

Chapter 31: Non-profit institutions

(OLD Chapter 23: Non-profit institutions)

Note: The changes introduced in this chapter are to maintain consistency with the 2018 *Handbook on Satellite Account on Non-profit and Related Institutions and Volunteer Work*. The 2018 handbook updated the recommendations of the 2003 *Handbook on Nonprofit Institutions in the System of National Accounts* by extending the coverage of the satellite account beyond NPIs to include related institutions in the social economy such as cooperatives, mutual societies and social enterprises with a primarily social or public benefit purpose.

A. Introduction

1. Non-profit institutions in the SNA

- 31.1 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. In common with other market producers, they cannot 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).
- 31.2 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.
- 31.3 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, and it may have a charitable purpose, but none of these are determining characteristics. The only essential criterion for a unit to be treated as an NPI is that it may not be a source of income, profit or financial gain to its owners.
- 31.4 All NPIs produce goods and services, most often services, intended for consumption by households or by corporations. Some NPIs that produce services for corporations typically charging charge fees (sometimes described as subscriptions and membership dues) intended to cover costs. They are often set up 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.
- 31.5 A non-market 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 individual and collective services. An example is a research institute controlled by government.
- 31.6 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 goods and services and are allocated to the corporations sectors. Otherwise, the NPIs fall into the institutional sector of NPISHs.

- 31.7 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;
 - 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, divided between:
 - those that provide goods and services to individual households at economically significant prices;
 - those providing services to individual households free or at prices that are not economically significant;
 - those that provide collective services free or at prices that are not economically significant.
- 31.8 Those NPIs that fall under the first bullet point in category (c) are allocated to the corporations sectors and expenditure on their output is treated as final consumption expenditure by households. Those that fall under the second bullet point under (c) are allocated to the NPISH sector and their output is treated as actual final consumption of households delivered as social transfers in kind. Those that fall under the third bullet point under (c) are also allocated to the NPISH sector, but their output remains as actual final consumption of NPISHs.
- 31.9 There are thus ~~a number of~~ four sectors where NPIs appear in the SNA: in both the financial and non-financial corporations sectors, in the general government sector and in the separate sector of NPISHs. Compilation of subsectors of the first three sectors ~~are established to that~~ contain NPIs only is recommended to increase the visibility of market and government-controlled NPIs. Those NPIs in the corporations sectors may be further subdivided 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 subdivided 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. The accounting rules for NPIs in the SNA

- 31.10 The output of NPIs is valued in the same way as for all institutional units. If the unit is a non-market producer, output is valued at the sum of costs, including ~~consumption of fixed capital but excluding a return to capital depreciation and a return to capital~~. If the unit is a market producer, output is measured by sales adjusted for changes in inventories and any production for own capital formation. ~~For some NPIs that cover a large proportion but not all their costs from sales, some of the latter NPIs may fall short of covering all their costs from adjusted sales, leaving~~ the unit with a negative operating surplus. This negative operating surplus ~~is~~ may be covered by donations (current transfers).

3. ~~A satellite account for NPIs~~ thematic account on NPIs and other social economy institutions

- 31.11 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 ~~significant~~ interest presence of growing economic and policy relevance. Such institutions are variously referred to as “non-profit”, “voluntary”, “civil society” or “non-governmental” organizations and collectively as the “third”, social economy, “voluntary”, “non-profit” or “independent” sector. ~~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 (if an NPI) or are significantly restricted in their ability

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 than they receive from selling their output;
- d. They may depend on volunteer labour as well as paid labour;
- e. Because they typically 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.

31.12 ~~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* (United Nations, 2003). Sections B and C 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. The integrated framework of economic accounts provides limited visibility into the importance of NPIs in the economy because a large number of these NPIs are likely to be subsumed within the aggregates for corporations and government. To bring visibility to NPIs, guidelines for a thematic account on NPIs and related institutions have been developed, as described in the *Handbook on National Accounting: Satellite Account on Non-Profit and Related Institutions and Volunteer Work* (United Nations, 2018). This thematic account also contains data on related institutions with a social or public benefit purpose that are not NPIs and on volunteering. Sections B and C describe the essential features of this thematic account.~~

B. The units included in the thematic account on non-profit and related social economy institutions

31.13 ~~The starting point for developing a thematic 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 account, therefore, would be to consider compiling One possible approach would be to compile the complete sequence of accounts for an NPI sector made up of the NPI subsectors in the non-financial corporations sector, the financial corporations sector and the general government sector, and the whole of the NPISH sector. 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. many of the analytical questions related to NPIs require a broader view of institutions that have a social or public focus that includes some units that are not NPIs. Expanding the boundary of the concept covered by the thematic account to include these units therefore enhances the usefulness of the thematic account.~~

1. Determining characteristics of units for the satellite account Characteristics of the units included in the thematic account on non-profit and related social economy institutions

31.14 Various alternatives have been put forward for the concept around which a ~~satellite~~thematic account for non-profit institutions could be formulated. 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 and associations would be included.

