

**Measuring Civil Society and Volunteering:
New Findings from Implementation of the UN Nonprofit Handbook**

by

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Introduction

A “global associational revolution” has been under way around the world for the past thirty years or more, a major upsurge of organized, private, voluntary and nonprofit activity.¹ Despite the scale and scope of this development, however, reliable data to portray it has long been lacking.

This paper presents a summary of new findings from the major breakthrough in the international statistical system that has begun to correct this gap in knowledge: the issuance in 2003 by the United Nations Statistics Division of a new *Handbook on Nonprofit Institutions in the System of National Accounts* (United Nations, 2003), developed by the Johns Hopkins Center for Civil Society Studies in cooperation with an International Technical Experts Groups. To do so, the discussion proceeds in four steps: first, it explains why the UN *Nonprofit Handbook* was needed; second, it outlines what this *Handbook* accomplishes; third, it provides a preliminary review the most recent findings from the implementation of this *Handbook* in sixteen countries²; and finally, it outlines some of the issues that still remain to be addressed as the *Handbook* implementation process unfolds.

Background: The Need for the UN *Nonprofit Institution Handbook*

That a UN *Handbook on Nonprofit Institutions in the System of National Accounts* was needed is due in important part to the fact that nonprofit institutions have long been essentially “hidden in plain sight” in existing international data systems. This is due to the way the guidance system for international economic statistics, the so-called System of National Accounts (SNA), has long treated nonprofit institutions (NPIs).

- The SNA has long assumed that nonprofit institutions are funded largely from contributions made by households;
- Prior to 1993, when the SNA underwent a major revision, NPIs were merged into the household sector in national accounts data and were thus totally invisible in economic data;
- In a 1993 revision to the SNA, the SNA community took an important step toward recognizing the nonprofit sector by creating a separate “Nonprofit Institutions Serving Households” (NPISH) sector. However, the only entities expected to be allocated to this sector were those formerly included in the household sector, which were NPIs wholly or mostly supported by household contributions;

¹ Lester M. Salamon, “The Rise of the Nonprofit Sector,” *Foreign Affairs*, (July 1994).

² This will update results published in 2007 from the first 8 countries to implement the *Handbook* (Salamon et. al., 2007). The countries covered in this report include: Australia, Belgium, Brazil, Canada, the Czech Republic, France, Israel, Japan, Kyrgyzstan, Mexico, New Zealand, Norway, Portugal, Thailand, and the United States. Strictly speaking, the U.S. has not produced a full-fledged NPI “satellite account,” but is had produced a series of tables wit data comparable to those stipulated for the NPI “satellite account.” Further detail on these findings will be issued shortly by the Johns Hopkins Center for Civil Society Studies.

- Largely overlooked, or conscious ignored, in the design of this SNA system, however, was that many NPIs receive substantial income from either government or fees and charges. Indeed, this situation characterizes most of the economically most significant nonprofit institutions. Under SNA rules, however, any economic unit that receives the preponderance of its income from fees or charges at “economically significant prices,” including those receiving such fees from government contracts, is assumed to be a “market producer” and is therefore allocated to the financial or nonfinancial corporations sector of national accounts. Similarly, any economic unit that receives the preponderance of its income from government grants is allocated to the government sector in national accounts. This has meant that the bulk of the NPI economic activity is buried in the data on corporations and government in national accounts, leaving only a fraction of the sector visible in the NPISH sector and obscuring the true economic scale and composition of the nonprofit sector.

The United Nations *Handbook on Nonprofit Institutions in the System of National Accounts*

Building on the results of the Johns Hopkins Comparative Nonprofit Sector Project, the United Nations *Handbook on Nonprofit Institutions in the System of National Accounts* (UN NPI Handbook) calls on government statistical agencies to produce special “satellite accounts” on the full array of nonprofit institutions in their countries for the first time and offers a methodology for doing so.³ It thus offers a cost-effective way to generate reliable and comparable data on the size, composition, funding, and economic role of NPIs in countries throughout the world.

