutions.

It was clear that something was really dreadfully wrong. And we then began to investigate this. Why is it that the official statistics of the world have missed a non-profit sector? And we discovered that the rule that used by the statisticians to sort different economic units among these sectors was based on the source of their revenue. Well, a lot of non-profit organizations it turns out receive revenue from sales of services. My wonderful university, Johns Hopkins University and my other wonderful university you should know, Johns Hopkins is a very proud non-profit organization. But my students tell me that they pay to

go to our university and this seems amazing to me that they would pay for us to teach them, that's what they do. Well, in the eyes of the statisticians that makes them a market producer. We are selling education. Therefore we, like any other market producer, are put into the corporation sector of the accounts, along with all the hospitals that receive payments or all the nursing homes that receive payments, and all the daycare centers. In other words, the SNA, the System of National Accounts, in a way, in that system you lose your identity as a non-profit institution. So all the data that we are reporting on hospitals and higher education, and daycare, and nursing homes, and thinking that these are for-profit providers, good many of them are non-profits. And therefore the non-profit sector in a way statistically disappears. And what we've been trying to do since then is to find it – find it in the data sources and find it and get the statisticians to find it, and that was all about it.

So anyway, this in a way frames the issue. The reason we were able to believe that the sector was non-existent was that we had the data on it, and it was easy to ignore it. So it's become the hidden subcontinent on the landscape of our societies. So what our work has been in our research... I'd like not to wear glasses but the reality is there... I can see the lovely ladies in the back row but they blur with my glasses off, and so I can't really see how pretty they are. But when I put my glasses on they are coming into existence and we can just see them. In a way, statistics are the lens through which we see societies. And if the lens that does not have the right concept, then we don't see things that are very important. And therefore this sector, which you are going to hear, is quite significant.

Okay. So, fundamentally this is the picture of the SNA's treatment of the non-profit sector. You can see these five different sectors and we can see that this works pretty well for corporations and they are all falling for the corporation sector, government units fall into government units section, but when it comes to the non-profit institutions, see - they are present in all the different sectors of the accounts. And once they fall into the corporations or the financial or non-financial corporations – puff – they disappear and the only thing that's left is this – the non-profit institutions serving households. So we had to bring a new lens to the picture and when we did that we had to come up with the definition of this sector and these were the works that we carried out as part of the Johns Hopkins Comparative Non-profit Sector Project. This is a massive comparative research project that has now been going on for some twenty years in countries around the world. Altogether there are some 42 countries that are involved in this project. They are spread around the globe: North America, South America, all of Europe, Central and Eastern Europe, Russia as you see is the part of the project. And we do this project because we have to come up with the definition – what is the non-profit sector that we could find in all these different countries? We couldn't use a legal definition of the same, because legal definitions differ, some countries don't have good ways of depicting the sector. And we couldn't really use this economic definition that the System of National Accounts was using because we couldn't say: 'If you get market sales, you are no more non-profit'. Many non-profits receive market sales. And so we ended up with a structural and operational definition. It has five criteria that define the sector. First of all we focused on organizations, we realized that there's a lot of non-organized activity in this space, which has the focus on the heart of the sector, which is this organizational part, recognizing that organizations are not always legal or formal, they can be informal. We focused on institutions that are institutionally separate from the state. Very crucial criterion. They can receive money from the state, but they are institutionally and legally separate from the state. Thirdly, we used a word in English 'non-profit institution', I know in Russian its 'некоммерческий', what it means it's focusing on distribution of a profit. There is no barrier to earning profits. Organizations sometimes end

up with more profits at the end of the year or income than they spend so they have profit. But they are not allowed to distribute their profits, they are not profit-maximizing, they are not profit-seeking, they are not profit-distributing, very crucial criterion. Fourth criterion is it is self-governing, they have their own internal mechanism for governance and at the end of the day our test for that was how quickly an organization decides on its own authority to put itself out of business, to stop operating. And this is the difference between a state university, for example, and a private university. The board of the private university can decide to go out of business but the board of a state university will presumably require some action from some governmental body in order to go out of business.

