EAST AFRICAN COMMUNITY

EAC GUIDELINES FOR COMPILATION OF GOVERNMENT FINANCE STATISTICS (GFS) AND PUBLIC SECTOR DEBT STATISTICS (PSDS)

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FOREWORD

The EAC is the regional inter-governmental organisation of the Republic of Burundi, the Democratic Republic of Congo, the Republic of Kenya, the Republic of Rwanda, the Republic of South Sudan, the United Republic of Tanzania, and the Republic of Uganda, with its Secretariat in Arusha, Tanzania. The Treaty for establishment of the EAC was signed on 30 November 1999 and came into force on 7 July 2000 following its ratification by the original three Partner States - Kenya, Uganda and Tanzania. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18 June 2007 and became full Members of the Community with effect from 1st July 2007. The Republic of South Sudan became full member of the community with effect from August, 2016, while the Democratic Republic of Congo became a full member of the Community from July 2022.

The EAC aims at widening and deepening co-operation among the Partner States in, among others, political, economic and social fields for their mutual benefit. To this extent, the EAC have identified the following four stages to achieve the community:

a) **Customs Union** - this involves the strengthening of the free trade area where Partner States adopt a common trade policy with common external tariffs. The Customs Union was established in 2005;

b) **Common Market** - where in addition to Customs Union, there is free movement of capital, labor, goods and services and capital between Member States was established in 2010;

c) **Economic and Monetary Union** - this is the most advanced stage of the economic integration process where countries have their different political, economic, and monetary and fiscal policies. All Partner States signed the East African Monetary Union (EAMU) Protocol in November 2013 with a ten years transition period to a Single currency in 2024. The transition period for preparation of single currency has been extended to 2031; and

d) **Political Federation of the East African States** - this is the ultimate aim of the community. Partner States have put in place a process of fast-tracking attainment of this stage.

The EAMU Protocol requires that the Partner States macroeconomic environment converge based on an agreed convergence criteria. On the fiscal side, the criteria require the fiscal deficit including grants to be maintained at a below 3% of GDP, tax revenue to be maintained at 25 % of GDP and the public debt in net present value to be maintained at below 50 % of GDP. To maintain a sound Monetary Union, it's prudent that these indicators are compiled using a common methodology and using similar compilation practices. While the Government Finance Statistics Manual 2014 (GFSM2014) provides a comprehensive conceptual and accounting framework suitable to assess the performance of government of any country in the world, these Guidelines for Compilation of Government Finance Statistics aim to provide government officials who are responsible for the compilation and dissemination of fiscal statistics in the EAC with the basic information necessary to compile good quality and comparable fiscal statistics, based on the methodology of the GFSM 2014.

Let me take this opportunity to thank the IMF's Statistics Department, the IMF's East AFRTIAC who provided Technical Assistance, financial and human resources during the drafting of the Guidelines, the Regional Technical Working Group on GFS, with membership of officials from the EAC Partner States' Ministries responsible for Finance, National Statistics Offices, Central Banks and Revenue Authorities; and officials from the EAC Secretariat all of who diligently participated in consultations in development of the Guidelines.

Hon. Dr. Peter M. Mathuki

Secretary General

LIST OF ACRONYMS

BCG	Budgetary Central Government
BOP	Balance of Payment
CG	Central Government
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DMFAS	Debt Management and Financial Analysis System
DS	Debt Sustainability
EAC	East African Community
EAMU	East African Monetary Union
EBUs	Extra Budgetary Units
ESA	European System of Accounts
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM 2014	Government Finance Statistics Manual - version of 2014
GG	General Government
HIPC	Highly Indebted Poor Countries
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LAPP	Local Authorities Pension Fund
MGDD	Manual on Government Deficit and Debt
MMI	Military Medical Insurance
MTCP	Medium Term Convergence Plan for the EAC Monetary Union
NFW	Net Financial Worth
NHIF	National Hospital Insurance Fund
NLB	Net lending/Net borrowing
NOB	Net Operating Balance
NPIs	Non-Profit Institutions
NPISH	Non-Profit Institutions Serving Households
NPV	Net Present Value
NSSF	National Social Security Fund
PPP	Public Private Partnership
PSDS	Public Sector Debt Statistics
PSDSG	Public Sector Debt Statistics Guide
PSPF	Public Sector Pensions Fund
RSSB	Rwanda Social Security Board
SCEFA	Sectoral Council of Finance and Economic Affairs
SDRs	Monetary gold and Special drawing rights
SNA2008	System of compilation of National Accounts - Version of 2008
SPE	Special Purposes Entities

SSF	Social Security Fund
TWG	Technical Working Group
VAT	Value Added Tax
ZSSF	Zanzibar Social Security Fund

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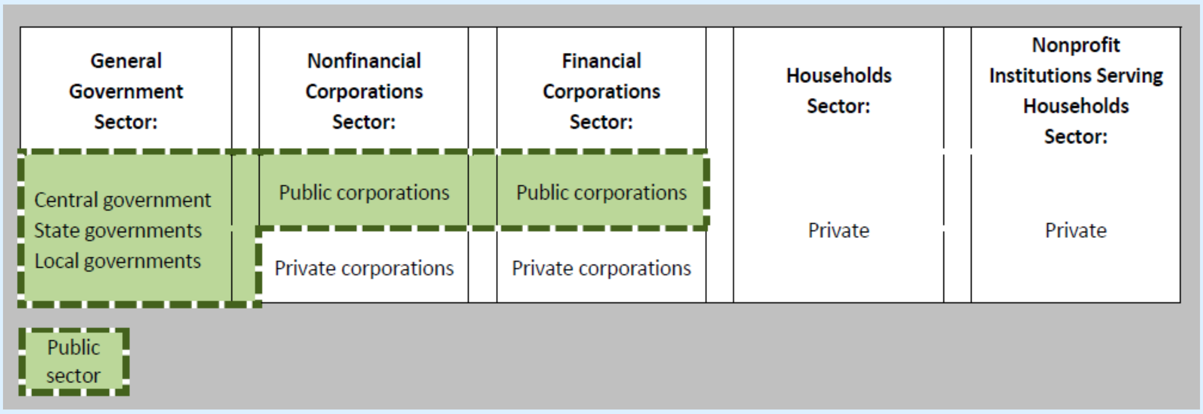
CHAPTER 1. DELINEATION OF THE PUBLIC SECTOR

1.1. Introduction

For successful implementation of the East African Monetary Union, it is necessary to harmonize the classification of government entities. The *Government Finance Statistics Manual, 2014 (GFSM 2014)* defines the main principles to adopt in the compilation of public sector statistics. Implementation of the sector delineation process is not a straightforward exercise and may require concerted efforts to ensure that the various entities of the public sector are classified appropriately. The public sector consists of all resident institutional units[1] controlled directly, or indirectly, by resident government units; that is, all units of the general government sector and resident public corporations. This chapter provides guidance on sector delineation in EAC Partner States in order to ensure harmonized Public Sector finance statistics.

