



The Importance of the Not-for-Profit Sector in the International Community

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*Paul Atkinson
Senior Fellow
Groupe d'Economie Mondiale de Sciences Po*

*GEM de Sciences Po
197, boulevard Saint-Germain – 75007 PARIS
paul.atkinson@sciences-po.org*



I Introduction

- Not-for-profit sector – large and heterogeneous collection of organizations.
- Charitable foundations to sports clubs and soup kitchens.
- We know little about them, especially outside the USA.
- According to the European Commission it operates “in what amounts, at least in strategic terms, to a policy vacuum”.



II Overview of the Not-for-Profit Sector

- What is the not-for-profit sector?
- How is it financed?
- Why is it Important?



What is the Not-for-Profit Sector?

- Not households, businesses, persons or the state.
- Private, philanthropic or operate otherwise on a non-commercial basis.
- Johns Hopkins/ UN Statistics: Features include (1) Formality; (2) Private; (3) Non-profit distribution; (4) Self-governing; (5) Voluntary.



How is it Funded?

Table 1: Sources of funding of non-profit organizations			
(per cent of total)			
	<u>Developed</u> <u>countries</u>	<u>Developing and</u> <u>Transition countries</u>	<u>All 32 countries</u>
Total Financial Resources			
Fees	45	61	53
Government	48	22	34
Philanthropy	7	<u>17</u>	<u>13</u>
<i>Total</i>	100	100	100
Total Organizational Support			
(including volunteers)			
Fees	34	50	42
Government	37	17	27
Philanthropy	29	<u>33</u>	<u>31</u>
<i>Total *</i>	100	100	100
* Subtotals may not add to 100 due to rounding.			
Source: Johns Hopkins Comparative Nonprofit Sector Project			



Why is it important?

(1) It is big in terms of spending...

- Operating expenditures in 37 countries average more than 5% of GDP.
- \$1.6 trillion (2002 US dollars); about the same as UK GDP.



...and in terms of employment

- Paid employment is **4.7%** of the active population in developed countries.
- Volunteers add another **2.7%** on a full-time equivalent basis.
- In developing and transition countries these figures are smaller: **1.2%** and **0.7%**.
- Civil society workforce is equivalent to **7.4%** of the total in developed countries; **4.4%** in total Hopkins sample.

