

**Comments on draft SNA chapter:
Chapter 23: Non-profit institutions in the System**

**Deadline for comments: 30 September 2008
Send comments to: sna@un.org**

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This template allows you to record your comments on draft SNA chapter 23 “Non-profit institutions in the System” and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any or all parts of the template.

There is no file comparing existing text with draft text for this chapter because there is no equivalent chapter in the 1993 SNA.

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Part I: General comments

In the space below, please provide any general comments. This may cover e.g. the structure of the chapter, issues missing and (lack of) consistency with other chapters of the 2008 SNA.

General comments:

General comment	<p>The inclusion of a separate chapter on Non-profit Institutions in the SNA is a highly useful step that reflects the growing scale and importance of these institutions and the need for greater clarity about their treatment in the SNA, especially in light of the changes in that treatment introduced by 1993 SNA.Rev 1 and the introduction of ISIC, Rev. 4.</p> <p>Also quite useful is the explicit treatment of the satellite account on NPIs introduced in the U.N. Statistics Division’s <i>Handbook on Non-Profit Institutions in the System of National Accounts</i>.</p>
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Part II: Comments on specific draft paragraphs and sections

All comments on specific draft paragraphs are welcome. They can be about e.g. scope, content and clarity. Proposing a concrete alternative text or table is also possible. For the paragraphs in separate sections, separate forms are used for providing and collecting comments (see below).

A. Introduction (paragraphs 23.1-23.11)

General comment	<p>Section A offers a description of various types of NPIs and merges the description with references to how these various entities are handled in the core SNA. The result is a rather complicated presentation. The basic definition of what an NPI is does not come until the third paragraph and some of the important changes that the recent revision of SNA 1993 has introduced are not highlighted. In addition, the basic road-map to the chapter does not appear until paragraph 23.11.</p> <p>I believe this section, and the chapter generally, would be clearer and easier to follow if this section were split into two sections—Section A introducing NPIs and providing a road-map to the chapter, and Section B detailing how the core SNA as revised treats NPIs. The text below provides this alternative structure:</p> <p style="text-align: center;">Chapter 23: Non-profit institutions in the SNA</p> <p>A. Introduction</p> <p>1. The importance of nonprofit institutions</p> <p>23.1 The inclusion of a separate chapter on Non-profit Institutions in the SNA reflects the growing recognition of the important role NPIs play in national economies and policy. Their measurement in the SNA, and the explicit reporting of these figures, is important to improve economic statistics and provide policy, business, and civic leaders information to help their decision-making processes.</p> <p>2. The nature of nonprofit institutions</p> <p>23.2 NPIs are separately identified institutional units. That is, they are capable in their own right of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. It follows that a complete set of accounts for the unit, including a balance sheet of assets and liabilities exists or could be constructed if required. In some countries, especially developing countries, an NPI may be an informal entity that nevertheless has structure and permanence and whose existence is recognized by society but does not have any formal legal status.</p> <p>23.3 The distinguishing feature that identifies an NPI is that its status does not permit it to be a source of income, profit, or other financial gain for the units that establish, control, or finance it. In other words, an NPI may make a profit but it cannot distribute this profit to those that establish, control, or finance it.</p> <p>23.4 The treatment of NPIs in the SNA has long been somewhat problematic because NPIs are hybrid institutions that do not fit neatly into SNA categories. Thus:</p> <p>a. NPIs are private institutions, yet they often produce public, or quasi-public, goods and make their output available free or at prices that are not economically significant to individual households or the community at large;</p>
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- b. NPIs are often recipients of proceeds from the sale of their goods or services . When fees are charged, these may or may not cover a large proportion of the NPI's costs and therefore may or may not be deemed to be economically significant prices;
- c. Many NPIs that cover a large proportion of their costs from fees also produce non-market goods and services financed by transfers from both governments and households;
- d. Even when they receive economically significant prices, NPIs have a different production function from other market producers because those that control them cannot receive any profit from their operations. This makes them different from profit-maximizing businesses.
- e. While most NPIs serve households, some NPIs (e.g. trade associations) serve corporations, typically charging fees intended to cover costs and therefore satisfying the SNA criterion of economically significant prices.
- f. Some NPIs, though separate institutional units, are nevertheless effectively controlled by government in that government may appoint their officers and determine the objectives of the institutions. Governments may also provide significant financial support to NPIs, though this does not necessarily signify that government controls them.