31.15 The second concept is that of “public benefit” organizations. This covers a narrower range of institutions that

serve a broad public purpose and excludes institutions that serve only their own members

31.16 ~~In between these two is the concept of the non-profit sector 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 “third sector” or “social economy sector” covered by the thematic account discussed in the Handbook on National Accounting: Satellite Account on Non-Profit and Related Institutions and Volunteer Work encompasses non-governmental institutions that have social or public primary purpose. In the case of the related institutions, a restriction limiting the share of a unit’s profit that can be distributed to its members or owners to no more than half is generally treated as consistent with having a social or public primary purpose. The requirements for inclusion in the thematic account as an NPI or related type of institution are~~ the following:

- a. ~~The~~ organizations should exist as identifiable institutions;
- b. They should be institutionally separate from government;
- c. They ~~do not~~ are not permitted to distribute profits ~~(if an NPI), or are significantly restricted in their ability to distribute profits;~~
- d. They are self-governing ~~—~~ that is to say they are not subject to control by other units;
- e. Membership ~~of~~ in the unit is neither obligatory nor automatic but involves some degree of voluntary participation.

31.17 The main exclusions from the set of NPIs recognized 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. There are a small number of informal, usually temporary, NPIs that may be excluded also. These are discussed in section D.

2. Examples of non-profit units included

31.18 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 thematic account on NPIs and related institutions. ~~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 thematic 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.

Both market and non-market units should be included in each of these categories, so long as the institution concerned is an NPI (and not just ~~an~~ NPISH~~s~~).

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3. Borderline cases

~~31.20~~31.19 Certain other types of organizations are likely to occupy a grey area between the non-profit sector and either the corporations or general government sectors. Some of those entities will properly belong within the non-profit sector but most of these entities are part of the social economy covered in the related institutions segment of the thematic account on NPIs and related institutions. 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 modifications included here will be incorporated into the next edition of the handbook. A key criterion for a unit to be includable in the thematic account is being prohibited or significantly restricted from distributing its profit. The main types of social economy institutions that can distribute a restricted share of their profit (usually defined as no more than half) are cooperatives, mutual societies, and social enterprises.~~

~~31.21~~31.20 *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).~~ However, if it is significantly restricted in its ability to distribute its profit to its members, it should be included in the thematic account as a related institution with a social purpose.

~~31.22~~31.21 *Mutual societies* include such organizations as mutual savings banks, savings and loan associations, mutual insurance companies, sickness funds, 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.

31.22 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 memberowners are they treated as NPIs in the SNA (but still within the financial corporations sector) and included within the NPI sector for part of the satellite thematic account. However, they are included in the thematic account as related

institution with a social or public benefit purpose if they are permitted to distribute a restricted portion of their profit to their members.

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31.2431.23 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.

31.2531.24 Social enterprises (or social ventures) are enterprises organized for ~~the purposes~~ of employing and training disadvantaged individuals (handicapped, long-term unemployed, etc.) who would otherwise not find employment, supplying products of special social value, or serving disadvantaged persons in other ways. The enterprise is considered an NPI unless it generates and distributes its surplus to owners or stockholders. However, social enterprises that distribute a restricted portion of their surplus to owners or stockholders are included in the thematic account as related institutions with a public benefit purpose.

31.2631.25 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.

31.2731.26 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 since 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.

31.2831.27 Hospitals, like educational institutions, can also be either NPIs, public institutions or for-profit corporations. The same rules that apply to educational institutions also apply to hospitals.

31.2931.28 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 do not meet the "institutionally separate from government" criterion and fall outside the boundaries of the thematic account. NPI satellite account.

4. Classification of NPIs

31.29 NPIs can be classified according to the activity they undertake or their envisaged purpose for which they are envisaged. In terms of activity, the normal classification to be used is 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. The updated version of this classification is known as the International Classification of Non-Profit and Third Sector Organizations (ICNP/TSO). Similarly, some elaboration of the classification of NPIs by purpose (COPNI) was 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 sections of the ICNP/TSO of interest are shown in table 23.1.