So this becomes the definition of the sector. And with that definition it's clear that this is a pretty wide set of institutions. It includes an enormous array of types of entities, from free associations, in one extreme, to daycare centers or museums or hospitals or environmental organizations or professional organizations or sports clubs. These are all within the name of the non-profit sector, because they fit this definition. To fit this term they need these five criteria, objective criteria that can be determined by investigation and come up with the same decisions. We've applied this definition for over forty countries, and we've been able to define and look this is just a partial list, there's much more than this that makes up the non-profit sector.

It has not cleared out for many people on what these are; it's like this elephant in an ancient tale, depending on where you touch it you have a different idea of what it's like. So, some countries think of it merely as a service provider. In other countries, partly more in this country, it's perceived as the advocacy self-institutions. The truth is, it has multiple functions. And this is a second myth that has to be challenged, where the alternative view is held. There are five different functions that these organizations perform. And what is truly unique is that they do perform all of them. One way to think of them is their specialness. That is to say that they are the only institutions in society that mobilize private initiative for the common good. We have businesses that mobilize private initiative, but that's mainly for personal benefit. We have governments that pursue the common benefit, but they realize collective action and the power of law, so it's compulsion. What's unique about non-profits is that they rely on private initiative, but they mobilize it for public action. These five functions that they perform, they are, first, service providers, and so non-profits in many countries are engaged in providing health and education and services of various sorts and environmental protection, so this is a very important function, in some societies, and mostly in Europe, it is a major function of this sector to provide, to deliver an enormous array of services at a very high level of activity. But they also have an advocacy role. They are the expression of the people when governments aren't listening. They call attention to problems that may not yet be focused by the government or private attention. And so this advocacy function is sort of problem identification, it is another crucial function that really distinguishes these organizations. The third function is the expression of values, and these are the institutions through which whole ideas of values that give richness to life are expressed. They can be religious values, they can be corporate values, they can be ethnic values, they can be values of recreation, even, or dance, or sports, or music. These institutions have been powerful vehicles through which a whole idea of human values can be expressed. Without them, we would have had much more boring lives. It adds richness to life. A fourth function that has increasingly got a lot of attention is what can be referred to as the community building function or, in more technical terms, social capital. 'Social Capital', some of you may know, is the work of Robert Putnam, a sociologist from University of Johns Hopkins, and James Coleman, who really invented this concept. There are multiple kinds of capital in a society. There is financial capital, that's the one that we

frequently think about a lot, there is human capital, that's the skills that people carry around in their heads, there is physical capital, buildings, computers, when they work, and things of that sort that are handable, or that are of value, and most of the time that's it, we don't think of anything else. Coleman and now, more recently, Putnam have emphasized that there is another kind of capital, very important, and it is the bonds of trust, and reciprocity that is binding people together, gives them confidence that tomorrow they are not going to do something terrible to them. Putnam's done a very-very good job to document the contribution civil society organizations make to the building of trust, and the importance of trust in allowing markets to operate, because if you don't have trust you will not have confidence that the contract you signed today will be carried out tomorrow. This is something you need trust in order to really have confidence in. And similarly in the democratic and political system if you don't have trust you are not likely to compromise, because you may agree to something today thinking your partner is going to agree to something you want tomorrow. And if you can't have this trust, in other words if you think they are going to double cross you, you are going to go back to you work, you won't make a compromise with this partner. And therefore this building of trust is an important other function of the non-profit sector. And then finally this is the sector that is a mobiliser of this value of individual initiative of becoming good. And again, it's a very precious value for a society to sport, because it means that people can act on their own initiative to get things done. It's enough for somebody to say for you to do it, or wait for the government to do it, or business to do it, they can organize and began to act on their own, and therefore this is a very powerful concept.