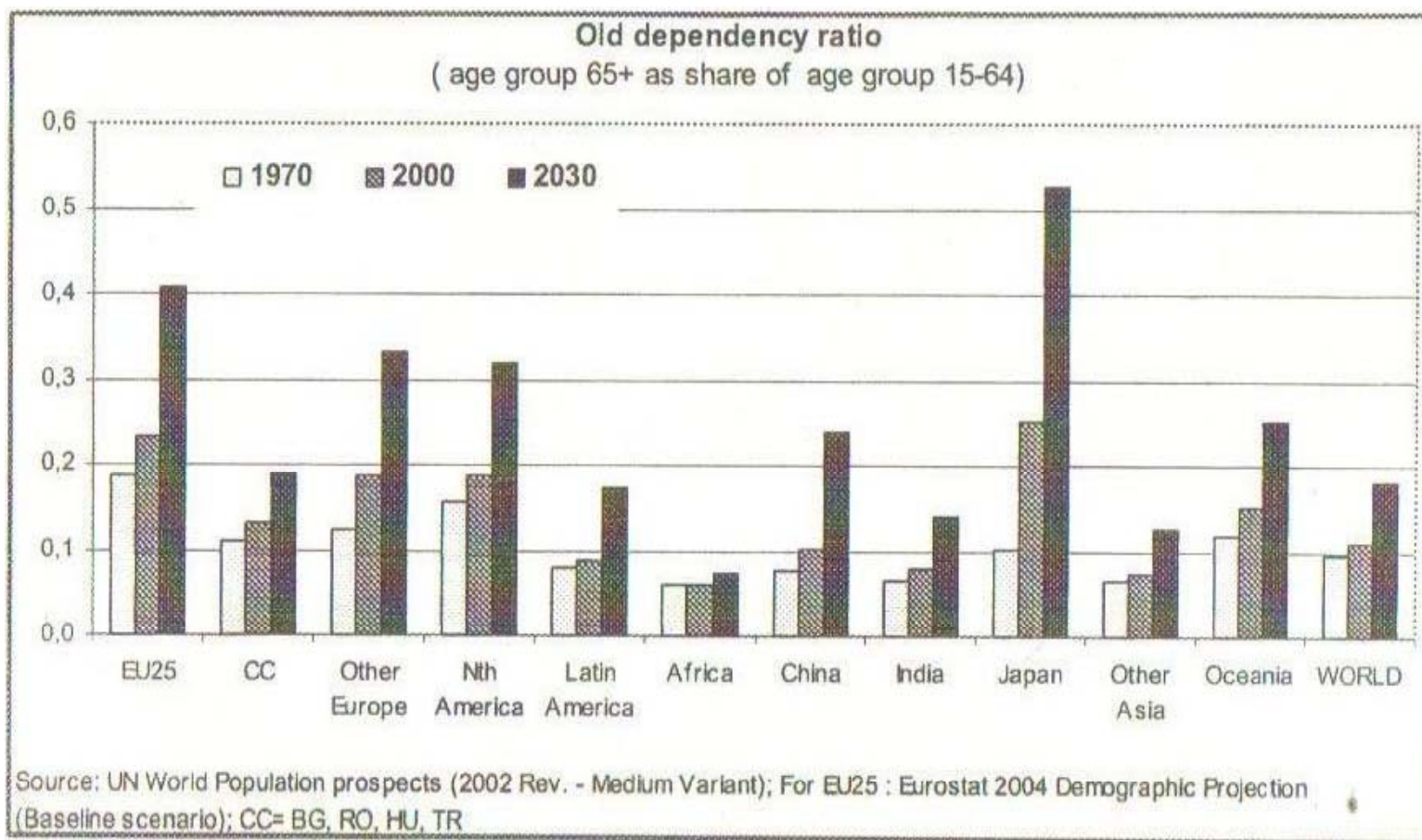


(2) It fills important gaps between state and market.

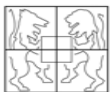
- Delivers social services
- Addresses neglected problems
- Performs advocacy role, calls attention to new issues
- Infrastructure for artistic, religious, cultural, recreational, political and humanitarian activities.



3) As ageing proceeds in many countries...

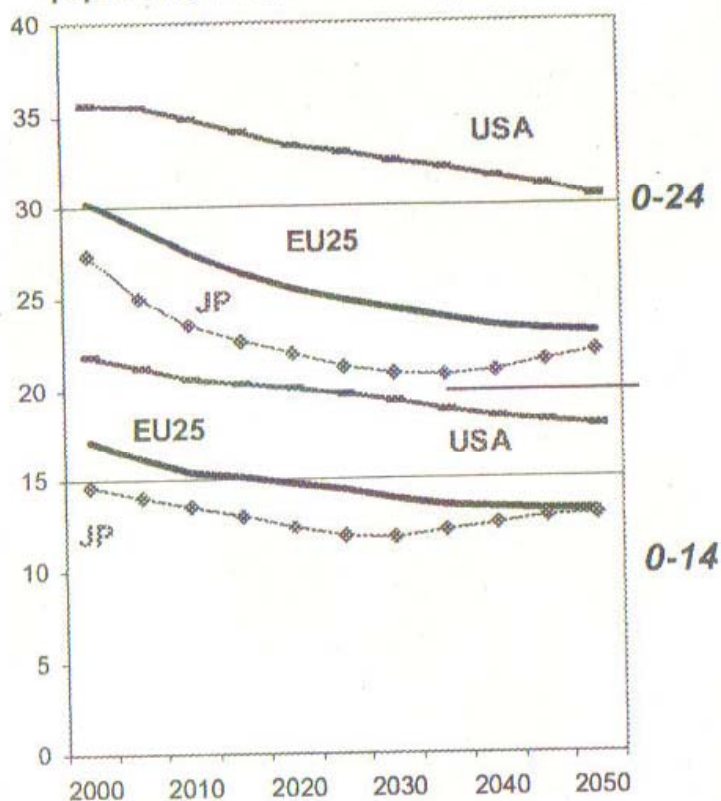


Source: Commission of the European Communities, « Confronting demographic change: a new solidarity between generations » [COM(2005)94 final]