Figure 1.1: The Public Sector and its Relation to Other Institutional Sectors of the Economy



1.2. Statement of the Problem

The process of sector delineation entails identification and verification of resident institutional units, establishing the government ownership and/or control and classification of entities on the basis of whether they are market or non-market producers. EAC Partner States have successfully identified institutional units that are owned/controlled by government and have sectorized these units based on the *GFSM 2014* core principles.[2] The resulting institutional tables are now being promulgated to ensure consistency among producers of macroeconomic statistics. The challenge going forward is to keep

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[1] The chapter refers to the resident units having a predominant economic interest in an EAC Partner State. An institutional unit is resident in economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. Actual or intended location for one year or more is used as an operational definition.

[2] See Chapter 2 "Institutional Units and Sectors" in the *GFSM, 2014* as the definitive source for delineation of the public sector

institutional tables up to date by removing entities no longer owned/controlled by government, classifying new entities, and reclassifying existing entities as required.

Sector delineation begins with the fundamental process of verifying whether entities are resident institutional units. If they are, then the issue of government ownership and/or control needs to be examined- keeping in mind that only government owned and/or controlled institutional units can be classified in the public sector. Finally, the sectorization of institutional units is determined by whether they are nonmarket or market producers. If the former, then the units are classified in the general government sector; and if the latter, then the units are classified within the public corporations sector.

1.3. Identification of institutional units

The process of establishing whether a resident entity is an institutional unit can be achieved by assessing the following four factors (¶2.22):[3][4]

(i) The entity is capable, in its own right, of owning assets.

(ii) The entity can, in its own right, incur liabilities.

(iii) The entity can, in its own right, engage in economic activities and in transactions with other entities.

(iv) The entity has a complete set of accounts, including a balance sheet, statement of comprehensive income, statement of Cash flow, Statement of changes in Net Equity and notes to the account or it is possible and meaningful to compile such a set of accounts.

Once it is determined that an entity is a resident institutional unit, then the next step, from a GFS perspective, is to determine whether the institutional unit should be classified in the public sector. The latter decision should be based on government ownership and/or control.

Entities that are not institutional units, in their own right, are linked to “parent entities” that are, in fact, institutional units. Entities that are not institutional units are labeled establishments. Each establishment can only be associated with one institutional unit (¶2.24). For example, an establishment that maintains school buses (motor pool) for an entire public-school system is not an institutional unit in its own right (¶2.24), but operates as an auxiliary unit of the public-school system. It is worth noting that these establishments may engage in selling goods or services at economically significant prices (¶2.75). However, as these establishments do not qualify as separate (corporation or quasi-corporation) institutional units, they are included in their “parent entities” economic classifications.

[3] Unless specified otherwise, the paragraph (¶) references a specific chapter of the *GFSM 2014*.

[4] For a more thorough explanation of an institutional unit, see ¶2.22 of the *GFSM 2014* and Appendices I and II at the end of this document, which provides decision trees on residence, institutional units, public sector ownership/control, and public sector delineation.

1.4. Government ownership and/or control

Given that two types of ownership concepts (legal versus economic) are presented in the *GFSM 2014,* it is not always easy to determine ownership. Ownership implies the right to use an institutional unit in accordance with an owner's preferences (¶3.37). The *GFSM 2014* stresses economic over legal ownership (¶3.38-¶3.41). Therefore, a government owned institutional unit is used to fulfill the functions of government—whether that is a general government function or a function that is fulfilled by a public corporation.

To establish whether government exercises control over institutional units:[5] the following core factors have been identified as prerequisite.

- (i) Control of the board of directors or other governing body.
- (ii) Control of the appointment and removal of key personnel.
- (iii) Holding "golden shares and options".
- (iv) Exercising extensive regulatory control of an institutional unit.
- (v) Serving as a dominant public sector customer or group of public sector customers.
- (vi) Serving as a key lender to (financer of) an institutional unit or extending loan guarantees on behalf of the institutional unit.
- (vii) Including special provisions in legal framework that governs the institutional units.
- (viii) Accepting all or a large portion of the financial risk of an institutional unit.

In addition, the following non-core factors can be used to supplement the core factors in determination of government control and/or ownership

- (i) Control of key committees within an institutional unit.
- (ii) Operational contractual agreements with institutional units that establish *defacto* control of the unit.
- (iii) Degree of financing by government (Grants).

The determination of government control will be based on the core factors identified in paragraph.

In certain cases, one of the core factors may provide sufficient evidence of government control. In other cases, multiple factors combine to produce evidence of government control.

[5] These factors are from Boxes 2.1 (p. 23) and 2.2 (p. 29) of the *GFSM 2014*.

1.5. Nonmarket and market producers

Generally, the general government sector includes nonmarket producers (institutional units that provides goods and services for free or at prices which are not economically significant), while the public corporations sector includes market producers (institutional units that supply goods and services at economically significant prices).[6]

An institutional unit can either be a nonmarket producer or a market producer. "A market producer is an institutional unit that provides all or most of its output to others at prices that are economically significant. A nonmarket producer provides all or most of its output to others for free or at prices that are not economically significant" (¶2.65).

"Economically significant prices are prices that have a significant effect on the amounts that producers are willing to supply and, on the amounts, purchasers wish to buy" (¶2.66).

Economically significant prices imply that an institutional unit has an incentive to adjust output and/or production costs in order to earn a profit in the long run. A further implication is that sales cover the majority of the producer's costs. While there is no definitive numerical relationship between the value of sales and production costs, the expectation is that sales would, on average, cover at least 50% of production costs[7] when considered over a sustained period of at least 3 years at the time the decision is made. In this context, the value of sales excludes *Taxes* and *Subsidies* (unless they are granted to other producers engaged in the same activity); and costs include *Compensation of employees*, *Use of goods and services*, *Consumption of fixed capital*, *Other taxes on production*, and a "return to capital" (i.e. a normal return for entrepreneurial effort) (¶2.66-¶2.75).

1.6. Sector delineation

A market producer may be a corporation or a quasi-corporation.[8] Corporations and quasi- corporations are included in the public corporations sector, which is comprised of financial and nonfinancial corporations subsectors. Financial corporations are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units.[9] (¶2.53-¶2.57 and ¶2.115-¶2.121) Nonfinancial corporations are principally engaged in the production of market goods or nonfinancial services (¶2.52).

The general government sector is comprised of central government, local government, state government, and social security fund (SSF) subsectors. Social security funds may sometimes fall

[6] "Economically significant prices" is defined in section 1.5.

[7] The market/non-market test is recommended by SNA 2008 (22.29) and GFSM 2014 (2.73).

[8] The definition of a quasi-corporation is provided in ¶2.33 of the GFSM 2014.

[9] Note that, by convention, central banks and supervisory authorities that are mainly engaged in the supervision of financial units are always included in the public financial corporations subsector.

under the central government if the controlling institution is part of the central government.

The following serves as an operational guidance for classifying nonmarket producers in general government subsectors.

(i) Central government operations are nation-wide in scope, and include two components within the central government subsector. First, there is budgetary central government (BCG) which comprises of entities that derive most, if not all, of their funding from the central government's budget. Secondly, there are extra budgetary units (EBUs) which should be classified as institutional units that are linked to the central government, but have some autonomy of decision making and that derive most or part of their funding from sources other than the central government budget.

