

SPECIAL SECTION: RUSSIA AND THE NEWLY INDEPENDENT STATES**Civil Society and Philanthropy Under Putin****Alexander Livshin and Richard Weitz¹**

In January 2006, Russian President Vladimir Putin signed into law a controversial bill regulating non-governmental organizations (NGOs). The act requires NGOs operating in Russia to re-register with the government, disclose their funding sources, and undergo expanded state auditing. At the same time, the Russian government has declared 2006 “The Year of Philanthropy” (*God blagotvoritel’nosti*), and Russian officials are contemplating new ways to encourage charitable giving. We seek to analyze this apparent contradiction by exploring the complex relationships between Russian philanthropy and Russia’s government, civil society, and developing NGO sector.

Philanthropy and Russian Politics

There is no inherent contradiction between philanthropy and Russia’s current political system of “managed” or “sovereign” democracy. In recognition of philanthropy’s growing importance and its potential impact on society during the 2008 national elections and after, the Putin administration declared that 2006 would be “The Year of Philanthropy.” Russian officials hope that major philanthropists will support the government’s “Four National Projects”: improving Russians’ healthcare, housing, agriculture, and education.

The authorities fear, however, that Russian philanthropists might back other projects, including activities not supported by the current government. In March 2006, the bank accounts of the Open Russia Foundation, led by imprisoned Russian businessman Mikhail B. Khodorkovsky, were frozen. The foundation had been active in the controversial area of promoting civil liberties.² It is too early to determine whether the move will further discourage Russian philanthropists from supporting politically controversial activities. Although arrested for tax fraud associated with his Yukos corporation, Khodorkovsky was independently funding opposition political parties at the time of his arrest, and had been cited in the media as a potential presidential candidate in 2008.

Government officials have succeeded in concentrating philanthropy among a small number of mostly large corporate benefactors in order to exercise greater control over it. For example, current regulations make it difficult for an individual citizen to offer

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² C. J. Chivers, “Russia Effectively Closes a Political Opponent’s Rights Group,” *New York Times*, March 18, 2006. In the words of Khodorkovsky, the activities of Open Russia “have been oriented towards creation of democratic institutes and implementation of a civil society. The democratic structure of the State, the freedom of expression in word or in business, the openness of the society—are not given ‘from above’ by destiny or by authorities. They should be achieved by people themselves, by their energy, knowledge and creative capacities.” “Open Russia: About Us,” at http://en.openrussia.info/about_en/.

a charitable donation. A potential benefactor must take the initiative of going to a branch of the Savings Bank of Russia and completing a complex form for even a modest donation. Partly as a result, a small number of wealthy Russian philanthropists and Russian corporations provide a large proportion of the aggregate donations.³

The Growth of Russian Philanthropy

The increasing importance of philanthropy in Russia would naturally attract the attention of any Russian government. In recent years, charitable giving has expanded at a rapid pace. Although the overall rate of growth in the nonprofit sector has slowed considerably since the 1990s, owners of large and medium-size Russian companies are becoming more and more involved in charitable social welfare. Some analysts anticipate the emergence of several thousand private and corporate philanthropic foundations in the near future. Although a 2001 law ended virtually all tax breaks for charitable giving, approximately 60% of people making charitable donations have increased their contributions since 2001. At present, more than 80% of all Russian companies make charitable donations, amounting to an estimated 11 to 17% of their total profits. (Uncertainties regarding Russian statistics, especially those regarding taxable activities, make more precise estimates difficult.) Many of them have established a special “social budget” to fund charitable giving. In contrast, the typical Western company allocates only 1 to 2% of its profits for philanthropic purposes.⁴

The reasons for the recent growth of Russian philanthropy are complex. Russia has a rich tradition of pre-revolutionary charity, but historically such giving had been confined to the aristocracy. It was only at the turn of the 20th century, with the rise of wealthy industrialists, that other social classes and larger groups of people began to engage in patronage of the arts and support of the poor. In Soviet times, however, the authorities forbade philanthropy as a demeaning capitalist practice that challenged the commitment of the Soviet state and the Communist Party of the Soviet Union to care for citizens’ material and spiritual needs.⁵ With the USSR’s demise, newly wealthy Russians appear to be returning to pre-Bolshevik traditions of proper social behavior.⁶