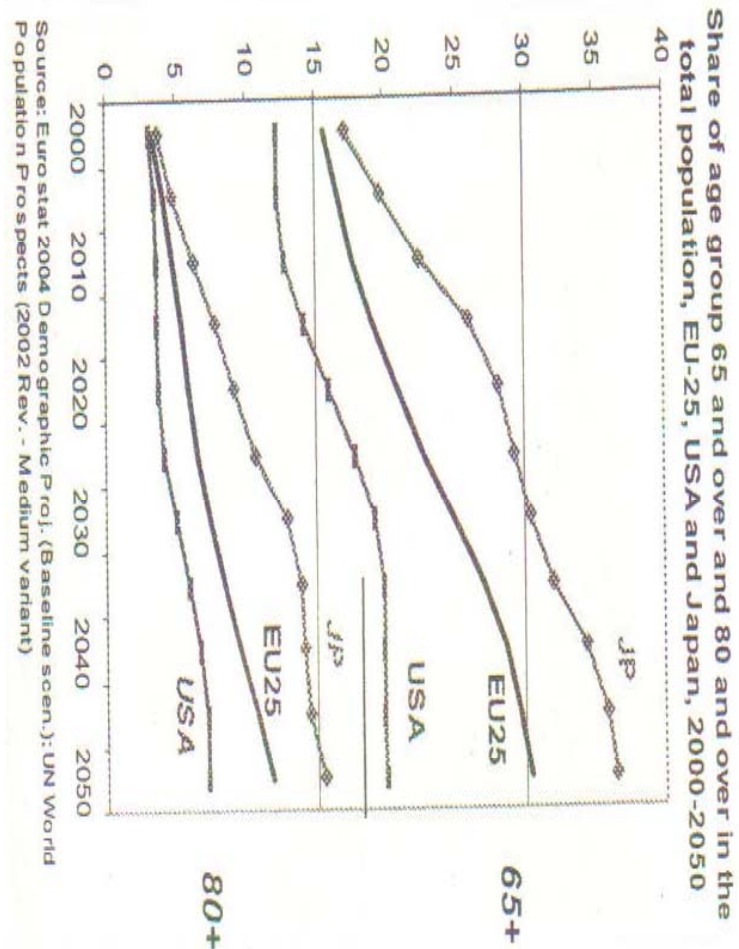


3) As ageing proceeds in many countries (cont'd)...

Share of age group 0-14 and age group 0-24 in the total population, EU-25, USA and Japan, 2000-2050



Source: Eurostat 2004 Demographic Proj. (Baseline scen.); UN World Population Prospects (2002 Rev. - Medium variant)



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...budget pressures may increase these gaps.

- OECD Study
- Without change, pension spending to rise by **5%** of GDP by 2050 in OECD area.
- Savings in other areas possible but many will require political courage.

Table 2: Projected changes in age-related public spending, 2000-2050
(per cent of GDP)

	Old age pension with existing generosity	Other [1]	Total
<i>Selected European countries</i>			
Austria	7,6	-5,3	2,3
France [2]	7,6
Germany	6,4
Italy	10,1
Spain	8,6
Sweden	3,9	-0,7	3,2
United Kingdom	1,7	-1,5	0,2
<i>Selected other OECD countries</i>			
Australia	2,5	3,1	5,6
Canada	5,1	3,6	8,7
Japan	5,1	-2,1	3,0
United States	2,4	3,1	5,5
<i>Average for 21 countries</i>	5,2	..	5,5

[1] Assumed changes in pension generosity; changes in employment performance; medical and long term care costs; education expenses; family allowances.

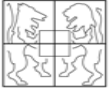
[2] 2040

[3] "Total" includes only countries for which estimates are available.

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

III How can we take advantage of the sector's potential?

- Mobilize private resources
- Activities where the sector's contribution could be high
- What can be done at the public policy level?
- A word of caution



Mobilize private resources

- *Fees, subscriptions and trading income* – perhaps limited
- *Philanthropy* – gifts, donations, volunteering -- has potential in many countries
- *Public-private partnerships* – experimental but worth exploring



Private Philanthropy Across the World

Table 3: Private Philanthropy as per cent of GDP
(base year varies by country, 1995-2002)