3. Structure of this chapter

23.5 Given the hybrid character of NPIs, two different approaches have evolved for handling them in the SNA.

- a. **Core accounts.** Beginning in 1993, the SNA specifically identified NPIs as an institutional category . However, the 1993 SNA divides NPIs among five different sectors based on a set of criteria related to the financing and control of these organizations. These criteria have been partially revised in the 1993 SNA, Rev 1.
- b. **Satellite account.** Recognizing the growing economic and policy importance of NPIs, the UN Statistics Division issued a *Handbook on Nonprofit Institutions in the System of National Accounts* in 2003 to guide countries in pulling together a more comprehensive picture of the economic activity of all NPIs in an NPI satellite account.¹

23.6 The balance of this chapter first examines in Section B how NPIs are treated in the *core accounts*, as refined by 1993 SNA, Rev. 1. Section C then describes the essential features of the *NPI satellite account*. Section D discusses some other aspects of NPIs that it may be desirable to explore.

B. The treatment of NPIs in the SNA

1. Defining feature of an NPI

23.7 Nonprofit Institutions (NPIs) are institutional units that share the distinguishing feature that their status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them.

2. Allocation of NPIs among institutional sectors

¹ United Nations, Statistics Division. 2003. *Handbook on Nonprofit Institutions in the System of National Accounts*. ST/ESA/Stat/Ser.F/91. New York: United Nations.

	<p>23.8 NPIs so defined are split among a number of different economic sectors in the SNA institutional accounts based partly on how they are financed and partly on how they are controlled. In particular:</p> <ul style="list-style-type: none"> a. <i>Market NPIs.</i> Some NPIs are allocated to the corporations sectors, either financial or non-financial. Included here are: (i) NPIs that produce services for corporations, typically charging fees intended to cover costs, thereby satisfying the SNA criterion of economically significant prices (e.g., trade associations); (ii) NPIs that provide goods or services to households, but in return for fees that are regarded as being economically significant, i.e. they cover a large proportion of the NPIs' costs (e.g., a non-profit hospital). Expenditures on the output of NPIs in this latter category re treated as final consumption expenditures by households; b. <i>Government NPIs.</i> Other NPIs are assigned to the general government sector. According to 1993 SNA, Rev. 1, the key criterion for NPIs to be allocated to the government sector is that though they are separate institutional units, they are "controlled by" government in that government appoints their officers and determines the organizations' objectives. This refines the original 1993 SNA guidelines by putting less emphasis on whether the NPI is primarily "financed by" government. (For a fuller description of the criteria of "control" for such NPIs, see 1993 SNA, Rev 1, para xxx). An example of such an NPI is certain standard-setting organizations; c. <i>Household NPIs.</i> Most NPIs are separately identified institutional units. That is, they are capable in their own right of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities. However, some NPIs are less well structured than this. Where such entities exist, they are assigned to the household sector; d. <i>NPISH.</i> SNA 1993 established a separate sector for the remaining NPIs called "Nonprofit Institutions Serving Households [NPISH]." NPIs that provide goods or services to households that are financed by transfers or otherwise than by fees that cover a large proportion of the NPIs' costs are treated as nonprofit institutions serving households and allocated to this NPISH sector. The output of these NPIs is treated as actual final consumption of households delivered as social transfers in kind. Also allocated to the NPISH sector under 1993 SNA, Rev. 1, will be NPIs financed by, but not controlled by, government. <p>3. Other matters</p> <p>23.9 While 1993 SNA calls for the allocation of many NPIs to sectors other than NPISH, SNA 1993 Rev. 1 (Table 4.1 and para 4.131) stipulates that countries should separately identify the NPIs allocated to these other accounts and report separately on them..</p> <p>23.10 Those NPIs in the corporations sectors may be further sub-divided to show those that are foreign controlled, those that are publicly controlled and those that are subject to domestic private control. The NPIs in the general government sector may be sub-divided by level of government. NPISHs may also be divided between those that are foreign controlled and those subject to domestic private control.</p>
23.1-23.9	See general comments above
23.10-23.11	Material on the NPI Satellite account has been merged into a new Section C as noted below.