(ii) Local government operations are confined to relatively small areas within the national territory. Like the central government subsector, the local government subsector has two components. Nonmarket components that provide local government services for free or at non- economically significant prices and institutional units owned/controlled by the local government providing services at market prices. This can be described as local government corporations. Institutional units that are owned/controlled by local governments and derive most, if not all, of their funding from the local government budget should be assigned to budgetary local government. Institutional units that are owned/controlled by local government, but that derive most of their funding from non-local-government-budget sources should be assigned to extra budgetary local government.

(iii) The Social Security subsector is as defined by the EAC guidelines on Social Security Funds *(Chapter Two of this document).*

(iv) Nonprofit institutions (NPIs) that are controlled or who serve government belong to the general government sector, (If they are institutional units then they will be classified as EBUs). NPIs that are controlled or serve households are classified as NPISH. NPIs that are controlled or serve corporations are part of the corporation sector.

1.7. General Recommendations

- These Guidelines recommend among other considerations, the use of 50% rule in determining whether an institutional unit is market or non-market producer, and should be applied among other factors for entities that are making losses for at least the last 3 years.
- Due to uncertainty associated with future financial performance of such institutional units, historical performance should be used in the determination of whether the entity is a market or non- market producer and not business plans.
- The determination of whether the government exercises the control and/or ownership of Institutional units will be subject to at least one of the core factors identified in paragraph 1.2
- The GFS National technical committees will be responsible for updating the national institutional units table at least once a year.

Figure 1.2: Decision Tree on Residence, Institutional Units, and Public Sector Ownership/ Control

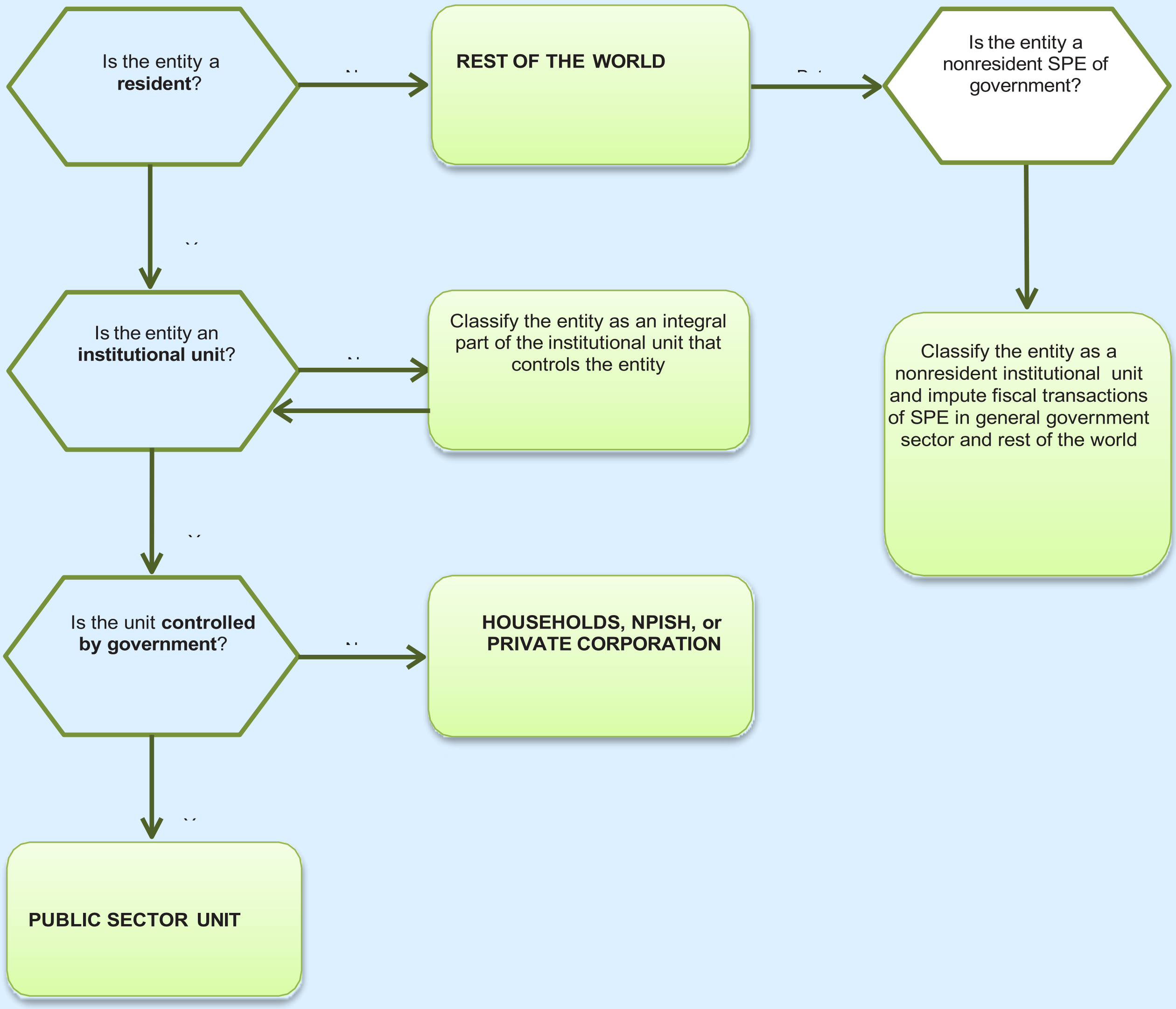
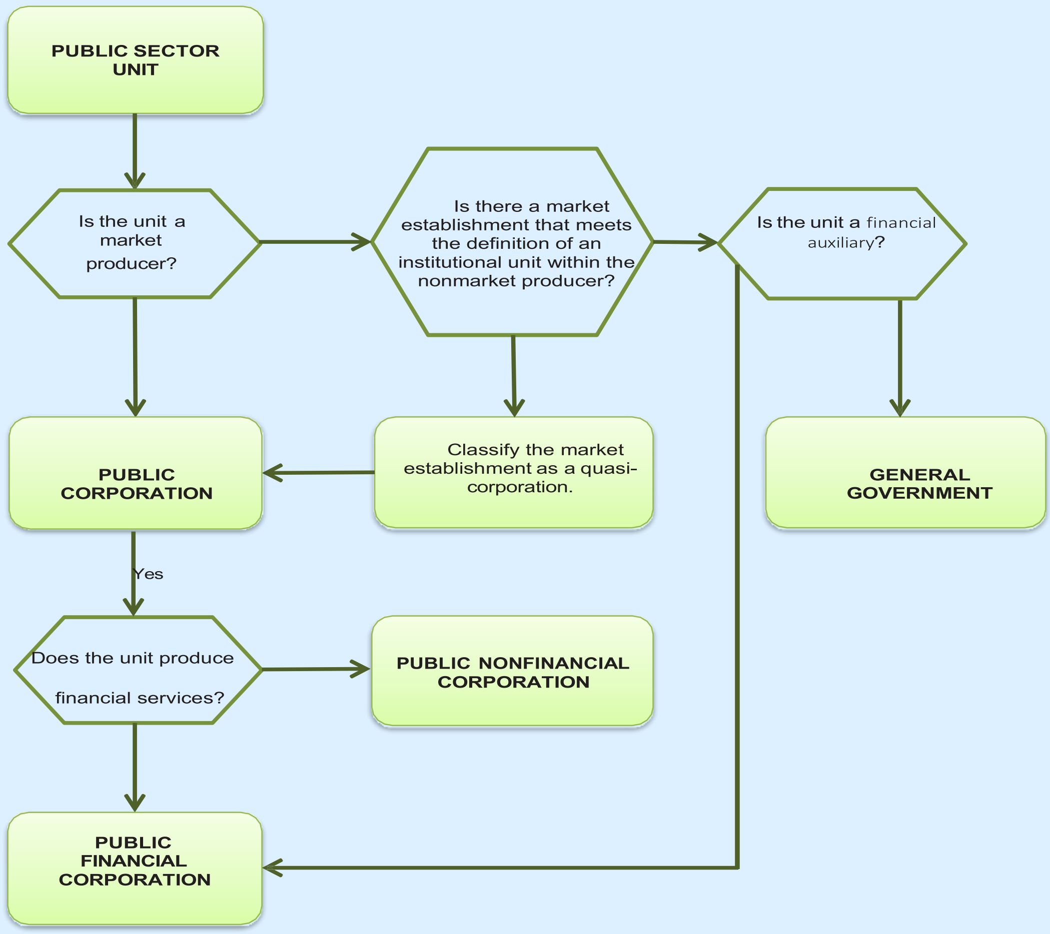