So, there is such a thing as a non-profit sector, first myth as you know. Secondly, it's not only one little function, while it serves advocacy, it serves a really broad array of very important functions in the society. Third myth, okay it's important, it's quite a marginal actor economically, it can be nice, but we do not think it is strong, it is big, it is powerful, and that's because of the general lack of data, it simply has not been the subject of economic analysis. So, lots of work I've been doing over these years has been to try to see whether that myth is correct, is it really marginal. The story that comes out of it is just the opposite: that it is an enormous economic engine that has not been widely recognized. And we produced a whole series of books documenting these realities. Let me just introduce you some of the data that already exists. So this is an early data, for which I apologize, for forty countries. We found forty eight and a half million people, four time equivalent workers working in the non-profit sector, five percent of the economically active population. Any time any industry has five percent of the economy and this is a big industry. To put it into context, we put together the revenues of the non-profit organizations to make projection of the global revenue of the non-profit sector and compare it to the economies of a number of countries. And the emergence is that this would be a fifth largest economy, the non-profit sector would build a fifth largest economy if it were itself a country. You see that it is behind China and India and Japan, it's just ahead of Russia. In other words, the non-profit sector economy globally is larger than the GDP of Russia and Germany and finance in Brazil, United Kingdom, Mexico. It is a big economy. If it were a country on a world stage it would be one in the top five.

So, this is a sector that we need to pay attention to. It is not something that is trivial. The other data that would support the same point – this is another way to express the scale of the non-profit sector. This is the workforce, the paid workforce present in the non-profit sector in thirty seven countries in which we have data and workforce about forty eight million workers. And then we looked at the largest company in each one of these thirty seven countries. And asked how many people are working in the largest company in every

one of these thirty seven countries? And the answer there is about four million, and so the non-profit organizations in these countries are twelve times bigger than the largest, the collection of largest companies. We are talking about Germany and the US. I think it was one of the largest factories in Japan and so forth. And so this again is a way to express the fact that we are talking about the huge component of the world economy. Another way to see this... well let me go on to the next myth. And the next myth is okay, it's big, but most of it is American. That's the assumption. And there is no non-profit sector outside of America. This is a particularly American myth, though I am not sure you all to hear, but I tell you that a lot of Americans talk that, you have to believe. This is the unique feature of America, the United States has a non-profit sector and the rest of the world has taken a very different turn. Welfare state with the state doing all the work, and a worker has been smart enough in the eyes of Americans to avoid this trap and to build instead a huge non-profit sector. And it certainly believes that on certain levels of civil society sector in Scandinavia, where the welfare state is truly highly developed. This again is a very wide spread myth, wide spread belief. This is data on the US non-profit organizations and the workforce and you can see that if you include volunteers, the non-profit workforce in the United States is larger than any single industry. It is larger than all the manufacturing, all the retail trade, of construction, the eighteen million workers, and even if you take the volunteers out of the equation, we still have the estimate of the full-time equivalent workers presented by volunteers. Believe me if you take them out of the equation it's still the third largest industry, then it drops behind manufacturing and the retail trade. So in the US, we have a pretty large non-profit sector, but look how it compares with non-profits in other countries, when we do the same thing, and we have a lot of data on thirty or forty countries and you have to look pretty hard to find the little USA. It is rated down here. It is about 9.2% of our workforce, which is big, no question about it, but like this, look at the Netherlands. Volunteers form 16% of their labor force; it is made up of people working in the non-profit sector. And other countries are in a similar situation – Canada, Belgium, Israel, United Kingdom, Ireland, New Zealand, they are all ahead of the United States, so what's going on here. So what emerges from this is two very-very important conceptual theoretical observations: one of the myths, the United States is not leading the world in the non-profit sector, it is just about half the size of the volunteer economies, and then secondly it is interesting that the countries with the largest non-profit sectors proportionally are the countries that have been traditionally thought of as welfare states. And then it emerges that they are not welfare states, they are welfare partnerships, in which the governments have turned towards non-profit sector to deliver massive amounts of services. And if you really go to NN you will see how it is financed. But if you really go to the Netherlands and say that you guys are not having this non-profit sector, it's just state organs, they can punch you by the nose I guess... they value non-profit institutions.