Patriotism also motivates much Russian philanthropy. Many philanthropists give money because they genuinely want to improve the lives of their fellow citizens. Understanding that the state today is fundamentally inefficient at providing public goods such

³ On advantages and disadvantages of having Russian corporations dominate the country’s philanthropic endeavors, both nationally and regionally, see Stephen Schmida and Elizabeth Buchanan, “Philanthropy in Russia in 2003: Two Steps Forward, One Step Back,” *SEAL: Social Economy And Law Journal* (Autumn 2003), at <http://www.efc.be/cgi-bin/articlepublisher.pl?filename=SS-SE-10-03-1.html>.

⁴ “Srazu neskol’ko komissiy Obshchestvennoy palaty reshili ob’edinit’ usiliya dlya razvitiya blagotvoritel’nosti v Rossii,” *Agenstvo sotsial’noy informatsii*, April 10, 2006, at <http://www.asi.org.ru/ASI3/main.nsf/0/078FC1A1A267AB4DC3257148004A361C>.

⁵ Local Communist Party organizations continue to perform public functions in some Russian regions where NGOs and other competing civic institutions are weak; see Ivan Kurilla, “Civil Activism without NGOs: The Communist Party as a Civil Society Substitute,” *Demokratizatsiya: The Journal of Post-Soviet Democratization*, vol. 10, no. 3 (Summer 2002), pp. 392-400.

⁶ Jamey Gambrell, “Philanthropy in Russia: New Money under Pressure,” *Carnegie Reporter*, vol. 3, no. 1 (Fall 2004), at <http://www.carnegie.org/reporter/09/philanthropy/index.html>.

as healthcare, they feel duty-bound by patriotism to fill this gap. The younger generation is especially inclined to support a strong Russian society, despite their individualism and materialism. In addition, some large Russian corporations, seeking to gain access to international markets and capital, are trying to improve their global image through acts of philanthropy.⁷

Official coercion accounts for additional contributions. Three-fourths of Russian philanthropists report experiencing pressure from local authorities to donate to public projects. Ironically, half of this group looks favorably on such overtures, because they see the solicitations as strengthening their ties with the local bureaucracy. In addition, over 70% said they would donate to state institutions despite this pressure, though often they would choose different recipients for their largesse—officials often pressure them to pay to sustain the decaying public infrastructure, in the manner of the 19th-century American “company town,” whereas the philanthropists would prefer to address urgent social needs. Although respondents believe that maintaining the infrastructure should be the government's responsibility, they acknowledge that official incompetence and corruption often prevent its fulfillment.⁸

Philanthropy in Russia is growing notwithstanding several political impediments. As noted, current tax legislation does not reward charitable giving. In addition, such donations, especially for small to medium-sized companies, often attract unwelcome attention from the authorities and public regulatory agencies such as the Federal Taxation Service. Government personnel often suspect that philanthropic donations seek to conceal shady business practices or other illicit activities. Representatives of the media and other social sectors, including the NGO community, also see much business philanthropy as motivated by a desire to secure favor with elites or, at worst, as covert forms of bribery. When a company announces that it will give money to state officials for supposed social purposes, such as purchasing better equipment for a local hospital, the immediate suspicion is that the recipients will pocket some if not most of the funds. During Russia's first years of independence under President Boris Yeltsin, the lax regulatory environment allowed many unscrupulous entrepreneurs to establish “foundations” that used their funds for shady and often illegal activities. Although these abuses seem less frequent in today's Russia, the image of fraudulent charitable behavior persists.⁹ For this reason, much of Russian philanthropy is not publicized.