Figure 1.3: Decision Tree on Public Sector Delineation



CHAPTER 2. SOCIAL INSURANCE SCHEMES

2.1. Introduction

This chapter gives general guidance on the classification of Social Insurance Schemes to ensure harmonization in the EAC.[10] Similar social insurance schemes should be treated uniformly as regards to their classification, to ensure comparability of macroeconomic statistics across the EAC Partner States. This guideline provides a typology for social insurance schemes, classification criteria and a summary of these entities in the region and their proposed classification.

2.2. Social Insurance Schemes: Typology

Social insurance schemes are schemes that provide social protection and where one or more of the following conditions are satisfied (¶A2.30):

(i) Participation in the scheme is obligatory either by law for a specified category of persons, whether employed or unemployed, or under the terms and conditions of employment of an employee, or group of employees;

(ii) The scheme is a collective one operated for the benefit of a designated group of persons, whether employees or unemployed, participation being restricted to members of that group;

(iii) An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution.

In other words: social insurance schemes require formal participation by the beneficiaries, in the form of (actual or imputed) payment of contributions. They are schemes where a third party, usually an employer or the government, encourages or obliges individuals to participate in the schemes that provide benefits for a number of identified circumstances, including pensions in retirement.

Table 2.1 shows a typology of social insurance pension schemes. Social security schemes and employment-related social insurance schemes are the two subsets of social insurance pension schemes.

Social security schemes are social insurance schemes covering the community as a whole, or large sections of the community, and are imposed and controlled by government units (¶A2.33). These schemes cover a wide variety of programs, providing benefits in cash or in kind for old age,

[10] See Appendix 2 "Social Protection" in the *GFSM 2014*.

invalidity or death, survivors, sickness and maternity, work related injury, unemployment, family allowance, health care, etc. and there is not necessarily a direct link between the amount of the contributions payable by an individual and the benefits receivable. Social security schemes that are organized separately from the other activities of government units hold their assets and liabilities separately from the latter, and engage in financial transactions on their own account qualify as institutional units (¶A2.34) and are classified under the subsector social security funds. However, not all social security schemes are organized and managed by social security funds; for example, a social security scheme for sickness may be operated by a national health ministry and thus this scheme is a part of the ministry (budgetary organization). Social security schemes can therefore be operated by government units that are not social security funds.

Table 2.1: Typology of Social Insurance Pension Schemes

Social Security Schemes	Employment Related Social Insurance Pension Schemes	
	Defined benefit	Defined contribution
Covers the community as a whole, or large sections of the community	Derive from an employer-employee relationship in the provision of pension entitlement and other social benefits to employees as part of the conditions of employment	
There may be no direct relationship between contributions and benefits	The ultimate benefit is calculated by means of a formula embodied in the terms of the social insurance scheme	The benefits are determined by the actual contributions made to the scheme, and the investment income and holding gains and losses earned on these and previous contributions.

Employment-related social insurance schemes derive from an employer-employee relationship in the provision of pension entitlement and other social benefit to employees as part of the conditions of employment (¶A2.40). By definition, these schemes are contributory and, for government or public sector units, protect only their own employees and dependents. The provision of social insurance benefits by government to its own employees is considered to be part of an actual or implicit contract between the government, as employer, and the employees, to compensate them for the provision of their labor services. Therefore, employment-related social insurance schemes give rise to requited expense transactions for government when the social contributions became payable. There are two types of employment-related pension schemes:

(i) A nonautonomous pension scheme that is therefore regarded as an integral part of the employer;
(ii) A separate institutional unit that operates a pension scheme that is therefore regarded as an autonomous pension scheme.

Non-autonomous employment-related pension schemes are operated by the employer and are usually unfunded schemes because they are organized by the employer without assigning specific accounts or otherwise creating special reserves for the payment of benefits (¶A2.40). Instead, the benefits are payable from the employer's general resources. A nonautonomous pension fund for public sector employees does not meet the criteria to be considered an institutional unit, and is therefore deemed to be part of the unit that operates the scheme.

A challenging issue in the sector classification of autonomous employment-related pension and non- pension schemes is to determine if such schemes operate as financial corporations or government units. To be regarded as autonomous, a financial corporation, the entity responsible for the employment-related scheme, must have the characteristics of an institutional unit and be a market producer. While unfunded schemes are always considered non-autonomous (¶A2.24), for funded schemes a further distinction is made between those that are market or non-market. Please note that the same applies to all types of schemes (see below).

A social insurance scheme is funded if contributions are held in a segregated fund (reserve), from which future benefits will be payable. If a segregated fund is sufficient to finance the present value of the future benefits payable, the scheme is fully funded. If the segregated fund is insufficient to finance the net present value of the future benefits payable, it is underfunded. If the reserve is more than sufficient to finance the net present value of the future benefits payable, it is overfunded. For an unfunded scheme, contributions are not held in a segregated fund (reserve). By definition, unfunded schemes have no separate pool of reserves and cannot be a separate institutional unit.

Autonomous pension funds are, by definition, institutional units. The main characteristics of institutional units are described in detail in the first Chapter of these guidelines (an institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities).

These institutional units, autonomous funds, are considered to provide financial services to the household sector, and should be therefore classified in the financial corporations sector as long as they operate as financial intermediaries, that is, as long as they are market producers. They are classified as either private or public financial corporations, depending on whether they are controlled by the private or public sectors (¶A2.47).

A major feature of **financial intermediaries** (including insurance corporations and pension funds) is that they, being market producers, place themselves at risk by acquiring financial assets and incurring liabilities on their own account. The pension fund and insurance corporations subsectors consist of only those social insurance funds that are institutional units separate from the units that control them. Also, one of the characteristics is that these units create reserves and record related liabilities. Taking this into account, the following general recommendations are provided to guide compilers on whether a social insurance scheme is an institutional unit and/or a market producer.

2.3. Classification of Social Insurance Schemes: Economic Substance over legal form

The sections above explain different types of social insurance schemes: defined contribution and defined benefit schemes, pension and non-pension schemes, funded and unfunded schemes, and autonomous and non-autonomous employment related schemes. Some of the main principles to classify individual types of schemes are also explained.