So we have these data that has transformed the concept of the European welfare state, because it has shown that it has the false image of what really is going on. Yes, the state is financing a lot of its staff, but no, the state is not delivering it to the country; massive outsourcing, massive use of vouchers, massive use of overriding vehicles to mobilize the state. So anyway the non-profit sector in much of the Western Europe has had the state as a fund raiser. And the state raises money on behalf of the non-profit sector using what only the state has, which is the power to tax. And then it turns money over to the non-profit sector just to support them. And when you think about it it's a very clever system because it uses non-profits, uses the state for what it does best, which is raise funding through democratic political process presumably and then uses non-profits for what they do best, which is to deliver services. And so it's a kind of interesting model, that if we had not fallen into it, we would be busy inventing it as indeed Russia seems to be now. On this scale,

Russia is at the low end, let me say now. And we find Russia down near the bottom in terms of the share, so this is large share in this color.

Okay. So it's about 1.2% of the workforce in Russia including volunteers. The colleagues from Russia are going to help us gather this data, but we think that the employment that came from surveys that were done by the Higher School, I think that's correct. The volunteer data are from only volunteer count done through organizations with other volunteering that I think is occurring in Russia outside of organizations that is much more substantial. Only about 20% is coming through organizations, this about 1% of the population, 2% let's say, and it's because your organization base is so limited. So there is a richer array of volunteer activity but it is not taking place through organizations. And we've taken this work now. Another step in the work that we were doing was using scholars and researchers in different countries with heavy lifting, with doing thorough data gathering, what we are now having up to do to is moving to a much more institutionalized structure. This is the United Nations Handbook on Non-profit Institutions in the System of National Accounts. I think it was referred to by Natalia. We went to the UN statistics division after we had this data together, we showed them the books that I mentioned before, coming out of the SNA showing them the size of the NPISH sector and then we showed them our data on the non-profit sector and we said to them: 'One of us is wrong, either we are wrong, in which case we will apologize, or you are wrong, and the statistical system of the world is lacking capturing something very important. And if you are wrong we would expect you to be willing to fix it.' And they spent about six months going to statistical agencies and checking our data against the statistical agencies and in six months they came back and basically said 'Can you help us? We need to fix this and we are willing to do it if you can help us'. So we worked for about two years with the international technical expert group and we came up with this UN Handbook on Non-profit Institutions, it is the guide to bring the third sector into light, into visibility, but now not based on our data but based on the statistical agencies data in all those different countries. And we went beyond that, and we knocked on the door of the International Labor Organization and put it out to them that they were doing nothing to measure volunteer work. We identified volunteer work as the major element, you'll see this in a minute, of the workforce of the non-profit sector. And we challenged them – how can you possibly leave out of your statistics a part of the labor force that is a major part of the workforce of the non-profits. And again we were challenged to come up with the way to solve this and developed a manual. We presented it in front of the statistical commission that oversees labor statistics every five years, so we had a good opportunity to present a manual. It's amazing they were enthusiastic about it, accepting this. So we know two very-very significant pieces of machinery that is incorporated into the international statistical system. That basically statistical agencies to measure the non-profit sector, pull it out of the existing sectors in which data by now held captive and portrays, produces an account. And what we are doing is to collect data not on paid labor, but on volunteer labor accredited to the third sector, to the non-profit sector. We were working over the last four years trying to get countries to adopt these procedures. I spent yesterday afternoon at Rosstat making clear to them that they are falling into the statistical mistake that the SNA had fallen into and that they should build in the UN pattern. I cannot say I worked out an agreement, I left with a statement, they said: 'If you can get someone in some ministry to tell us to do that we would be happy to do it. But until we have a director, until we have funding our hands are tied'. But I think there is some movement in this country and I would encourage any of you to be active in the third sector, in the non-profit sector, this is a high priority until you get real data it's very hard to make the case for the sector. Once you have the data you can walk into any room and show what you have got. You represent more workers than most industries in the country. And this is a big non-