As part of this process, statistical agencies are also called on to estimate the scale and value of the *volunteer effort* these organizations mobilize and to include this in estimates of NPI economic activity.

Close to 40 countries have now committed to implementing the UN NPI Handbook and 16 of them have completed at least an initial NPI “satellite account.” A preliminary analysis of these results is summarized below.

Major Findings

1. Overall Scale: The Nonprofit Workforce

Initial results of the implementation of the UN NPI Handbook by statistical agencies in 16 countries confirm a central finding of the Johns Hopkins Comparative Nonprofit Sector Project: the nonprofit sector is a major economic presence in countries around the world. In the 13 countries for which full nonprofit employment and volunteering data were generated in the satellite account process, the nonprofit sector employs an average of 7.4 percent of the workforce.

³ “Satellite accounts” pull together data on particular types of institutions that are scattered among a variety of institutional sectors or economic activities in SNA classification systems. In the case of NPIs, the satellite account is designed to pull together data on NPIs that have been allocated to the financial corporations, nonfinancial corporations, government, NPISH, and household sectors to provide a complete picture of the NPI “sector.”

This puts the nonprofit workforce ahead of such industries as transportation (5.8 percent of the workforce), hotels and restaurants (4.6 percent of the workforce), banking and insurance (2.6 percent of the workforce) and utilities (0.8 percent of the workforce).

2. Overall Scale: Contribution to GDP

With volunteer work included, nonprofit institutions also account for a significant 4.5 percent of gross domestic product in the 15 countries for which data are available. This is roughly equivalent to the share of gross value added accounted for by the construction industry (5.5 percent) in these countries.

3. Variations

Overall averages obscure the significant variations that exist in the scale of the nonprofit sector among various countries, however. Thus, with volunteer work included, the nonprofit sector employs more than 8 percent of the workforce in 8 of the countries studied, and ranges from as much as 12.7 percent of the workforce in Israel to as low as 0.9 percent in Thailand.

Similarly, the nonprofit sector accounts for over 5 percent of the GDP in 7 of the 15 countries for which data are available and ranges from 7.8 percent in Canada and 7.1 percent in Israel to 1.6 percent in Thailand.

4. NPI Satellite Account vs. Previous Official Measures of NPI Size

No matter which measure is used – GVA or workforce – the nonprofit sector that comes into view using data produced by the implementation of the UN *NPI Handbook* appears far larger than the previous official measures of the so-called Nonprofit Institutions Serving Households, the only portion of the nonprofit institution sector visible in standard national account data systems:

- On average, the NPI sector that comes into view through the NPI satellite account is twice as large as the one previously visible through standard SNA methods.
- In some countries, like Canada, the NPI sector turns out to be nearly 5 times larger than what was formerly visible through standard SNA methods.

These data validate the rationale for the UN *NPI Handbook* and the need for its satellite account in order to bring the NPI sector into empirical focus at the global level.

5. Labor Force vs. Gross Value-Added Measures of Nonprofit Relative Size

As noted earlier, estimates of the relative size of the nonprofit sector vary considerably depending on whether employment or contribution to GDP is used as the measure. Thus:

- While the nonprofit sector accounts, on average, for 7.4 percent of the workforce in the countries examined here, it accounts for a considerably smaller 4.5 percent of GDP, both with volunteer work included.

- This disparity exists in every country examined, though it ranges from 2:1 in countries such as Portugal, Japan, New Zealand, Belgium, and Australia, to 1.1:1 in Thailand.

How can we explain this disparity? Two major factors seem to be at work:

- a) Contribution to GDP depends heavily on the value of labor inputs a sector utilizes, and wages in the nonprofit sector are lower than the average of other sectors in all but four of the countries covered;
- b) Value added includes profits earned on production. Since nonprofits are not profit maximizing institutions, their profits, and thus their value added, tend to be lower than those of other sectors. Reflecting this, employee compensation accounts, on average, for 84 percent of nonprofit gross value added, compared to 49 percent in the economy generally in our target countries.