However, in practice the classification of entities involved in social insurance is not always straightforward. Often, the legal form indicating the type of the scheme does not reflect the economic substance. For example, a provident fund or other scheme legally established as a defined contribution scheme (which would be classified as a financial intermediary, other financial corporation - OFC) could in practice operate in such a way that it is highly dependent on government financing (e.g. subsidies), with investments decided for broad policy purposes and benefits set by the government, and thus may need to be classified within the general government (GG) sector.

One of the basic principles of the international statistical standards is that the economic substance should prevail over the legal form. Therefore, when deciding on the sector classification of social insurance schemes, it is recommended mainly to focus on the way how the units operate and less on the legal aspects.

Macroeconomic statistics distinguishes between individual sectors according to the nature of the economic activity the units undertake. Fundamental to the distinction between corporations and government is the basis on which providing goods and services is undertaken. The general government sector contains non-market producers whose funding comes from the government, while the institutional units operating as market producers are typically classified as corporations.

Taking into account that in the EAC, a large majority of the existing social insurance schemes appear to be borderline cases with respect to their sector classification, and that the related nationally based legal aspects in many cases do not correspond with the statistical definitions, it is recommended to examine carefully whether the unit operates as a non-market producer, or could be qualified as a financial intermediary acting as an autonomous market producer.

According to the discussion in sections 2.1 and 2.3, the sector classification of social insurance schemes can be summarized in Figure 2.1.

Figure 2.1: Three Main Questions to Distinguish Between GG and Financial Corporations

(1) Is the scheme an autonomous **institutional unit?** → NO → **GG**

The entity is an institutional unit when:

- It is capable, in its own right, of owning assets.
- It can, in its own right, incur liabilities.
- It can, in its own right, engage in economic activities and in transactions with other units.
- It has a complete set of accounts, including a balance sheet, or it is possible and meaningful to compile such a set of accounts.
- Non-autonomous units are classified under the same sector as the controlling unit.

YES ↓

(2) Is the institutional unit a pure **social security fund**? → YES → **GG**

The institutional unit is a pure social security fund if all three conditions are met:

- The scheme covers the community as whole or large sections of the community?
- Participation in the scheme is compulsory by law or regulation? (*But not by a contractual agreement between the employees and the GG unit being the employer*).
- Is GG able to decide on the level of both, contributions AND benefits?

YES ↓

(3) Does the institutional unit operate as a **financial Intermediary** (pension fund or insurance company)? → NO → **GG**

Financial intermediaries (including insurance corporations and pension funds) are autonomous institutional units set up for purpose of engaging in market production. The main characteristic is that place themselves at risk by:

- acquiring financial assets, AND
- Incurring liabilities on their own account.

Pension and non-pension schemes could be classified as a financial corporation (pension funds or insurance corporations respectively) only if they are funded and operate as autonomous financial intermediaries, i.e. they

- have designated financial assets or reserves, assigned for the payment of future benefits;
- the level of assets/reserves indicates a capacity to make future benefit payments;
- operate as a financial intermediary, check the characteristics in Box 2.1.

YES ↓

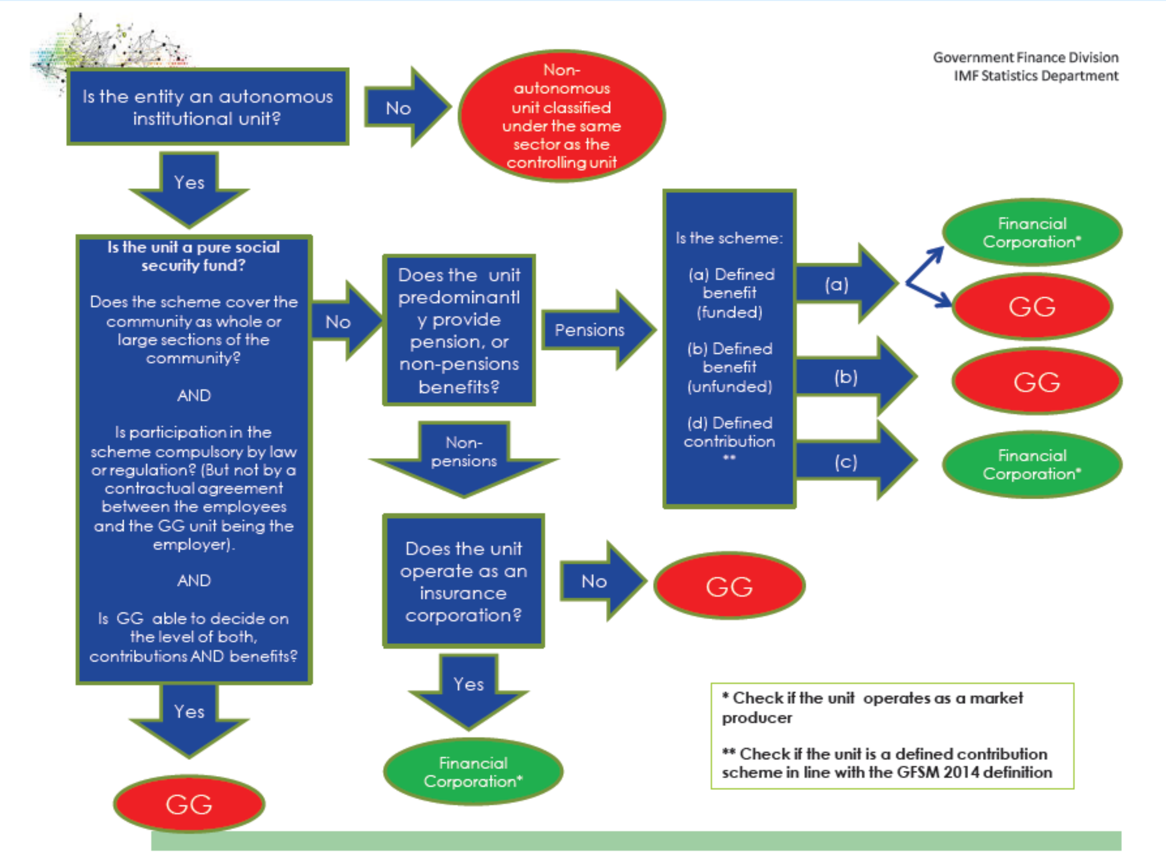
Financial Corporation

Box 2.1: Factors indicating that an institutional unit is not a financial intermediary

The factors below could indicate that the unit is not operating as a financial intermediary and thus should be classified in the general government sector. One "important" or combination of several "indicative" indicators listed below could be considered in order to determine that the unit does or does not meet the criteria of being market producers.