profit sector simply if, when you put it against all the employees in the country the percentage is small. If we calculate it in absolute terms, there are probably more people working in the non-profits in Russia now than are in France or Germany. So it's a big story. And we now know the data coming out of these statistical agencies and the interesting thing is that it is confirming every bit we've been reporting. This is a huge sector that's intruding massively into the GDP and the countries that we identify as big or in fact big across the world and this is a very big and important story. So that's myth number three. We have a lot of ways to show this. I'll put it shortly. This is sort of the contribution to the GDP, it takes eight countries which the GDP data, GDP contribution is a little bit different from the share of employment and it shows that the non-profits in these countries are larger than a lot of the major industries. Financial intermediation, construction, gas and water supplies. Non-profits are making higher contribution to the GDP than they are, and when you look at particular fields, the GDP contribution of the non-profits is even higher. This is the data on Belgium and it shows social services. Two-thirds of social services in Belgium are delivered by non-profits. 53% of the sports and recreation and 42% of the health. So it may be 5% overall, but when you look at the fields that are non-profit fields it's enormous.

A fifth myth about this sector involves the relationship between the volunteers and workers. And this myth I am sure you've heard is the paid staff drive out volunteers or volunteers drive out the paid staff. Two opposite and when you have substantial volunteers you are likely not to have large quantities of paid staff, and when you begin bringing the paid staff they try to out the volunteers. So we've got a lot of data already on volunteers and it is enormous part of the workforce of the sector, over 40% of volunteers, and this is after you convert the work of volunteers, the four times equivalent terms. We figure out how many hours volunteers work and we know what a full-time employer works, and it's huge. It's pretty substantial across the border. In this share of workforce the volunteers represent, but you know there is no big difference in the balancing of those countries. The one big difference is the Nordic countries. It is a very hard portion of volunteer work in the non-profit sector in the Scandinavian countries, very characteristic feature. Here again we have made estimates of the scale of volunteering, if you put all the volunteers together in one country it would be the second most populous country in the world. If you think of it as an economy it's right up there as well, I think I've got figured... if you look at this as an economy it's the seventh largest economy. This is the picture of the volunteer contribution to the GDP in Canada, and again it shows just an enormous scale, it's bigger... I'm sorry... it's bigger than the vehicle manufacturing, big industry in Canada, bigger than all and this is just volunteers. So volunteering is a big story and that's a big part of the story of this sector. In fact, if you would think of giving time and putting value on it, even a very limited time, and would compare it to giving of cash, the giving of time without giving of cash in economic value by substantial marks. So this is all for the philanthropy and these 36 countries comparing cash, which is I think where most of our attention is aimed, ... giving of cash versus giving of time. And as you can see about 32% of the total, about a third is represented by cash contributions and two thirds is represented by giving of time. So giving of time is much more significant. Now as to the myth, is it true that if you have high levels of volunteering you have low levels of paid staff and where you have high levels of paid staff you will eliminate the volunteers. If that were the case these two blocks that have most of the cases, it is near above average staff and near below average volunteering and you have the low average staff, you have above average volunteering. So we had to test if volunteering drives out paid work. And the answer is this: only the minority of our countries fall into that pattern. About sixteen percent of the countries fit the pattern. High staff, low volunteer, low staff, high volunteer. Most of the countries are just a reverse. When

you have below average staff you have below average volunteering, and the above average staff you have above average volunteering. And so this notion that there's a tension between those two is just wrong. And when you think about it I think you can think why is that the case that volunteering is not just an individual act, it is a social act, it is best achieved when somebody is mobilizing and organizing the volunteer work, gives structure and coherence. That's what paid staff are able to do. Ok. So that's... that's myth number six, if you keep the track. Paid staff drives out volunteers.

