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## Chapter 23: Non-profit institutions in the SNA

### A. Introduction

#### 1. Non profit institutions in the SNA

- 23.1 Non-profit institutions (NPIs) play a somewhat unusual role in the SNA. Like corporations, some NPIs produce goods and services for sale with the intention to cover costs, that is to say as market production, and may not undertake final consumption. Like government units, some NPIs are non-market producers and make their output available free or at prices that are not economically significant to individual households or the community at large. Some of these non-market NPIs are controlled by government and included in the general government sector but those that are not are grouped in their own sector, the non-profit institutions serving households (NPISHs).
- 23.2 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. 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 whose existence is recognized by society but does not have any 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. An NPI may make a profit; it may be exempt from taxes; it may have a charitable purpose but none of these are determining characteristics. The only essential criterion is the one stated in the first sentence of this paragraph, that the NPI may not be a source of income, profit or financial gain to its owners.
- 23.4 All NPIs produce goods and services, most often services, intended for consumption by households or by corporations. Some NPIs produce services for corporations typically charging fees intended to cover costs. They are often structured as associations that provide services exclusively to members. The level of fees charged (the price of membership), typically satisfies the SNA criteria of economically significant prices. For this reason these NPIs are allocated to the corporations sectors. An example of an NPI serving corporations is a trade association.
- 23.5 An NPI may be controlled by government in that government may appoint its officers and determine the objectives of the institution. It is treated as an institutional unit separate from government because it has independent control of its budget (even if much or all of the funding comes from government) but it is allocated to the general government institutional sector. Such institutions provide collective services. An example is standard-setting organisations.
- 23.6 Other NPIs exist to provide goods and services to households either in return for a fee or free. 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. When the fees charged are regarded as being economically significant, the NPIs concerned are treated as providing market services and are allocated to the corporations sectors. Otherwise the NPIs fall into NPISHs.
- 23.7 Thus it is possible to categorize NPIs as follows:

- a. those providing services to corporations whose output is sold to the corporations concerned and treated as intermediate consumption by them;
  - b. those that are controlled by government and provide individual or collective services on a non-market basis;
  - c. those providing goods and services to households individually or collectively; divided between:
    - i. those that provide goods and services at economically significant prices;
    - ii. those providing services not an economically significant prices.
- 23.8 Those NPIs that fall in category c(i) are allocated the corporations sectors and expenditure on their output is treated as final consumption expenditure by households. Those that fall into c(ii) are allocated to the NPISH sector and their output is treated as actual final consumption of households delivered as social transfers in kind.
- 23.9 There are thus a number of sub-sectors where NPIs appear in the SNA; in both financial and non-financial corporations accounts, in the general government sector and in the separate sector of NPISHs. 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 national private control. The NPIs in the general government sector may be sub-divided by level of government, central, state and local government. NPISHs may be divided between those that are foreign controlled and those subject to national private control.

## **2. A satellite account for NPIs**

- 23.10 For some time, there has been growing interest in studying the contribution to the economy of institutions such as NPIs because they are seen to constitute a significant presence of growing economic and policy interest.. Such institutions are variously referred to as “non-profit”, “voluntary”, “civil society” or “non-governmental” organizations and collectively as the “third”, “voluntary”, “non-profit” or “independent” sector. Such institutions attract interest because their operating characteristics are somewhat different from those of other units in the corporations and government sectors. 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 the 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.
- 23.11 Arising out of this interest, a satellite account for NPIs has been developed as described in the *Handbook on Non-Profit Institutions in the System of National Accounts*. Sections B and C of this chapter describe the essential features of this satellite account. Section D discusses some other aspects of NPIs that it may be desirable to explore in addition to the satellite account.

## **B. The units included in the NPI satellite account**

23.12 The starting point for the satellite account is to identify the units of interest. As will be seen, the units chosen coincide largely (but not quite entirely) with the units described as NPIs in the SNA. One way of approaching a satellite, therefore, would be to consider compiling the complete sequence of accounts for a sector made up of the sub-sectors of NPIs in the non-financial corporations sector, the financial corporations sector, the general government sector and NPISHs. However, because many of those interested in accounts for NPIs only do not come from an SNA background, the handbook starts by identifying characteristics of the units of interest.

### **1. Determining characteristics of units for the satellite account**

23.13 Various alternative concepts have been put forward around which a satellite account for non-profit institutions could be formulated.

23.14 The first of these is the concept of the “social economy” which depicts non-governmental institutions with a social or collective purpose. Typically mutual societies, cooperatives, associations and foundations would be included.

23.15 The second concept is of “public benefit” organisations. This typically covers a narrower range of institutions that serve a broad public purpose and excludes institutions which serve only their own members.

