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Chapter 23: Non-profit institutions in the SNA

A. Introduction

1. The importance of nonprofit institutions

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.

2. The nature of nonprofit institutions

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.

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.

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:

- 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;
- 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

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:

- a. *Market NPIs.* 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 nonprofit hospital). Expenditures on the output of NPIs in this latter category re treated as final consumption expenditures by households;
- b. *Government NPIs.* 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. *Household NPIs.* 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. *NPISH.* 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.

3. Other matters

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.

- 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 sectors and report separately on them.
- 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.

C. A satellite account for NPIs

1. The need for an NPI satellite account

- 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
- 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.
- 23.12 Arising out of this interest, a *Handbook on Nonprofit Institutions in the System of National Accounts* has been issued by the UN Statistics Division recommending a methodology for developing regular “satellite accounts” on NPIs.

2. The units included in the NPI satellite account

- 23.13 The starting point for the satellite account is to identify the units to be included. For this purpose, the *NPI Handbook* adopts a definition pioneered by the Johns Hopkins Comparative Nonprofit Sector Project based on input from scholars in 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:
- a. *Be organizations*, 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. *Be institutionally separate from government.* Such units may receive significant government funding but they must not be part of government;
 - c. *Not distribute profits.* 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. *Be self governing,* 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. *Not be obligatory,* that is membership, involvement, or support for them cannot be required as a condition of citizenship.
- 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.
- 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.”

3. Examples of units included

- 23.16 The following are illustrative examples of the kinds of entities that are likely to be found within the “non-profit sector” for the purposes of the NPI satellite account:
- a. *Non-profit service providers,* such as hospitals, higher education institutions, day-care centres, schools, social service providers and environmental groups;
 - b. *Non-governmental organizations* promoting economic development or poverty reduction in less-developed areas;
 - c. *Arts and culture organizations,* including museums, performing arts centres, orchestras, ensembles and historical or literary societies;
 - d. *Sports clubs* involved in amateur sport, training, physical fitness and competitions;
 - e. *Advocacy groups* that work to promote civil and other rights, or advocate the social and political interests of general or special constituencies;
 - f. *Foundations,* that is, entities that have at their disposal assets or an endowment and, using the income generated by those assets, either make grants to other organizations or carry out their own projects and programs;
 - g. *Community-based or grass-roots associations* that are member-based and offer services to or advocate for members of a particular neighbourhood, community or village;
 - h. *Political parties* that support the placing of particular candidates into political office;
 - i. *Social clubs,* including touring clubs and country clubs, that provide services and recreational opportunities to individual members and communities;

- j. *Unions, business and professional associations* that promote and safeguard labour, business or professional interests;
- k. *Religious congregations*, such as parishes, synagogues, mosques, temples and shrines, which promote religious beliefs and administer religious services and rituals. However, an official state church incorporated into the state administration, particularly one supported by obligatory taxes, would not meet the “institutionally separate from government” criterion and thus would be excluded from the set of NPIs in the satellite account. It should be noted that religious congregations are different from religiously affiliated service agencies in such fields as health, education and social services. Similarly, service organizations related to a state church might still be considered to be within the non-profit sector, as long as they are separate institutional units and meet all the definitional criteria.

4. Borderline cases

23.17 Certain other types of organizations are likely to occupy a grey area between the non-profit sector and either the corporations or government sectors. Some of those entities will properly belong within the non-profit sector for purposes of the NPI satellite account, while others will not. The following guidelines may be helpful for making those decisions. (Obviously, these guidelines will have to be applied to types of organizations and not on an organization-by-organization basis, but the decision rules can still be instructive.) The guidelines given here are those of the handbook, slightly modified in the light of experience with implementing the accounts. It is proposed that the modification included here will be incorporated into the next edition of the *Handbook*.

- a. *Cooperatives* are organizations formed freely by individuals to pursue the economic interests of their members. The basic principles of cooperatives include:
 - i. democratic control, that is, one person, one vote;
 - ii. shared identity, that is members are both owners and customers; and
 - iii. orientation to provide services to members “at cost”.

As with other institutional units, if the articles of association of a cooperative prevent it from distributing its profit, then it will be treated as an NPI; if it can distribute its profit to its members, it is not an NPI (in either the SNA or the satellite account).

- b. *Mutual societies* include such organisations as mutual savings banks, savings and loan associations, mutual insurance companies, sickness and burial funds. Mutual societies, like cooperatives, are organized by individuals seeking to improve their economic situation through collective activity. They differ from cooperatives, however, in that they are mechanisms for sharing risk, either personal or property, through periodic contributions to a common fund. Normally the depositors in mutual societies formally control their operations. Because mutual societies operate in the commercial sphere, they fall in the financial corporations sector. Only if their articles of association prevent them from distributing profits to their owners are they treated as NPIs in the SNA (but still within the financial corporations sector) and included within the NPI sector for the satellite account.
- c. *Self-help groups* are similar to both cooperatives and mutual societies in that individuals join to accomplish goals of mutual support that would be unattainable on an individual level. They differ from both, however, in that they are not principally engaged in commercial activities. As a general rule, self-help groups should be treated as membership organizations and included within the nonprofit sector.
- d. *Social ventures* 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 its surplus to owners or stockholders.
- e. *Quasi-non-governmental organizations*, which are found in many European countries and elsewhere, are designed to function at arm’s length from government departments, thus avoiding direct political control. To the extent that they are truly self-governing entities, they are appropriately considered part of the non-profit sector, even if they exercise the limited authority delegated to them by government agencies.