6. Expenditure structure

Notwithstanding their generally lower average wages, nonprofit organizations nevertheless devote the majority (54 percent) of their expenditures, on average, to labor costs.⁴ This likely reflects the fact that these organizations operate in the service sector, where purchases of goods and services for final production (i.e. intermediate consumption expenditures) are more limited.

Indeed, in Australia and the US, labor costs account for nearly three quarters (71 percent) of nonprofit expenditures while in four countries-- Portugal, Israel, New Zealand and Brazil-- intermediate consumption accounts for more than half of expenditures. This may be a result of the high value of goods and services purchased by nonprofits to deliver their services in these countries or the greater relative reliance on volunteers (which would lower labor costs).

7. Service vs. Expressive Roles of the Nonprofit Sector

The vast majority (74 percent) of nonprofit gross value added is generated through service activities (e.g. provision of education, health, housing) as opposed to expressive activities (e.g., culture, advocacy, interest representation).

As with other dimensions of nonprofit activity, considerable variation exists in the relative role that service and advocacy activities play in the activities of nonprofits in different countries. Thus, compared to their 22 percent of nonprofit value added overall, expressive activities account for 39 and 40 percent of nonprofit value added in Brazil and Norway, respectively.

8. Revenue Sources

⁴ The System of National Accounts groups expenditures into four major categories: *intermediate consumption* (i.e., purchases of goods and services from other sectors of the economy), *wages and benefits*, *interest and rent*, and taxes.

According to the NPI satellite accounts, the 12 countries on which revenue data were available derived an average of 48 percent of their revenue from fees for services, 27 percent from government sources, and 23 percent from philanthropic giving.

The fee share of income varied, however, from a high of over 85 percent in Belgium, to a low of 13 percent in Mozambique.

The picture of nonprofit revenue structure suggested by these data is highly misleading, however, due to conventions used in the SNA. In particular, government revenue reaching nonprofit organizations in the form of contracts or third-party reimbursements (e.g. vouchers) are treated as market sales in the SNA rather than government payments. Most of the market sales attributed to NPIs in Belgium, therefore, actually represent government contracts to nonprofits for services they deliver to the public, not to the government. The UN *NPI Handbook* recommends that these sales be re-categorized as government funds, but not all national accounts offices have complied with this instruction in the preparation of their NPI satellite accounts.

9. Growth of NPI Sector vs. National Economies

The nonprofit sector has been a dynamic element in the economies of the countries for which data are available. In fact, the GDP contribution of nonprofit institutions in the eight countries for which longitudinal data are available has not only increased, but also its increase outpaced the growth of overall GDP. In particular:

- In these eight countries, the GDP contribution of nonprofit institutions, measured in current prices, increased at an average annual pace of 5.8 percent in current prices during the early 2000s compared to the 5.3 percent current-price growth of the overall GDP in these countries.⁵
- This pattern was evident in all eight countries for which data were available, except one (the Czech Republic), where nonprofits experienced their only decline. With this one outlier removed, the average annual growth of the nonprofit sector would stand at 7.3 percent vs. 5.2 for the full economies of the remaining countries.

Lessons Learned

While the completed NPI satellite accounts have proved to be a valuable source of comparable data on nonprofit institutions, often for the first time, implementation of this *Handbook* has not been

⁵ Data on the nonprofit sector for multiple years is available in 8 countries. In some countries these data have been updated on an annual basis, and in others the data have only been updated at various points in time. In still others, data on volunteering are not always available in the same year as the nonprofit sector data. Despite these challenges, it was possible to generate at least a rough assessment of the changes in nonprofit contribution to GDP over a recent period for eight countries..

without its problems. A number of these problems deserve attention in order to improve the NPI “satellite account” process. In particular:

1) *Implementation not automatic*

Although the increased attention to the need to measure “well-being,” and not just GDP, has increased attention to the civil society sector, volunteering, and philanthropy, it remains the case that finding the resources to implement the UN *NPI Handbook* difficult for statistical offices has remained difficult in many places. Fortunately, changes introduced into the System of National Accounts during its 2008 revision (2008 SNA), by requiring statistical agencies to identify and flag the NPIs that have been allocated to sectors other than NPISH, should make the production of such satellite accounts far less burdensome in the future. Still, significant conceptual and empirical challenges remain.