B. The units included in the NPI satellite account (paragraphs 23.12-23.29)

General comment	<p>The current draft splits material on the NPI satellite among three different sections—Sections A, B, and C and does not fully articulate the rationale for the NPI satellite account. Certain features of the satellite account are also not fully highlighted. I suggest consolidating the discussion of the NPI satellite account in a revised Section C and adding additional language for some key features of the satellite account.. The suggested text for the first portions of this section, replacing and/or absorbing key portions of current paras. 23.10 thru 23.17, are as follows:</p> <p>C. The NPI satellite account</p> <p>1. The need for an NPI satellite account</p> <p>23.11 Because the core SNA divides NPIs among a number of different sectors, only the NPIs in the NPISH sector are visible in economic reporting. This has made it difficult to examine the overall contribution of NPIs to the economy . Because research has shown that these institutions constitute a significant and growing economic presence of expanding policy interest, there has been growing interest in being able to identify the full extent of NPI economic activity in a coherent form. This is particularly so since NPIs share many operating characteristics that are significantly different from those of other units in the corporations and government sectors with which many NPIs are grouped. Specifically</p> <ol style="list-style-type: none">a. They are not permitted to distribute profits;b. They may produce public goods as well as private goods;c. They may receive as much or more from current transfers as they receive from selling their output;d. They may depend on volunteer labour as well as paid labour;e. Because they cannot pay dividends, they cannot attract equity capital in competition with corporations;f. They may be eligible for special tax advantages in many countries;g. They typically have special legal provisions covering their governance, reporting requirements, political participation and so on;h. Although they provide public goods and services, they do not have the same powers or restrictions as government in deciding what these goods and services should be and how they should be allocated. <p>23.12 Arising out of this interest, a <i>Handbook on Nonprofit Institutions in the System of National Accounts</i> has been issued by the UN Statistics Division recommending a methodology for developing regular “satellite accounts” on NPIs.</p> <p>2. The units included in the NPI satellite account</p> <p>23.13 The starting point for the satellite account is to identify the units to be included. For this purpose, the <i>NPI Handbook</i> adopts a definition pioneered by the Johns Hopkins Comparative Nonprofit Sector Project based on input from scholars in</p>
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	<p>some 40 countries. This definition sought to identify characteristics that could differentiate NPIs from other types of institutional units in the broadest array of countries, that was operational, and that could fit most easily into the SNA. This led to five key criteria as the defining features of units considered to be in-scope for the NPI satellite account. In particular, such units must:</p> <ul style="list-style-type: none"> a. <i>Be organizations</i>, i.e. “institutional units” in the SNA meaning of this term. Informal organizations, i.e. organizations without a formal legal status, are included so long as they meet the SNA definition of an institutional unit; b. <i>Be institutionally separate from government</i>. Such units may receive significant government funding but they must not be part of government; c. <i>Not distribute profits</i>. Such units may earn profits but they cannot distribute any such profits to the units or entities that establish, control, or finance them. This is identical to the SNA definition of an NPI; d. <i>Be self governing</i>, i.e., they are not subject to control from other units. Operationally, this means, at a minimum, that they must be able to cease operations on their own authority; e. <i>Not be obligatory</i>, that is membership, involvement, or support for them cannot be required as a condition of citizenship. <p>23.14 Fundamentally, with one possible exception, this definition embraces all units classified as NPIs in the 1993 SNA, Rev. 1, including those allocated to the non-financial corporations sector, the financial corporations sector, the general government sector, the household sector, and the NPISH sector.</p> <p>23.15 The one possible exception are any NPIs that remain allocated to the general government sector under 1993 SNA, Rev 1, which clarified the definition of “control” for the purpose of determining which NPIs are allocated to the general government sector. This reduced the emphasis on whether an NPI receives a significant share of its income from government in determining whether the unit should be allocated to the general government sector. Under SNA 1993, Rev. 1, NPIs that are extensively financed by government but not fundamentally controlled by government should no longer be allocated to the general government sector and are in-scope for the NPI satellite account. Only those NPIs judged to be truly “controlled by” government in the sense that government selects their officers and controls their objectives are out-of-scope for the NPI satellite account because they violate the requirement of being “self-governing.”</p>
23.12	Incorporated in revised text above.
23.13-23.15	Deleted. These references to alternative conceptualizations of a “third sector” beyond government and markets are distracting and potentially confusing. I suggest that they be dropped. They have not been given the official standing that either the core SNA treatment or the <i>NPI Handbook</i> treatment has been given and therefore do not belong in an SNA chapter on NPIs.
23.16	Incorporated in the revised text above at para. 23.13.