- f. *Universities*, like other institutions, can be either NPIs, public institutions or for-profit corporations. Differentiating NPIs from public institutions is especially difficult since both may receive significant amounts of government support, either directly or indirectly, and even public institutions may have a significant degree of autonomy. The key, therefore, is whether the institution is clearly self-governing and not part of the government’s administrative system. Educational institutions that are NPIs will have their own self-perpetuating boards that can determine all facets of organizational operations, without approval by government officials, and that can cease their operations without the approval of government authorities. Public educational institutions will have boards selected in significant part by government officials or agencies and lack the power to cease operations without an act of the government.
- g. *Hospitals*, like educational institutions, can also be NPIs, public institutions or for profit corporations. The same rules that apply to educational institutions also apply to hospitals.
- h. *Indigenous or territorial groups*, such as band councils in Canada (a form of First Nation government) and peasant or native communities in Peru, are organized around either cultural or ethnic groupings or a particular geographic area, mainly with the purpose of improving the welfare of their members. The difficulty arises when such groups essentially operate as local governments, often making and enforcing their own laws. When that is the case, the groups would not meet the “institutionally separate from government” criterion and would fall outside the boundaries of the NPI satellite account.

5. Classification of NPIs

23.18 NPIs can be classified according to the activity they undertake or the purpose for which they are envisaged. In terms of activity, the normal classification to be used would be ISIC. Because the detail available in ISIC, Rev. 3 for many of the social services covered by NPI was not sufficient, an elaboration of the basic ISIC codes was developed for use in conjunction with the NPI satellite account. 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.

Table 23.1: ICNPO groups

Group	
1.	Culture and recreation
2.	Education and research
3.	Health
4.	Social services
5.	Environment
6.	Development and housing
7.	Law, advocacy and politics
8.	Philanthropic intermediaries and voluntarism promotion
9.	International
10.	Religion
11.	Business and professional associations, unions
12.	Not elsewhere classified

6. Inclusion of volunteer work

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.

23.20 Because volunteer work is so critical to the output of NPIs, the *NPI Handbook* 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 *Manual on Measuring Volunteer Work* issued by the International Labour Organization.²

7. Non-market output of market NPIs

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.

23.22 To cope with this problem, the *NPI Handbook* 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.

8. Identification of revenue sources

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 *NPI Handbook* 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.

9. Accounts for non-profit institutions in the satellite account

23.24 Because the *NPI Handbook* 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:

- 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, plus 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;

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

- C. In a third phase of implementation, countries could add in the estimated value of volunteer work once data on the amount and character of volunteer work become available;

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.

- 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.
- 23.26 Another table includes information in physical units such as the number of employees, number of volunteers, number of entities, number of members and the capacity of the organisation. In addition some information is given on the financial account and the assets held by the NPI.
- 23.27 Fully annotated descriptions of the tables are included in the handbook on the satellite account.

D. Other SNA considerations concerning NPIs

1. Informal and temporary NPISHs

- 23.28 Quite frequently, a number of households may get together to pool resources of knowledge and volunteer labour to serve their local community. This could include teaching in informal schools, offering medical assistance or the construction of roads, a well, a school building etc. When only services are provided on the basis of volunteer labour, the activity is not recorded in the SNA. When physical structures result, the activity is included in the production boundary. The value of the output is estimated by comparison with similar products elsewhere in the economy or, when it has to be estimated at the sum of costs, an estimate is made for the implicit value of the labour input. This labour input is treated as gross mixed income accruing to households who then are assumed to “purchase” the product. In fact they may then transfer the product to another unit for maintenance, often to government.
- 23.29 If a group of households cooperates to produce goods for sale, even if the objective is still to be able to pay for work on a communal asset, this is not treated as a non-profit institution but an unincorporated enterprise in the household sector.
- 23.30 Many small groups of individuals or households may exist as a practical means of allocating shared costs. These may be as simple as a “coffee club” at the workplace or may be a more formal arrangement whereby the costs of common services provided to all tenants in a block of flats are shared equitably. Such groups are practical rather than economic and their activities are not recorded in the SNA, only the eventual allocation of costs
- 23.31 In the case of micro-finance, the unit is most likely to be either a corporation or an unincorporated enterprise. Even though the owner of the enterprise may not keep the profits but use them to generate new loans this does not automatically make the unit an NPI. The definition of an NPI is not that the owners choose not to withdraw profits but that they are not legally entitled to do so.
- 23.32 In practice it may be difficult to compile information on such informal NPISHs unless the results are sufficiently important to come to general attention.

2. The output of NPISHs

- 23.33 NPISHs produce goods and services, but typically services, that are provided to individual households free or at prices that are not economically significant. However, it is possible conceptually for an NPISH to provide collective services. An example may be a well-financed institution that engages in research and development but makes its

results freely available. Such an institution is engaged in nonmarket production but, because it is not controlled by government, it falls in the NPISH sector. The value of output is treated as final consumption expenditure and actual final consumption by the institution.

23.34 Not only are the services provided by non-profit institutions serving households very similar to those provided by government. They present much the same difficulties of measuring their output and of selecting suitable price indices for deflating these to volume terms.