Myth number seven has to do with the financing of non-profit activities. And the common belief, certainly the common belief in the United States, is that philanthropy is the major source of revenue of non-profit organizations. Many-many Americans believe and many of you would believe, I suspect, that philanthropy is really the major source, 80-90% of the revenue coming from philanthropy. And there are discussions on whether they are individuals, foundations, or corporations, but think of philanthropy altogether. It is assumed to be the major source of revenue. And again this is a wonderful myth that makes everyone feel just wonderful about how generous societies are, but it is not true. So here is the breakdown of the revenues, the cash revenues of non-profits. It turns out, I guess I'll pull it for you to see that portion, the biggest source of revenue, about 53%, this is big green blotch here, is made up of fees and charges, this is a commercial income that non-profits receive for the sale of their services. Sometimes it's below cost, but nevertheless they are fees, and you can see from this data why it is that the UN Statistics System, System of National Accounts made such a mistake in using the source of revenue as the criterion for defining and locating non-profit organizations. The second most important source is government. About 35% of the overall average of the world of revenues come from government. So government is three and a half times bigger as a source of revenue to non-profits than is philanthropy, big shock to a lot of people. Philanthropy, it turns out, is only about 12% on average as the source of revenue. And so anybody who believes you can drive a bus of the non-profit sector solely on the basis of philanthropy is unfortunately, much more than I wish were the case, kidding themselves. It's simply very few countries in the world, if any, that do that, and as we see these countries are not with the largest non-profit sectors. It turns out that even in the US poor people believe that certainly in the US we've got this big foundation, and so for and so forth and everybody is so jealous of the scale of the American foundations and believe that you will never get there because of these big foundations. So it turns out that even in the US the philanthropy piece is pretty small. That the US is a classic example of the fee-dominant pattern of the non-profit finance. Fees are the major source of revenue. And philanthropy is not even second in the US. So in the US 57% of the revenue comes from fees, another about 35%, 31% comes from government in the US, the government has 31%, and the philanthropy in the US at this point it's about 13% it has now perhaps fallen down to just 12 or 11%. It's a very junior player in the financing of the non-profit sector. So this is one pattern. It is a very common pattern. It is particularly common in the less developed countries. What is striking is that the second pattern is the one that is really accounting for the largest non-profit sector. So if you look at this chart it shows different pattern, government pattern, countries in which government is the largest provider of support for the non-profit sector. The countries that end up there are precisely the countries that ended up at the top of the list in terms of the scale of the non-profit sector, so it's Netherlands, it's Ireland, it's Belgium, it's Germany, it's Israel, it's France. These are countries in which 50 to up to 77% of the revenue of non-profits comes from state sources, from government sources. And to bring that home to Russia this is the data that we've been able to assemble so far, but Russian pattern of financing is just exactly the reverse of the average. The biggest source also is fees, which suggests these are cultural institutions and things of that sort, about 33% is coming from

philanthropy, much of it we think is corporate philanthropy, and only about 15% overall is coming from government. See you all think this is true? So this is the data that we've been able to assemble and having wonderful robust conversation about it. So the government support, the figures refer to, I think, 2008, remains pretty limited, though it appears to be growing, and we'll see how that unfolds. So that's the eighth myth that philanthropy is certainly the major source of revenue in the US, turns up not to be true and turns to be true for almost no country that we have come across. That was for the subsectors, and for the sector as a whole now.

Myth number nine is a little bit complicated. It has to do with one of the recent trends in the sector. It's been long believed that the non-profit sector is a labor intensive sector, that is not making use of capital so much. That it really relies on its labor and so it is a service sector. And so these sectors tend to be very labor intensive. The interesting phenomenon though in recent years is that this sector, like every part of the economy, has become more and more capital intensive. In other words, it needs capital. It's important to make a distinction between these two types of income. One of them is operating revenue, that is what you need in order to cover your costs and you. And I think for most of the non-profits basically this is the end of the story, they focus on investment... I'm sorry on operating revenue, and if they make enough money here to survive that's success. But business community does not think that way. The business community realizes that in order to survive and grow you have to constantly be innovative and you have to make investments. And therefore this is a whole second type of capital. That's an investment capital. And it can be hard investment capital, that is good equipment, or it can be soft investment capital, which is training for your staff, your strategic planning, all the things that are required to get a normal stream of work and think about the future and do planning for the future and set goals for the future. Well, non-profits are historically, systematically, institutionally disadvantaged in the pursuit of investment capital. And they are disadvantaged for the obvious reason that they cannot go to the so-called equity markets, they can't sell stock in their businesses the way business can. And equity capital is free capital you don't have to pay for, you have to pay somebody if you earn a profit, but if you don't earn a profit or if you go out of business, you do not owe them anything, they are taking a risk. And they are acquiring an ownership stake in your business as an investor. Non-profits are not allowed by law to share ownership with some group of investors and they are not allowed to distribute profits based on the capital that's been invested in them. So this means that the entire equity market is shut off to them. So the only capital that they can get is bank loans. They could not get other kinds of loans but bank loans, but those are the most expensive forms of capital in global market. And so non-profits are disadvantaged in their struggle for capital. And we've seen in the United States that when there is a competition, particularly when government will start a program and bring money into a field, the non-profits are in a very difficult position to compete with for-profits. And the result is that the explosion of growth occurs in the for-profit sector. So this is the bad deal and you can see the results of some survey that we did in the US just to illustrate that even here these problems exist. It was a post-project with about 1500 non-profits in our country, the panel survey which surveyed the same organization over and over with a different set of questions asking them about various issues that they are facing and then we captured results. And so this is one we did on capital needs, 'do you have needs for capital'. And most agencies said, 'we badly need capital for the technology, program development, building, and so on and so forth.' And the next question was 'How well did you do over the last two years in meeting those needs?' And what we got back was pretty chilling record of lack of success in access to investment capital. So they need investment capital, but they are having great difficulty raising it. So this is really a great dilemma. But there's good news also. And this good news