23.17	Incorporated partly in para. 23.15 above. The reference to the exclusion of informal organizations may be misleading. In fact, informal organizations are in-scope for the satellite account so long as they are truly organizations with a degree of permanence and structure. The term “informal” is often misinterpreted to mean “not legally constituted.” This would unfairly exclude many true NPIs in countries where restrictive legal structures make it difficult for organizations to gain legal status.
2.	Change to: 3. Examples of units included
23.18	Change to: 23.16
3.	Change to: 4. Borderline cases
23.19	Change to: 23.17 Change: “handbook” to “ <i>Handbook</i> ”
23.20-23.28	Make this section parallel in structure to the previous section on “Examples of units included” by making these numbered paragraphs sub-points a, b, c, etc. under new paragraph 23.17. Change a, b,c under 23.20 to i, ii, iii. Merge 23.22 with 23.21 as both refer to mutuals.
23.24	Change to: e. under new 23.17 The definition of a social enterprise here does not reflect clarifications in the meaning of this term since the <i>NPI Handbook</i> was formulated. A more precise definition would be as follows: e. <i>Social ventures</i> are enterprises organized for the purpose of employing, training, or otherwise assisting disadvantaged individuals (e.g., handicapped, released prisoners, recovering addicts, or other long-term unemployed) through the operation of a business. The enterprise is considered an NPI unless it generates and distributes a surplus to owners or stockholders.
4	Change to: 5. Classification of NPIs
23.29	Change to: 23.18. The relation between ISIC, Rev. 4 and ICNPO could usefully be clarified as could the relationship between the COPNI elaboration and ICNPO. I suggest re-working the last 4 sentences in this paragraph to read as follows: This classification is known as the International Classification of Non-Profit Organizations (ICNPO). The twelve main headings of interest are shown in table 23.1. ISIC, Rev. 4 has added much of the additional detail proposed in the ICNPO, making it relatively easy to cross-walk from ISIC to ICNPO, especially with the alternative aggregation provided for non-profit institutions in part four, section D. Some elaboration of the classification of NPIs by purpose (COPNI) has also moved in the same direction.
6.	The current draft introduces the extension of the satellite account production boundary to embrace volunteer work only indirectly, in the discussion of the account structure of the satellite account. This is an important feature of the satellite account that deserves explicit mention.