<u>Country</u>	<u>Gifts and donations</u>	<u>Volunteering</u>	<u>All private philanthropy</u>
<i>European Union 15</i>			
Austria	0,17	0,61	0,78
Belgium	0,46	1,59	2,01
Finland	0,36	2,12	2,43
France	0,32	2,98	3,21
Germany	0,13	2,49	2,66
Ireland	0,85	1,2	2,02
Italy	0,11	0,8	0,91
Netherlands	0,49	4,7	4,95
Portugal	0,53	0,53	1,05
Spain*	0,87	1,25	2,1
Sweden*	0,4	4,03	4,41
United Kingdom	0,84	2,97	3,7
<i>European Union Transition</i>			
Czech Republic	0,27	0,43	0,7
Hungary	0,63	0,12	0,74
Poland	0,28	0,11	0,39
Slovak Republic	0,41	0,04	0,45
<i>Other</i>			
Argentina	1,09	1,3	2,35
Canada	1,17	1,26	2,4
Israel	1,34	1,05	2,37
Japan	0,22	0,61	0,82
Korea, Republic of	0,18	0,78	0,96
Norway	0,35	3,18	3,42
United States	1,85	2,18	3,94

* Data on gifts and volunteering to religious worship organizations not available.
Source: Johns Hopkins Comparative Nonprofit Sector Project



Activities where the sector's contribution could be high

- Countries will have different attitudes about where activity by not-for profit organizations is appropriate.
- Concrete examples illustrate some possibilities.
- Consider France.



**Table 4 The contribution of non-profit organizations to the economy
FRANCE, 2002**

<u>Activity Group</u>	<u>Employment</u> (‘000s, end-year)	<u>Value added</u> (EUR billion)	<u>Gross production</u> (EUR billion)
Arts, sport and culture	163.9	5.2	8.0
Teaching and research	194.2	6.4	9.2
Health	151.8	6.5	8.3
Social services	746.9	20.5	26.4
Economic activities	124.0	4.8	6.4
Advocacy	54.4	1.9	2.6
Total Non-profit sector	1 435.3	45.5 <i>(2.9% of GDP)</i>	60.8

Source; Philippe Kaminski: Les associations en France et leur contribution au PIB
INSEE, Paris, February 2006.



<u>Activity sub-group</u>	<u>Employment</u> (^{'000s at end-year})	<u>Value added</u> (EUR billion)	<u>Gross production</u> (EUR billion)
Teaching, primary and secondary	89.3	2.6 (5.7% of total)	3.6
<i>Teaching, higher level</i>	<i>14.8</i>	<i>0.6 (1.2% of total)</i>	<i>0.8</i>
Other teaching	76.2	2.5 (5.5% of total)	3.7
<i>Research</i>	<i>13.9</i>	<i>0.8 (1.7% of total)</i>	<i>1.1</i>
<i>Total high level teaching and research</i>	<i>28.7</i>	<i>1.3 (2.9% of total)</i>	<i>1.9</i>

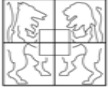
Source; Philippe Kaminski: Les associations en France et leur contribution au PIB
INSEE, Paris, February 2006.



Table 6 Shanghai Jiao Tong Ranking of Top World Universities

<u>World rank</u>	<u>Institution</u>	<u>Endowment, 30 June 2004</u> (\$ per student)
1	Harvard	1.1 million
2	Cambridge (UK)	
3	Stanford	750 000
4	California, Berkeley	
5	Mass. Inst of Tech.	575 000
6	Cal. Inst of Tech.	
7	Columbia	250 000
8	Princeton	1.45 million
9	Chicago	300 000
10	Oxford (UK)	
11	Yale	1.1 million
12	Cornell	175 000
13	California, San Diego	
14	California, Los Angeles	
15	Pennsylvania	200 000

Source: Institute of Higher Education, Shanghai Jiao Tong University, 2007
Cambridge Associates, LLC, as reported by by the
Williams College Alumni Relations and Development, 2005.



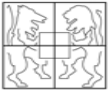
What can be done at the public policy level ?

- Favorable tax treatment
- Inheritances, estates and succession
- Facilitate cross-border philanthropy and activities
- Identify and address barriers to mobilizing volunteers and employment of retirees with a “voluntary element”



Public policy (cont.)

- Community based philanthropic mechanisms
- Simplify regulatory arrangements and administration
- Develop training for management of volunteers
- Leverage resources through partnerships



A word of caution: avoid uncritical cheerleading

- Social enterprises, charities and non-profits are attractive to sceptics of both the state and profit-driven business.
- Not-for-profits do not face electoral or market tests.
- Insist on mechanisms to ensure legitimacy, accountability and effectiveness of resource use.