Facts and Myths

Russian philanthropy has many distinctive features. First, almost all of the donations stay in Russia. Russian philanthropists are overwhelmingly concerned with solving domestic problems. Not even a catastrophe on the scale of the December 2004 tsunami in Southeast Asia engendered substantial private Russian contributions to international humanitarian and relief operations. Second, very few philanthropists use NGOs to deliver

⁷ Steven Schmida, “Emergence of Philanthropy in Russia and the other New Independent States,” *SEAL: Social Economy And Law Journal* (Autumn 2002), at <http://www.efc.be/cgi-bin/articlepublisher.pl?filename=SS-SE-10-02-1.html>.

⁸ Donor motivations are discussed in Elena Chernyshkova, “Vse kompanii delaiut eto,” *Vedomosti Forum* (April 4, 2006).

⁹ Gambrell, “Philanthropy in Russia.”

aid to fellow citizens. Most Russian donors see NGOs as inefficient if not thievish. In turn, most NGO leaders share common Russian prejudices against rich business leaders – the very people who make the largest philanthropic donations. Thus, it would be a gross misperception to characterize the Russian NGO community as predominately liberal or pro-Western. Finally, almost 90% of donations in Russia go to state-run bodies such as local orphanages and cultural institutions. This striking fact results partly from official coercion, partly from philanthropists' general distrust of NGOs, and partly from a provision in the tax code that atypically permits some deductions for direct donations to state institutions. Whatever the cause, one result is that secular rather than religious causes obtain the overwhelming percentage of donations.

Russian politicians and publicists often imply that Western governments and NGOs seek to use financial subventions to influence political developments in Russia and other countries. At least in Russia, the facts belie this perception. The contributions from Russian corporations constitute about 70% of the total value of all charitable donations in Russia.¹⁰ The remaining 30% is split between foreign donors and individual benefactors. Despite the popular myth of pervasive Western influence in Russia's third sector, foreign private donors actually constitute only 8.4% of total Russian philanthropy, though they tend to contribute to different recipients than Russian philanthropists (e.g., NGOs rather than state institutions or public infrastructure projects).

Russia's NGOs and the New NGO Law

Russia currently has approximately 600,000 NGOs (defined as not-for-profit groups), although not all of them are active. Russian law recognizes some thirty NGO forms. In practice, Russian NGOs tend to fall into one of three categories. "Elite" NGOs are relatively wealthy organizations with million-dollar budgets. They are often associated with big Russian businesses or serve as "VIP landing grounds" where former government officials can use a "golden parachute" to occupy an influential and prominent position after leaving office. Some influential Russians create organizations to occupy family members—especially wives and children, in this still highly patriarchal country. Second, "intermediary institutions" such as museums and social welfare organizations have characteristics of both government and non-government bodies. Wealthy donors sometimes purchase works of art, advanced medical equipment, or other expensive items for their favorite organizations. For example, Vladimir Potanin's extensive support for St. Petersburg's Hermitage Museum, a quasi-public institution, resulted in his being elected as chairman of its board of trustees. Finally, "grass-roots organizations" are the most numerous and varied. These NGOs have pursued a variety of causes, both at the national and local levels. Many of them can be considered political, if the definition encompasses non-partisan social advocacy.

Whither Russian Philanthropy?

The new NGO law may not greatly affect Russian philanthropy. The current political system is already highly centralized and paternalistic. Recent government efforts

¹⁰ ITAR-TASS, "Chastnoy blagotvoritel'nost'yu zaimayutsya vsego 15 protsentov rossiyan, 70 protsentov vsekh pozhertvovaniy prikhoditsya na biznes," March 23, 2006, at <http://ami-tass.ru/article/6554.html>.

to exert greater control over Russia's voluntary nonprofit sector have not reversed the long-run growth of indigenous philanthropy or its contribution to developing Russian civil society. The new law could substantially influence constrain and deter foreign donors, but they constitute a minor share of philanthropic activity in Russia. In addition, the legislation could have the consequence of allowing the bureaucracy to decide arbitrarily whether a group constitutes an unlawful NGO, impeding its rights to collect and spend donations. Meeting its regulations also will increase the operating expenses of small foundations, potentially driving some of them out of business. In the end, however, no one knows precisely what the law will do, because so much depends on how it is implemented.¹¹