	Importance
The unit is **not bearing all risks,** e.g.:	
- The unit is primarily funded from transfers from the government (other than social contributions);	
- The government is legally obliged to pay benefits in the case of insufficient funds in the scheme;	
- Losses reported by the unit are normally financed by the government;	
The unit does **not benefit from all rewards,** e.g.:	
- The government can use the assets of the scheme for purposes other than paying benefits to the households covered by the scheme	
The unit **does not acquire assets on its own account**, e.g.:	
- The government decides on the investments to be made by the scheme; the investments are made for public policy purposes;	
- The unit invests its funds exclusively in the government securities;	
The unit **does not incur liabilities on its own account**, e.g.:	
- The government can intervene regarding the level of benefits payable by the scheme	
- The unit borrows exclusively from GG;	
The unit **does not operate on a market basis, e.g.:**	
- The level of social contributions (or premium) is economically insignificant as it is set by the government on social, or political grounds;	
- The unit does not have designated financial assets or reserves, assigned for the payment of future benefits	
- The assets/reserves are not sufficient to cover (a major part of) the net present value of future benefits payable (or at least a few years' worth of benefits)	
- Households do not have the freedom to make a choice on the basis of the prices charged and benefits receivable;	
- Producer is often nonmarket in the absence of competition;	
- The unit is not supervised by the same supervisory body as other pension or insurance corporations, and is not obliged to follow the same principles as other pension or insurance corporations (with respect to the accounting, holding assets or reserves, calculation of benefits, etc.);	
- The scheme is not a defined contribution scheme if the unit maintains records for each person of all contributions made to the fund only for administrative purposes (i.e. they do not reflect the amount of the effective claims);	
- If a minimum benefit is guaranteed by the government in a "defined contribution scheme"	

Figure 2.2: Sector Classification of Social Insurance



2.4. Entities in the EAC region that provide social protection

Burundi has three national social security schemes, the Institut National de la Securite Sociale (National Social Security Fund), the Office National de Pensions et Retraites (National Office of Pensions and Retirements) and the Mutuelle de la Fonction Publique (Public Health Insurer). Kenya has two national social security schemes, National Social Security Fund (NSSF) and National Hospital Insurance Fund (NHIF). Rwanda has two national social security schemes; the Rwanda Social Security Board (RSSB), and the Military Medical Insurance (MMI). Tanzania has three social security schemes, National Health Insurance Fund (NHIF) and Zanzibar Social Security Fund (ZSSF). Uganda has one national social security scheme, the National Social Security Fund (NSSF), which is a provident fund. South Sudan has one social security scheme, the National Pensions Fund.

2.5. General recommendation

Based on the classification criteria in paragraphs 2.3, Partner States should hold in-country consultations among compilers of macroeconomic statistics, in particular GFS, National accounts and Monetary and Financial Statistics (MFS), in order to agree on the appropriate classification for their respective social security schemes.

Table 2.2: List of Entities Providing Social Insurance in the EAC Partner States and their Sectoral Classifications

Social Protection Entity	Activities of the Social Protection Entity	Type of Social Protection Entity	Sector Classification
REPUBLIC OF BURUNDI			
Institut National de Securite Sociale (National Social Security Fund)	Provides social services related to pension, invalidity, work accidents professional risks and diseases, death Covers Public and private sector	Social Security Scheme	Classification as per the published institutional units table
Office National de Pensions et Retraites (National Office of Pensions and Retirements)	Provides social services related to pension, invalidity, work accidents, professional risks and diseases, death. Covers only 3 or 4 categories of public employees (Civil servants and employees with public law status)	Social Insurance Pension Scheme	Classification as per the published institutional units table
Mutuelle de la Fonction Publique (Public Health Insurer)	Provides health insurance to public employees. Covers Public employees only	Social Insurance Health Scheme	Classification as per the published institutional units table
REPUBLIC OF KENYA			
National Social Security Fund (NSSF)	Offers social protection to all Kenyan workers both in the formal (mandatory) and informal sectors	Social Security Fund	Classification as per the published institutional units table
National Health Insurance Fund (NHIF)	Provide healthcare insurance to all members who have made contribution with their families	Health Insurance Fund	Classification as per the published institutional units table
REPUBLIC OF RWANDA			
Rwanda Social Security Board (RSSB)	Provision of social protection to people living in Rwanda. Health insurance; Occupational hazards and; Pension	Social Security Fund	Classification as per the published institutional units table
Military Medical Insurance (MMI)	Provide health insurance to its members.	Employment related Health insurance fund	Classification as per the published institutional units table

Social Protection Entity	Activities of the Social Protection Entity	Type of Social Protection Entity	Sector Classification
	REPUBLIC OF SOUTH SUDAN		
National Pension Fund	Government as Employer Pension Schemes	Social Security Fund	Classification as per the published institutional units table
	UNITED REPUBLIC OF TANZANIA		
National Social Security Fund (NSSF)	Operate social security scheme that provides wider range of social benefits	Social Security Fund	Classification as per the published institutional units table
National Health Insurance Fund (NHIF)	Provide healthcare insurance to all members who have made contribution with their families	Health Insurance Fund	Classification as per the published institutional units table
Zanzibar Social Security Fund (ZSSF)	Provide social security scheme to a wider range of social	Social Security Fund	Classification as per the published institutional units table
	REPUBLIC OF UGANDA		
National Social Security Fund (NSSF)	Provides social security services to employees in Uganda. NSSF is a provident fund (pays out benefits according to contributions made). It covers all employees in the private sector including Non-Governmental Organizations, that are not covered by the Government's pension scheme	Provident Fund	Classification as per the published institutional units table

CHAPTER 3. CLASSIFICATION OF REVENUE

3.1. Introduction

This chapter on revenue seeks to: Highlight the role of taxes in the EAMU Protocol; provide definitions of tax and nontax revenue categories; explain important recording and measurement issues for revenue in a *Government Finance Statistics Manual, 2014* (*GFSM 2014*) framework; examine the treatment of special aspects of revenue categories; and to consider unique boundary issues that are encountered within revenue. To ensure statistical harmonization with respect to revenue, this chapter provides operational guidance to GFS compilers so that they adopt a uniform approach to measuring revenue across the East African Community (EAC) region.

3.2. Statement of the Problem

The requirements for East African Monetary Union (EAMU) include harmonization of statistics among Partner States. This is particularly true for revenue statistics. In fact, the EAMU Protocol features specific criteria for entering, and remaining in, the monetary union that are related to taxes—one of the most important components of revenue. Recognizing the importance of nontax revenue, during the November 2014 Regional Workshop on Harmonization of Government Finance Statistics (GFS) the Working Group on Taxes decided to expand the focus beyond tax revenue to nontax revenue (excluding *Grants*).[11]

3.3. Taxes in the EAMU Protocol

To achieve monetary union, the EAMU Protocol cites three critical issues with respect to taxes: (i) Partner States must "harmonize fiscal policies" (Article 4.2.a); (ii) as a convergence criterion, the "Tax-to- Gross Domestic Product (GDP) ratio should be at least 25 percent" (Article 5.3.c); and (iii) Partner States are to "avoid harmful tax competition" (Article 8.1.h).

The harmonization of fiscal policies implies that Partner States will, as part of their revenue collection efforts, impose and collect similar types of taxes with similar tax rates within the context of each state's unique economic landscape. It is assumed that, in due time, Partner States will achieve a tax-to-GDP ratios that is at least 25%.

The last critical issue, avoiding harmful tax competition, should be satisfied as long as Partner States address the first critical issue; i.e. coordinate their fiscal policies effectively. This is particularly relevant if EAC nations inadvertently enter a "race to the bottom" in their efforts to offer tax incentives (expenditures) in order to attract foreign direct investment—a race in which all Partner States are likely to suffer.