To facilitate such implementation, two important steps can be highly useful. In the first place, technical assistance has been useful to ensure that the implementation of the UN *Handbook* definition of the nonprofit sector proceeds comparably in the various countries implementing the NPI satellite account and that statistical officials are made aware of the multiple data sources in which data on NPIs might be buried. The Johns Hopkins Center for Civil Society Studies has worked closely with a number of statistical agencies to provide such assistance and continues to do so in a number of settings. Second, statistical agencies can benefit greatly from engaging representatives of the local civil society sector to assist in identifying and classifying local civil society organizations, give transparency to the process, encourage civil society participation in data-gathering, and ensure the maximum use of the resulting data.

2) *Scarcity of volunteering data*

The valuation of volunteer effort has proved to be a major challenge for many countries in fully implementing the UN *NPI Handbook* because of the lack of an international definition or consensus methodology for gathering the required data. In response, the Johns Hopkins Center for Civil Society Studies partnered with the International Labour Organization (ILO) to develop a companion ILO *Manual on the Measurement of Volunteer Work* (International Labour Organization, 2011) to supplement the UN *NPI Handbook*. Published in August 2011, the ILO *Manual* offers implementers the guidance necessary to measure the profile, scope, and economic value of the volunteer work harnessed in the nonprofit sector and directly through person-to-person contact.

3) *Government Revenue Obscured*

Although the UN *Handbook* calls for the separate identification of all forms of government revenue flowing to NPIs, whether through grants, contracts, or voucher-type payments, most satellite accounts have found it difficult to implement this recommendation due to the structure of existing data systems and concepts that treat government contracts and voucher payments as “market sales.” This has created considerable difficulty in portraying the full extent of government financial flows to nonprofit organizations, which, in turn, creates considerable

public policy problems. Greater clarity and training on this issue is needed to improve this aspect of the accounts in the future.

4) *The Treatment of Membership Dues.* The SNA treats membership dues as transfers (i.e., as gifts) when paid to nonprofits classified in the Nonprofit Institutions Serving Households Sector (NPISHs), but treats them as sales (i.e., fees for services) when paid to nonprofits assigned to the corporations sector (NPIs serving businesses). Treating membership dues as transfers is questionable, since these often represent payments for “club goods” made available to members. It is our view that in the future they should be reported separately from other transfers to facilitate more accurate estimates.

5) *Lack of Uniform Data Reporting*

Although the UN Handbook specifies a format in which the satellite account data should be reported, this format has not always been followed by *Handbook* implementers. Some countries use different classification systems or idiosyncratic table formats. This makes compilation of comparative data much more difficult than it could be. Improving the systematization of NPI data reporting will therefore be a principal focus of the next rounds of *Handbook* implementation.

Conclusion: Just the Beginning

The UN *Handbook on Nonprofit Institutions in the System of National Accounts* and its new companion, the International Labour Organization *Manual on the Measurement of Volunteer Work*, are already proving their enormous value as sources of vital new information for scholars, the media, nonprofit practitioners, and government officials to use in promoting understanding and effective use of nonprofit organizations in countries around the world.

Although still in their infancy, and not without their problems, the satellite accounts produced to date pull together a much more comprehensive and reliable picture of the civil society sector than has ever been produced, and has rooted such data-gathering and reporting in official statistical systems for the first time, thus helping to guarantee their permanence.

If sustained, the result, we believe, will be to strengthen the nonprofit and volunteer sector by making it more visible and transparent, enhancing its credibility, equipping civil society leaders with tools to advocate on behalf of the sector, and enabling more effective partnerships with public and private institutions. In the process, these new tools will open enormous new data for scholars to use in carrying out research and informing students and the public about the role these organizations perform, the challenges they face, and the steps that can be taken to strengthen their capabilities.

The task now is to help ensure that these new tools are utilized, and that their reach is extended. For the research community, the stakes could not be higher.

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