According to a study by Hudson Institute's Bradley Center for Philanthropy and Civic Renewal, the increasing resources and independence enjoyed by American foundations have enabled them "to attempt projects that government and business have been unwilling or unable to carry out for political or financial reasons."¹² Russian philanthropy likewise could fill in substantial gaps. The continued growth of indigenous philanthropy is thus important for improving socioeconomic conditions and strengthening civil society in Russia.

Russian philanthropy has already helped to alleviate major social problems. In today's Russia, the voluntary nonprofit sector collaborates with government and business (including large corporations) on a wide variety of endeavors, including creating an effective social welfare infrastructure and supporting research, education, and the arts. In this third sector, foundations serve as primary channels through which profits earned by individuals and businesses are distributed to address important social issues. In some Russian regions, such as the city of Togliatti, "community foundations" have become effective mechanisms for delivering resources to those organizations and individuals most in need of support.¹³ Donors can address urgent social needs through the proliferating number of private and family foundations, which often have the flexibility to respond much more rapidly than public institutions, with their extensive legal requirements and cumbersome bureaucratic processes.

In Russia, the influence of foundations within the third sector results less from the monetary values of their grants—which is relatively small compared with government spending and corporation investments—than from their flexibility in responding to needs,

¹¹ The recent experience with the equally controversial 1997 law, "On Freedom of Conscience and Religious Associations," is instructive. The Russian authorities applied its provisions differently, both over time and by locality. In addition, it took federal agencies and Russia's courts years to agree on how to interpret some of its provisions. For additional information on the 1997 law see Marina Thomas, "Russian Federation Constitutional Court Decisions on Russia's 1997 Law 'On Freedom of Conscience and Religious Associations,'" *The International Journal of Not-for-Profit Law*, vol. 6, no. 1 (September 2003), at http://www.icnl.org/journal/vol6iss1/rel_thomasprint.htm.

¹² Peter Frumkin, *Trouble in Foundationland: Looking Back, Looking Ahead* (Washington, D.C.: Hudson Institute, 2004), p. 23, available at http://www.cof.org/files/Documents/Emerging_Issues/EI%20for%20Philanthropy/Whats%20New/Frumkin-Trouble_Foundationland-03.04.pdf.

¹³ Community foundations can combine donated resources from individuals, businesses, the local authorities, and larger Russian and foreign foundations to address a region's specific needs.

their willingness to innovate and take risks, and the pluralistic and transparent nature of their decision-making processes. With time, many Russian foundations may go on to develop unique expertise in their special areas of interest and become clearinghouses of information about new approaches to problems and other funding sources, like many American foundations.¹⁴

As Russian philanthropy grows, it will provide additional funding for activities that have previously been supported primarily by Western donors. With both Russian authorities and Western foundations becoming increasingly uneasy about continuing American and European philanthropic activities in Russia, indigenous donations may need to account for a growing percentage of the costs of these activities. These contributions could help sustain essential social work and strengthen Russia's third sector in general.

Creating a more robust independent civil society in Russia requires making philanthropy more independent of the state and less dependent on corporate generosity. Yet, increasing the involvement of individuals and the middle class will take some time. It will require not just new legislation, but a great deal of socio-cultural change as well, particularly the development of a new culture of individual philanthropic behavior. In a recent opinion poll, over half of Russian respondents lacked awareness of the existence of philanthropic organizations in Russia.¹⁵ Additional educational efforts are clearly necessary to persuade Russians of the importance of philanthropy for creating a healthy and dynamic society.

¹⁴ David P. Freeman *et al.*, *Handbook on Private Foundations* (Washington, DC: Council on Foundations, 2005), p. 7.

¹⁵ Data obtained by the "Cirkon" agency on the basis of opinion poll ordered by the Donors' Forum in late 2004.