[11] Given their unique characteristics, *Grants* are being considered in a separate chapter.

3.4. Definition of Tax and Nontax Revenue

As an important starting point for comparability, it is necessary that Partner States define revenue categories identically. In this section, *Taxes*, *Social contributions*, and *Other revenue* categories are defined explicitly[12] It is expected that Partner States will use these definitions to classify their revenue within GFSM 2014 guidelines.

Taxes (11) are compulsory, unrequited amounts receivable by government units from institutional units (¶5.23) [13] [14] Taxes are defined within six broad categories (¶5.41-¶5.93):

(i) *Taxes* on income, profits, and capital gains (111), which are taxes on the incomes/net income of institutional units (pay-as-you-earn taxes are classified in the category);

(ii) *Taxes on payroll and workforce* (112), which are taxes on enterprises based on a proportion of their payroll or as a fixed amount per employee;[15]

(iii) *Taxes on property* (113), which are taxes on the use, ownership, or transfer of wealth (such taxes are often imposed at the local government level);

(iv) T*axes on goods and services* (114), which are taxes that result from the production, sale, transfer, leasing, or delivery of goods and rendering of services (including value-added taxes (VAT) or excise taxes), or as a result of their use for own consumption, or own capital formation;

(v) T*axes on international trade and transactions* (115), which represent taxes on goods crossing national or customs frontiers of economic territories (mainly custom or import duties) or when services are exchanged between resident and nonresident institutional units; and

(vi) *Other taxes*, that is, taxes not elsewhere classified that are paid by businesses, other than business, or are unidentifiable (116).

Social contributions (12) are actual or imputed revenue receivable by social insurance schemes to make provision for social insurance benefits payable (¶5.94-¶5.100). They exclude contributions receivable under employment-related pension and other retirement schemes that create a liability for future benefits payable. The contributions can be compulsory or voluntary, and may be made by employers on behalf of their employees, by employees, or may be from the self-employed or

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[12] See Appendix I, which is Table 5.1 from the *GFSM 2014*, for a delineation of all revenue categories.

[13] Two, three, four, or five-digit numbers that appear alone within parentheses represent GFSM 2014 account codes

[14]. The paragraph (¶) references are to the GFSM 2014.

[15] Compilers are advised to be cognizant of the difference between “pay-as-you-earn” taxes (1111), which are paid by individuals (employees), and Taxes on payroll and workforce (112), which are paid by enterprises (employers). Further clarification is available in ¶5.41 and ¶5.45, respectively.

unemployed on their own behalf in order to secure a right to the related social benefits. The payments are classified as:

(i) *Social security contributions* (121), which are revenue receivable by social security schemes that are organized and operated by government units for the benefit of contributors to the scheme (employees (1211); employer on behalf of employees (1212); and self-employed or unemployed (1213)).

(ii) `*Other social contributions* (122), which are actual and imputed contributions receivable by social insurance schemes operated by employers on behalf of their employees. These social insurance schemes are generally operated by government units for their own employees; however, a scheme may be established to serve multiple governmental units or public corporations. Contributions are receivable from employees (1221) or from employers on behalf of their employees (1222). Contributions are imputed (1223) when an employer operates a non- autonomous unfunded social insurance scheme for its employees. The amount of imputed social contributions is generally estimated to equal the cost of operating the social insurance scheme (i.e. provide the social benefits) during the period.

(iii) The overarching definition of *Other revenue* (14), which is comprised of five main subcategories, is all revenue other than *Taxes*, *Social contributions*, and *Grants* (¶5.106-¶5.151). Specific definitions follow:

(iv) *Property income* (141) (interest including interest on late tax payments, distributed income from corporations and quasi-corporations (i.e. dividends), investment income, and rent), is the revenue receivable from placing financial and natural resources (i.e. land, subsoil assets, inland waters and rivers, timber, etc.) at the disposal of other institutional units.[16]

(v) *Sales of goods and services* (142) include sales by market establishments, administrative fees charged for services, incidental sales by nonmarket establishments, and imputed sales of goods and services. These sales may be transacted by market or nonmarket producers. Imputed sales are recorded when a unit produces goods and services and uses the goods and services as *Wages and salaries in kind* (2112). A sale is imputed for the cost of these goods and services, and the identical amount is also recorded as *Wages and salaries in kind*.

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[16] *Rent* should not be confused with “rental.” As noted, *Rent* accrues from placing a natural (non-produced) resource at an institutional unit’s disposal. “Rental,” on the other hand, accrues from placing a produced asset at the disposal of an institutional unit. “Rental” revenues should be recorded as *Sales of goods and services* (142); “rental” expense should be recorded as a *Use of good or service* (22).

(vi) *Fines, penalties, and forfeits* (143) are an important source of revenue for many governments. Fines and penalties are compulsory current transfers imposed by courts or quasi-judicial bodies, but out-of-court settlements are also recorded under this category. Forfeits are amounts deposited with a general government unit pending legal or administrative proceedings, and that have been received by general government as part of a resolution of the proceedings.

(vii) *Transfers not elsewhere classified* (144) include subsidies, gifts, and other current transfers from institutional units other than from general government or international organizations (excludes grants). These transfers can generally be current (small) or capital (large) in nature, may be in cash or in-kind, and exclude payments related to the resolution of non-life insurance claims.

(viii) *Premiums, fees, and claims receivable related to nonlife insurance and standardized guarantee schemes* (145) comprise premiums for nonlife insurance coverage; fees for coverage under standardized guarantee schemes; and current (small) and capital (large) claims that accrue to policy holders of non-life insurance in settlement of claims. Usually, large non-life insurance claims are classified as a current claim unless it is necessary to record a capital transfer to be consistent with national accounts.

3.5. Time of Recording, Measurement, and Attribution rules

While uniformity in definitions is important to ensure comparability, another key statistical requirement for the harmonization of revenue statistics is that Partner States adopt identical time of recording and measurement methods. In addition, specifically for tax revenue, GFS compilers in the region should follow identical attribution rules. Guidance on these three issues is provided in this section.

3.6. Time of recording

The *GFSM 2014* standard recommends an accrual basis of recording. For *Taxes*, ideally, they should be recorded in the period when the transactions occur that produce tax consequences (¶5.10-5.13).[17] However, given that it may be difficult to align tax collections with the period during which the tax liability is established, the *GFSM 2014* includes a provision for flexibility in the time of recording. Specifically, it is acceptable to record taxes at the point of collection (¶5.15). This latter flexibility is beneficial to EAC Partner States because all states are on a cash or modified-cash basis of recording, which means that taxes are generally recorded when they are collected. As part of the GFS harmonization effort, guidance will be provided in the Chapter on time of recording.

[17] Additional details on *GFSM 2014* recording of taxes on an accrual basis are available in ¶3.80-¶3.84 and in ¶5.19- ¶5.20.

For *Social contributions*, the standard for time of recording on an accrual basis is when the income is earned from which the social contributions are receivable (¶5.12).