	<p>The language below is offered as a possible text for this mention:</p> <p>6. Inclusion of volunteer work</p> <p>23.19 The 1993 SNA does not count most volunteer effort. However, volunteer labour constitutes a significant input to many, if not most, NPIs. In many such organizations, the voluntary contribution of time exceeds in value the voluntary contribution of money, and volunteer work constitutes a sizable proportion of the total workforce that such organizations engage. Although people volunteer for other organizations, such as government agencies and even businesses, most volunteer work takes place in non-profit institutions.</p> <p>23.20 Because volunteer work is so critical to the output of NPIs, the <i>NPI Handbook</i> calls on countries to capture that activity in the satellite account and assign a value to it. The procedure for doing so involves measuring the time devoted to volunteer work and assigning a wage to this time based on the activity performed by the volunteer (the so-called “replacement cost” approach). Data on volunteer work can be assembled through special household surveys or through periodic modules added to regular labour force surveys. A recommended approach for carrying out the latter approach is available in the <i>Manual on Measuring Volunteer Work</i> issued by the International Labour Organization.²</p>
<p>7.</p>	<p>Another important feature of the NPI satellite account that is handled indirectly in the draft chapter is the non-market output of market NPIs. Here again, I suggest a paragraph referring explaining this issue and the satellite account treatment of it. Suggested language is offered below:</p> <p>7. Non-market output of market NPIs</p> <p>23.21 The 1993 SNA values the output of market producers by their sales revenue. This creates a problem in valuing the output of what the 1993 SNA considers to be market NPIs-- i.e. those that cover the preponderance of their operating expenses from market sales—since such NPIs often also produce non-market output that is not counted under these SNA conventions.</p> <p>23.22 To cope with this problem, the <i>NPI Handbook</i> recommends valuing the non-market output of market NPIs the same way SNA values the output of non-market NPIs—i.e., on an operating expense basis. This means adding the expenses associated with the non-market output of market NPIs to the other measures of market NPI output. Where cost exceeds sales revenue, the difference is taken to be the measure of non-market output. Where sales revenue exceeds costs, non-market output is assumed to be zero. All data required for these calculations should already be available. In the case of market NPIs serving households, GDP is affected. The additional output identified becomes household final consumption expenditure, and a transfer of equivalent amount from NPI corporations to households will be required to balance the accounts of both sectors.</p>
<p>8.</p>	<p>A final important feature of the NPI satellite account that deserves explicit mention is the further specification of revenue sources to clarify the role of government funding in the revenue base of these organizations. Suggested language for this point is offered below:</p>

² International Labour Organization, 2009. *Manual on Measuring Volunteer Work*. [In development. Precise reference to be added prior to publication]

	<p>8. Identification of revenue sources</p> <p>23.23 In standard SNA usage, government purchases from NPIs are grouped with private purchases as program service revenue, or market receipts. Similarly, government grants to NPIs are grouped together with private contributions as transfers. This makes it difficult to determine the amount of support received by NPIs from government or from private philanthropy. Because this is an important matter in policy discussions, the <i>NPI Handbook</i> calls on statistical authorities to identify the share of market sales and transfers, respectively, coming from government. Once this is done, it will be possible to break the sources of nonprofit revenue into three parts: government (including purchases and transfers), fees or charges, and private philanthropy (transfers from households and corporations). Where possible, moreover, the government funding should be differentiated between national and local governments, and both the government and private transfers between domestic sources and foreign ones.</p>
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* Insert rows in this Word table for each paragraph on which you wish to comment.