is the emergence of the whole new eco-system of social purpose finance that is emerging around the world, about which I've just finished a big book. There's been an explosion of big bang in the philanthropy and social purpose finance, emergence of a whole new sets of actors, new capital funds, for example, equity funds, loan funds, secondary markets that is either institutions that buy loans from the entities that make the initial loans so that they would refresh the capital, social things, the whole incredible new world of social purpose finance. And this is what this book is aimed to do is to paint in this whole new phenomenon. It has a series of chapters about the new actors that have emerged, these funny names, very strange to the world of philanthropy or social purpose action, capital aggregators, secondary markets, social stock exchanges, foundations that are functioning as philanthropic banks, investment funds and then various tools including securitization, equity, social impact bonds, this is the new language of social purpose finance and don't feel bad if you don't know it yet, many non-profits don't know it around the world, but increasingly this is what is going to characterize the world of social purpose activity. So the non-profit sector is labor intensive, it is capital intensive, there is a new eco-system, this is... excuse me for a little commercial for these two books, I will just finish... One of these is called "New Frontiers of Philanthropy". It's a big book and we took the introductory chapter of this book, and turned it to separate book of leverage for good, which gives a kind overview of this world. So that's myth number nine. It is a capital-intensive sector, it's been conveyed as a labor intensive sector, and the truth is it is becoming increasingly capital-intensive, and is calling forth an entirely different financing system to cope with that.

The final myth – fortunately reaching here – has to do with the growth of the sector. And the myth there is that whatever else it is, this is not a kind of entrepreneurial sector, that it's a kind of sluggish, it does not have entrepreneurs like business sector does, and that it's growing slowly as a consequence, barely shagging along. This is the image that I think many people hold of the non-profit sector. It has to become more businesslike somehow, as if it was not, doing things that were entrepreneurial. So we are now in a position to have data and mark points in time, and the growth of the sector, and the story is really very striking and very different from the mythology. So this is the picture of the growth of the non-profit sector per year in five countries where we have historic data. And this is the differences among those different countries and this is the total economy growth in those five countries. So the non-profit sector grew at a rate of 8.1% a year - enormous fast growth - this is typically between yearly two thousands. The overall economy in those countries on average grew about 4% a year. Half as fast. And as you can see the non-profit sector beat the for-profit sector or the overall economy in every one of the countries, including Japan where the overall economy dipped on average over this period of time. And so this turns out to be not lagging at all, but one of the most robust components of the economy of all.

And so what's the story here. We have an assumption of an invisible sector that has not attracted attention and does not seem to be deserving that attention. This is the myth. Financed mostly by philanthropy. So they are chugging along slowly and they barely hold on its own. That's the mythology. The reality is it turns up to be an enormous sector of incredibly vital importance. Important not only in its conceptual philosophical terms, but in strictly economic terms, and a major component of the economy and a major engine of growth requiring more attention from everybody than it is currently getting and very much tied in policy decisions made by government. So let me stop there and see if you survived this dropping of facts and figures. Thank you.