23.16 In between these two is the concept of the non-profit sector of on the lines initially pioneered by the Johns Hopkins Comparative Non-Profit Sector Project. In this project a definition of the non-profit units was elaborated along structural-operational lines. The requirements for inclusion are the following:

- a. Organisations should exist in an institutionalised form;
- b. They should be institutionally separate from government;
- c. They do not distribute profits;
- d. They are self-governing that is to say they are not subject to control from other units;
- e. Membership of the unit is neither obligatory nor automatic but involve some degree of voluntary participation.

23.17 The main exclusion from the set of NPIs in the SNA are those NPIs allocated to the general government sector because although they are institutionally separate from government, they are controlled by government units. A small number of informal, usually temporary, NPIs may be excluded also. These are discussed in section D.

### **2. Examples of units included**

23.18 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.

### 3. Borderline cases

23.19 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.

23.20 *Cooperatives* are organizations formed freely by individuals to pursue the economic interests of their members. The basic principles of cooperatives include:

- a. democratic control, that is, one person, one vote;
- b. shared identity, that is members are both owners and customers; and
- c. 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).

23.21 *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.

- 23.22 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.
- 23.23 *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 non-profit sector.
- 23.24 *Social ventures* are enterprises organized for the purpose of employing and training disadvantaged individuals (handicapped, long-term unemployed etc.) who would otherwise not find employment. The enterprise is considered an NPI unless it generates and distributes its surplus to owners or stockholders.
- 23.25 *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.
- 23.26 *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.
- 23.27 *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.
- 23.28 *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.

#### **4. Classification of NPIs**

- 23.29 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). Similarly some elaboration of the classification of NPIs by purpose (COPNI) was been developed. In ISIC, Rev.4, however, an alternative aggregation for data reporting for non-profit institutions is given in part four, section D. The twelve main headings of interest are shown in table 23.1.

**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

### **C. Accounts for non-profit institutions in the satellite account**

- 23.30 The first set of accounts prepared in the satellite account corresponds exactly to those in the SNA sequence of accounts. Indeed this can be seen as a simple aggregations across the sub-sectors for NPIs in the corporations sectors plus NPISHs. NPIs in the general government sector are excluded from the satellite account as noted above.
- 23.31 The second version of the accounts is to consider those NPIs that operate on a market basis where the sales of their output bring in revenue that is not sufficient to cover the whole of their costs. Two possible scenarios exist. The first is that the enterprise undertakes different types of activities, some on a market basis and some on a non-market basis but with the market basis activities predominating. In principle, the production account of the market activities should be compiled as normal but a production account based on the sum of costs (including a return to capital) should be estimated for the non-market output. The value of this output should be treated as distributed as social transfers in kind to households and adds to household actual final consumption.
- 23.32 The second possibility is that only one sort of activity is undertaken but the sales cover a large part of the costs with the balance being made up of donations. The donations are treated in the SNA as current transfers (any donations designated for capital purposes being treated as capital transfers). The satellite account treats these donations as analogous to subsidies and so measures the value of the output as the total sum of costs. In this case, the excess of output measured in this way over the proceeds from sales is treated as non-market output, social transfers in kind and part of actual final consumption of households.
- 23.33 The third variant on the accounts builds on the second version of the accounts by also including an estimate of the value of volunteer labour used in the NPIs. The cost of the volunteer labour is treated as both part of compensation of employees and as a transfer back from these employees to the NPI where they work. The value of the output of the NPI, and the amount treated as social transfers in kind, is increased over the amount in the second version of the accounts by the estimated value of the volunteer labour. It is recommended that the value of the labour be estimated on the basis of the remuneration rates of employees undertaking similar work and not at the opportunity cost of the volunteers.
- 23.34 The satellite account includes other tables apart from the sequence of accounts. One of these is to show details of revenue received with a breakdown by sector of origin and type of transaction. In

particular, it is recommended to distinguish between revenue coming from government, from the rest of the domestic economy and from the rest of the world.

- 23.35 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.
- 23.36 Fully annotated descriptions of the tables are included in the handbook on the satellite account.

## **D. Other SNA considerations concerning NPIs**

### **1. NPISHs and government**

- 23.37 In some countries, NPISHs take responsibility for the provision of specific services to households that the government does not see as part of its role to provide. In others, especially developing countries, NPISHs may provide services government would like to provide but simply does not have sufficient resources to do so. This becomes very clear following a natural disaster when NPISHs may be very active in relief work. For this reason it may be helpful to identify in the NPISHs subject to foreign control from other NPISHs and to identify donations from abroad for all NPISHs.

### **2. Informal and temporary NPISHs**

- 23.38 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.
- 23.39 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.
- 23.40 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
- 23.41 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 they is that they are not legally entitled to do so.
- 23.42 In practice it may be difficult to compile information on such informal NPISHs unless the results are sufficiently important to come to general attention.



### **3. The output of NPISHs**

- 23.43 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 non-market production but, because it is not controlled by government, it falls in the NPISH sector. The value of its output is treated as final consumption expenditure and actual final consumption by the institution.
- 23.44 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.