

CHANGE IS IN THE AIR: THE ECONOMIC REALITIES OF CANADA'S NONPROFIT SECTOR

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THE NONPROFIT SECTOR – CANADA'S GROWING ECONOMIC GIANT. WELL, YOU won't read that headline anywhere. Most Canadians are unaware of the role that the country's nonprofit sector plays in our economy. However, data from Statistics Canada continues to show what a key player the nonprofit sector really is. It also shatters old stereotypes about nonprofit organizations relying mainly on donations and government transfers. But there's more. It also shows that its annual growth has outpaced that of the broader economy more often than not over the past 11 years.

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Part of the reason few people know about this is that the key statistics on the economic impact of the Canadian nonprofit sector are buried in a vaguely titled yearly report from Statistics Canada – the *Satellite Account of Non-profit Institutions and Volunteering*.¹ That's unfortunate, because these reports provide a fascinating picture of the contribution that charities and nonprofit organizations have been making to Canada's economy over the period from 1997 to 2004.²

Nonprofit organizations accounted for \$100.7 billion dollars of Canada's Gross Domestic Product (GDP) in 2007 or 7% of Canada's economy. Now, much of this (\$65.1 billion) comes from the contributions of a relatively small number of hospitals, universities, and colleges who get most of their money (73%) from provincial governments. While many of these are registered charities, whether or not they should be considered to be part of the nonprofit sector continues to be a matter of debate. Some argue, for example, that they should be considered to be part of government.

But if we take hospitals, universities, and colleges out of the picture and look at what Statistics Canada calls "the core nonprofit sector," we find that these organizations contribute \$35.6 billion dollar to the Canadian economy and account for 2.5% of GDP.

How big an economic player is the core nonprofit sector? Well, consider this – in 2006, its economic contribution was more than 2.5 times the size of the agriculture industry and six times greater than the motor vehicle industry.

Not only is the core nonprofit sector a source of significant economic activity, it is also growing. From 1997 to 2007, its contribution to GDP more than doubled with its average annual growth (7.1%) outpacing that of the overall economy (5.8%).

Now, it should be pointed out that the core nonprofit sector includes charities, community organizations, and business and professional associations. Some may wonder whether all of this economic activity is due to the economic clout of business and professional associations. But, in fact, economic activity is fairly widely dispersed. Three-quarters of all revenue is spread across six types of organizations: development and housing (16.5%), culture and recreation (14.6%), social services (14.2%), business and professional associations (10.9%), religion (10.4%), and philanthropic intermediaries or foundations (7.4%).

Some might also wonder if all this economic activity is simply the result of nonprofit organizations channeling money that is provided by government or donors. However, according to the Satellite Account, two-thirds of the revenue in the core nonprofit sector in 2007 was self-generated through sales of goods and services³ (46%), membership fees (16%), and investment income (5%). Only a third came from transfers from government (14% from provincial governments and 5% from the federal government) and individual households (12%).

The extent to which organizations in the nonprofit sector rely on earned revenues to support their work has increased over time. In 1997, the core nonprofit sector received 57.3% of revenues from the sales of goods and services and membership fees. In 2007, the share of revenues from these two sources increased to 61.5%, mostly because of increases in revenues from the sales of goods and services.

As earned revenues increased, the share of total revenues from provincial government transfers declined (from 17.8% in 1997 to 14% in 2007) as did the share of revenues from household transfers (from 14.2% to 12%).

So, what are the implications of all this economic data? Well, for one thing, it suggests that we need to re-engineer the public policy environment to recognize the way nonprofit organizations operate in today's economy. This need is getting increasing attention within the private and community foundation communities, among groups like Social Innovation Generation (SIG), and has been recognized in Imagine Canada's new strategic framework.

When was the last time you heard about an economic strategy being developed for the nonprofit sector? Then ask yourself when was the last time you heard about strategies being developed for the motor vehicle industry or for agriculture.

Where are the economic supports for nonprofit organizations? To get a picture of how governments support the business sector, one need look no further than Industry Canada's web page (www.ic.gc.ca). There you will find access to key industry data, business tools, and resources and financing programs for small businesses. The nonprofit sector is largely overlooked.

The Satellite Account³ numbers show that revenue from sales of goods and services is outpacing growth from government transfers and donations. They provide evidence of the need for initiatives to support the ability of nonprofits to operate as social enterprises. And they help explain why organizations such as Imagine Canada are promoting the

establishment of a stretch tax credit to encourage donors to increase the amounts they provide to charities (see www.imaginecanada.ca/node/221).

What can these numbers tell us about the state of nonprofits today as we slowly emerge from one of the worst recessions on record? Unfortunately they can only tell us how the sector was faring in 2007. However, there are two important observations that can be made. First, organizations in the core nonprofit sector have a substantial dependence on the marketplace for their revenues. Second, government funding and donations continue to be significant sources of revenue.

So what would be the worst-case economic scenario for the Canada's core nonprofit sector? It would be one in which consumers and businesses curtail purchases, governments reduce spending to manage their deficits, and donations fail to grow. Keep an eye on these numbers if you are looking for a barometer on the health of the sector.

NOTES

¹ The most recent report covers the time period from 2000 to 2007. See Haggard-Guennet, C., Hamdad, M., Laronde-Jone, D., Pan, T. & Yu, M. (2009). *Satellite Account of Non-profit Institutions and Volunteering 2007*. (Catalogue no. 13-015-X). Ottawa: Statistics Canada.

² For 1997 data, see Hamdad, M., & Joyal, S. (2007). *Satellite Account of Non-profit Institutions and Volunteering 1997 to 2004*. (Catalogue no. 13-015-XIE). Ottawa: Statistics Canada.

³ The Satellite Account reports payments by governments to nonprofit organizations for goods and services as sales not as government transfers. Governments are an important market for nonprofit goods and services. Using data from the 2004 National Survey of Nonprofit and Voluntary Organizations, we estimate that core nonprofit organizations receive 36% of their revenues from governmental sources (grants, contributions, and the sales of goods and services) and 43% from earned income from non-governmental sources.