It has been fascinating. Now when all the myths on the civil society have been done away with we are in for questions. Questions and answers, but please introduce yourselves.

Question 1:

My name is Evgenia. I am from Izhevsk, but doing my teaching in Berlin. The first question is about the non-profit sector and the civil society sector. From your point of view are these equivalents? What meaning do you attach to each sector? Thank you. Second question is raised to make sure that I understood you correctly. You said ... you've talked about average staff and about average volunteers, what did you mean by this 'average' – what, a quality of their work or something other? Thanks. And how do you measure the growth of the non-profit sector: is it number of organizations or something else, another level of services. And just to make an addition. You talked about functions you mentioned monitoring, do you think that monitoring could also be named as a separate function?

Question 2:

My name is Christian, I am half German based in Sweden and in Moscow, and am using this opportunity to ask you a question that has been worrying me for a long time. Following the Johns Hopkins project about the relationship between non-profit sector and civil societies, is there a difference between the non-profit sector as a concept and civil society as a concept?

Prof Salamon:

Let me first take these two questions, because the first question connects to the question of a young lady, which is partly terminology and partly in a way conceptual. So the question you did not hear was is there a difference between the non-profit sector as a concept and civil society as a concept and you know I think that there are differences. I tended to use the terms interchangeably and I made I query when I wrote that, and in a way organizational component is in the heart of civil society, it's not necessarily all of it. I really use the term as a noun 'civil society', I am using it as an adjective and refer to 'civil society organizations' to say that it is a component of a larger whole. But as for the larger whole it is difficult and I am persuaded by some of the literature on totalitarianism that when you have unmediated interaction between the state and individual citizens - that's all, it's a very dangerous situation that a state will dominate, and that's been the story of the totalitarianism in the 20th century, that the elimination of the organizational essential components of people's lives, but in terms of definition you know I would stretch the term 'civil society' to include a lot of movement activity and certainly a lot of informal organizations, in any sense legally authorized would certainly be included and in the empirical terms they would be captured through the surveys we would do on volunteering. And we define the volunteering as any kind of work and work is defined as something you do that is not solely for your benefit, so for the benefit of others. So, say, if you play the piano in your home it's not volunteering, but if you play piano in the nursing home for elderly people that's something you can imagine you are doing for somebody else. And similarly involvement in the social movement is presumably for a common good and therefore could be included. The one difficulty we get into is that we would like to say that it is in the non-profit sector, but how could we define it? It contributes to political mobilization, it contributes to participation. And if we define participation as part of the non-profit sector, the part of civil society sector then we create mythology. We've defined insiders using as a term something that's really is in effect, so these are very certain types of truly individual behavior, but we are all to agree this is an effect, the result of civil society but not in itself civil society, so I hope it's clear - the difference is that the civil society is broader, and the non-profit sector, non-profit organization is more narrow, one is inside the other, but it does not occupy the full space.

So then you asked a couple of questions. What's that that's below average and volunteering data. So we talk about the average again using slides and doing speeches. It's hard to get all the technical features out, so about average was that the share of the workforce in a country that was made up of volunteers or was made up of paid staff was above or below average. So it's the share, as an average, across this country's non-profit sector what is it above average below average in terms of the share of its workforce made up of volunteers and the share of its workforce made up of paid staff. So it's a very specific. It's not about the organization, it's more about the country as the unit of the analysis. What's the measure of growth is a very fair question. The data that I was citing is data based on GDP, it is GDP contribution to the economy, we have similar data on the workforce that tells the similar story but the fairest way of talking about growth, is not the economic growth, but the GDP contribution, so it's the total GDP of the country compared, and how it changed over time, compared to the growth of the GDP of the third sector and its growth over time.

And then you asked a question about where does monitoring go. I think I would say in advocacy, those are organizations that are monitoring the behavior of government, and I would think that that kind of organization, any social accountability organization I see falling into that advocacy function.