C. Accounts for NPIs in the satellite account (paragraphs 23.30-23.36)

<p>General comment</p>	<p>The separate section “C” on “Accounts for non-profit institutions in the satellite account” in the proposed Chapter 23 introduces much more than the account structure. It also introduces important conceptual matters, such as the inclusion of volunteer work and estimating the non-market output of market NPIs. These conceptual matters deserve their own treatment as noted above. Once this is done, the material left in original section C can easily and logically be incorporated into the new Section C focusing on the satellite account and the focus shifted to why the <i>NPI Handbook</i> suggested three possible “cuts” or versions of its recommended accounts. Suggested language for this revised subsection of new Section C is offered below:</p> <p>9. Accounts for non-profit institutions in the satellite account</p> <p>23.24 Because the <i>NPI Handbook</i> recommends the inclusion in the NPI satellite account of certain data items not now included in the core accounts, such as the value of non-market output of market NPIs and the value of volunteer work done for NPIs, it acknowledges that some countries will require some time before they can generate the data required for the full implementation of the satellite account. Accordingly, it suggests a phased approach to the implementation process where countries find this necessary. In particular:</p> <ol style="list-style-type: none"> a. In the first phase of implementation, countries could produce a set of accounts that excludes the recommended additions and essentially corresponds exactly to the SNA sequence of accounts. This can be seen as a simple aggregation across the sub-sectors for NPIs in the corporations sectors, NPISHs, plus NPIs formerly included in the government sector in the original 1993 SNA but excluded once the sectoring rules of 1993 SNA, Rev. 1, are applied; b. In a second phase of implementation, countries could add an estimate of the non-market output of market NPIs as described in para. 23.22 above, if this turns out to be significant. Any such non-market output of market NPIs is treated as a social transfer in kind to households and added to household actual final consumption; c. In a third phase of implementation, countries could add in the estimated value
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	<p>of volunteer work once data on the amount and character of volunteer work become available;</p> <p>Countries are not required to take this phased approach, of course, if the required data are available immediately. In addition, the estimated value of volunteer work can be included whether or not countries make an estimate of the non-market output of market NPIs. In other words, countries can proceed directly from phase 1 to phase 3.</p>
23.30-23.33	As noted above, the material in paras. 23.30-23.33 is integrated into paras. 23.19-23.22 plus 23.24 above.
23.34	<p>Change numbering to: 23.25</p> <p>This paragraph discusses the presentation of the data on the sources of nonprofit revenue described in the new para. 23.23. Paragraph 23.34 does not make clear, however, that the <i>NPI Handbook</i> recommends breaking revenue sources down among three sources—government, private fees and charges, and private transfers. The revised text below makes this clear. This text should be made part of new Section C above:</p> <p>23.25 The NPI satellite account includes other tables apart from the sequence of accounts. One of these is to show the details of revenue received with a breakdown of origin and type of transaction. In particular, it is recommended to distinguish among revenue coming from government (whether in the form of purchases or transfers), from private fees and charges, and from private transfers. Where possible, both fees and private transfers should be separated into those coming from the domestic economy and those coming from the rest of the world.</p>
23.35 and .36	<p>Renumber as 23.26 and 23.27</p> <p>Integrate into new Section C</p>

* Insert rows in this Word table for each paragraph on which you wish to comment.

D. Other SNA considerations concerning NPIs (paragraphs 23.37-23.44)

General comment	Click here and start typing.
23.37	Delete. The major point of this paragraph appears to be to suggest that NPISHs may be divided into those subject to foreign control and those not and that donations from abroad be separately identified. These suggestions are already covered in para. 23.23 and 23.25.
2	Change to: 1
23.38-23.42	Change to: 23.28-23.32
3	Change to: 2
23.43-23.44	Change to 23.33-23.34

* Insert rows in this Word table for each paragraph on which you wish to comment.

Part III. Other specific comments

You are welcome to make other specific comments. To assist you in doing so, the following points are provided as a guide to the types of points on which you might wish to comment. Note, though, that you are not restricted to commenting on only these points.

1. Is the scope and purpose of the satellite account clear?
2. Are the three alternative valuations of output of NPIs in the satellite account clear?
3. Are there any other issues that should be added to section D?

Specific comments:

Specific comments	Click here and start typing.
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You are also welcome to comment directly on the PDF file of the draft chapter. Please do so by using Adobe Acrobat Version 6 or 7.

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