Table 23.1: ICNP/TSO groups Sections

<u>ICNP/TSO Section</u>

Section A: Culture, communication and recreation activities

Section B: Education services

Section C: Human health services

Section D: Social Services

Section E: Environmental protection and animal welfare activities

Section F: Community and economic development, and housing activities

Section G: Civic, advocacy, political and international activities

Section H: Philanthropic intermediaries and voluntarism promotion

Section I: Religious congregations and associations

Section J: Business, professional and labour organizations

Section K: Professional, scientific, accounting and administrative services

Section L: Other activities

Source: *Handbook of National Accounting: Satellite Account on Non-profit and Related Institutions and Volunteer Work, Annex 5.1*

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C. Accounts included for non-profit institutions in a thematic satellite account on NPIs and related social economy institutions

31.3131.30 The first set of accounts ~~prepared~~included in the ~~thematic satellite~~ account on NPIs and related institutions corresponds exactly to those in the SNA sequence of accounts. Indeed, this can be seen as a simple aggregation across the subsectors for ~~the~~ NPIs in the corporations sectors plus NPISHs. NPIs in the general government sector are excluded from the ~~satellite-thematic~~ account, as noted above.

31.3231.31 The second version of the accounts ~~is to consider~~s those NPIs that provide services at economically significant prices but where the sales of their output bring in revenue that is significant but less than the whole of their costs. Two possible scenarios exist. The first is that the ~~organization~~ 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. Although the two types of activity cannot be allocated to separate institutional units, separate establishments for each can be distinguished. In principle, the production account of the establishments undertaking market activities should measure output by sales adjusted for changes in inventories and own-account fixed capital formation ~~be compiled as normal~~ but the production account for the non-market establishments should be based on the sum of costs. The value of this non-market output should be treated as distributed to households as social transfers in kind and added to household actual final consumption.

31.3331.32 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 ~~thematic 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~~by costs over the proceeds from sales is treated as non-market output, social transfers in kind and part of actual consumption of households.

31.3431.33 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. Volunteer labour constitutes a significant input to many NPIs. If a value is placed on this, it may exceed the value of monetary donations to some NPIs. In the ~~satellite-thematic~~ account, it is recommended that the value of voluntary labour is estimated on the basis of

the remuneration rates of employees undertaking similar work and not at the opportunity cost of the volunteers. ~~Work is proceeding on the measurement of volunteer labour in the context of a satellite account. A draft The Manual on the Measurement of Volunteer Work (International Labour Organization, 2011 for the coming) was presented to the ICLS in December 2008 provides guidelines on measuring volunteer work.~~

~~31.35~~31.34 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.

~~31.36~~31.35 The ~~satellite thematic~~ account includes other tables apart from the sequence of accounts. One of these ~~is to show shows~~ details of revenue received with a breakdown by sector of origin and type of transaction. In particular, it is recommended to distinguish revenue coming from government split between sales and grants, and ~~revenue that~~ coming from the rest of the domestic economy split between private sales and current transfers (donations). Where possible both sales and transfers should be separated into those coming from the domestic economy and from the rest of the world.

31.36 Another table includes information in physical units such as the number of employees, number of volunteers, number of entities and number of members of the organization. In addition, some information is given on the financial account and the assets held by the NPI.

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~~31.38~~31.37 Fully annotated descriptions Formats of the tables are included in Annex I of the ~~h~~Handbook on the ~~s~~Satellite ~~a~~Account on Nonprofit and Related Institutions and Volunteer Work.

D. Other SNA considerations concerning NPIs

1. NPISHs and government

~~31.39~~31.38 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.

~~31.40~~31.39 Whether the unit undertaking the work is resident or not will depend on the normal rules concerning residence. Quick response actions that do not lead to long-term involvement in the country being assisted will be regarded as non-resident, with the production being recorded in the home countries of the units giving assistance and the assistance itself being shown as imports of goods and services funded by transfers. If the assistance extends beyond one year, the unit providing the assistance will be regarded as resident and a unit in the NPISH sector of the country receiving the assistance. In circumstances where international relief is important, it may be helpful to identify NPISHs subject to foreign control separately from other NPISHs and to identify donations from abroad for all NPISHs.

2. Informal and temporary NPISHs

~~31.41~~31.40 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, no value for the output of the activity is recorded in the SNA.

~~31.42~~31.41 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, often government, for maintenance. However, the

recommendation in the SNA, as described in ~~paragraph 5.242-4.168-5.234~~, is that such organizations should be treated as informal partnerships rather than as NPISHs.

~~31.43~~31.42 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 as an unincorporated enterprise in the household sector.

~~31.44~~31.43 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. They are not treated as NPIs and their activities are not recorded in the SNA. Such costs as they incur should be recorded as paid by the units to which the costs are eventually allocated.

~~31.45~~31.44 In the case of microfinance, the unit providing the service 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 uses 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.

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~~31.47~~31.45 In practice it may be difficult to compile information on informal NPISHs unless the results are sufficiently important to come to general attention.

3. The output of NPISHs

~~31.48~~31.46 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 NPISH itself.

~~31.49~~31.47 The services provided by non-profit institutions serving households are not only 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 output to volume terms.