For Other revenue (14), the general standard for time of recording is accrual, which is described in detail below:

- For *Property income* (141), on an accrual basis, it is assumed that revenue accrues throughout the period that an asset (financial or natural resource) is made available to other institutional units— particularly in the case of *Interest* (1411) and *Rent* (1415) (¶5.108 and ¶5.123, respectively). *Dividends* (1412), *Withdrawals of income from quasi-corporations* (1413), *Property income from investment disbursements* (1414), and *Reinvested earnings on foreign direct investment* (1416) should be recorded when collected or on the "ex-dividend" date (¶5.112 and ¶5.134).
- For *Sale of goods and services* (142), the accrual time of recording is when legal ownership changes hands. In the absence of such information, a transaction should be recorded when changes in physical ownership occurs. Services are assumed to be delivered continuously as long as they are being provided, and should be recorded accordingly. (¶5.141)
- For *Fines, penalties, and forfeits* (143), the accrual time of recording is when government has an unconditional claim on the revenue. In the case of bail payments set by courts, bail amounts should be recorded as *Other accounts payable* (3308) until bail is violated, at which time government has an unconditional claim on the bail and it should be recorded under this category (*Fines, penalties, and forfeits* (143)). (¶5.144)
- For *Transfers not elsewhere classified* (144), the accrual time of recording is when an institutional unit has an unconditional claim to the transfer.
- For *Premiums, fees, and claims receivable related to nonlife insurance and standardized guarantee schemes* (145), on an accrual basis, only the premiums and fees that are related to coverage in the period are recorded as revenue (¶5.150). Prepayments of premiums and fees are not recorded as revenue, but as an insurance technical reserve liability (¶7.183).

3.7. Measurement

The *GFSM 2014* standard recommends recording revenue on a gross basis. In other words, the gross amount of *Taxes* assessed and expected to be collected (on an accrual basis) or actually collected (on a cash basis) should be recorded; uncollectable amounts should not be recorded. For *Social contributions*, the amounts payable by employers, employees, self-employed or unemployed persons should be recorded. For *Other revenue*, amounts receivable should be recorded on a gross basis.[18]

3.8. Attribution rules

When considering taxes, key attribution rules should be enforced. Governments often extend authority to other government or private-sector institutional units to collect taxes, while retaining authority to impose taxes and establish tax rates. When this occurs, the taxes that are collected should be attributed to (recorded in the accounting records of) the governmental units that have the authority to impose taxes and set tax rates (i.e. authorizing governmental units) (¶5.34). Any portion of the collected taxes that is retained by collecting institutional units should be recorded as revenue from the *sale of goods and services* (142); authorizing governmental units should record a related *use of goods and services* (22) (¶5.35).

If tax collecting governmental units retain more tax revenue than that associated with the provision of a service, then they should record the difference as the receipt of *current grant* (1331) revenue; authorizing governmental units should record the related amount as a *current grant* (2631) expense (¶5.35). If two or more government units share tax imposition and tax rate-setting authority, then if they each collect taxes, they should retain and record an amount of taxes equal to their share (¶5.36).

3.9. Recording tax refunds

Tax refunds represent an adjustment to tax revenue when tax payments exceed tax liabilities. In the *GFSM 2014* framework, refunds reduce the level of tax revenue. Importantly, tax refunds should be recorded as a reduction in the tax category for which the tax overpayment occurred. That is, tax categories should be reported on a net basis (total taxes collected less refunds). As with tax collections, ideally, tax refunds should be recorded in the tax incidence period. Again, however, the *GFSM 2014* permits flexibility in the recording of refunds; i.e. it is acceptable to record refunds when they are identified as being required (¶5.27).

3.10. Recording tax relief

Tax relief is the result of exemptions, allowances, deductions, or credits that governments extend to taxpayers. Tax exemptions, allowances, and deductions are subtracted from the tax base before the amount of taxes owed is determined. This tax relief is known as “tax expenditures”. No transactions are recorded for tax expenditures in the GFS framework, but governments should maintain a record of tax expenditures for policy purposes and reflect them in a supplementary

[18] Note that, in this paragraph, the terms “payable” and “receivable” are used to denote an accrual basis of recording. The terms “paid” and “received” would indicate a cash basis of recording.

report. (¶5.28) Some EAC Partner States collect data on tax expenditures and provide an annual report to their parliaments.

To facilitate accounting for tax expenditures, GFS compilers may incorporate supplementary accounts for tax expenditures in their chart of accounts.

Tax credits are a form of tax relief (i.e. tax expenditures) that are subtracted after the amount of taxes owed is determined. There are two types of tax credits: (i) Non-payable (Wastable); and (ii) Payable. In the case of non-payable tax credits, the credits are constrained to the amount of the tax liability. In other words, even if the tax credit exceeds the liability, no payment is issued. However, payable tax credits motivate a payment to taxpayers in an amount equal to the excess of the tax credit over the tax liability (¶5.29). At this time, most EAC Partner States do not offer tax credits; if they are permitted, they are generally restricted to business in the form of *Subsidies* (25).

Tax relief in the form of allowances, exemptions, deductions, and non-payable tax credits all reduce the amount of tax revenue that governments collect, and should be accounted for as reductions in the relevant tax revenue categories (¶5.30). On the other hand, the *GFSM 2014* requires a gross recording of payable tax credits (¶5.31): (i) There is a full recording of tax liabilities within relevant tax categories; and (ii) there is a full recording of tax credits within relevant categories of expense.

Quite often, payable tax credits are not associated with specific taxable events or expense categories. Therefore, tax credits should be recorded as: (i) *Subsidies* (25) when they are receivable by market enterprises; (ii) *Social assistance benefits* (272) when they are receivable by households to meet needs that arise from certain events or circumstances; and (iii) *Transfers not elsewhere classified* (282) when the nature of the transfer is not easily included in other categories of transfers (¶5.31).

3.11. Rerouting of social security contributions

Special consideration should be made with respect to *Social security contributions* (1211). While, on the surface, the related transaction appears to be between employers, who transmit contributions on behalf of their employees to the social security scheme. In fact, the transaction should be **rerouted** to show employers transmitting *Wages and salaries* (211) to household, who, in turn, transmit *Social security contributions* (1211) to the related social security funds (¶5.97).

3.12. Recording revenue boundary cases

Within revenue, there are several critical boundary issues, many tax-related, where the line between the recording of taxes and the recording of nontax transactions should be differentiated. Clarification of some of these important boundary issues is provided below:

- Interest and fines and penalties that are assessed by taxing authorities as a result of late (overdue) payment of taxes should not be recorded as *Taxes* (11), but as *Interest* (1411) or as *Fines, penalties, and forfeits* (143), respectively (¶5.24).

- Regarding payments for rights to use goods or permission to use goods or perform services (e.g. licenses or permits), record the payments as a *Tax on use of goods and on permission to use goods or perform activities* (1145) when governments automatically extend the rights and performs little work effort in doing so; otherwise, record the payments as the *Sale of a good or service* (142)—specifically an *Administrative fee* (1422) when the fee is commensurate with the governmental regulatory function that is performed (¶5.73 and ¶5.138).

- Payments to governments that own natural resource assets for the right to exploit those assets should not be recorded as *Other taxes on goods and services* (1146), but as *Rent* (1415) (¶5.54).

- Taxes on the income generated by the extraction of resources (e.g. subsoil assets) that are owned by the private sector or by other levels of government should be recorded as *Other taxes on goods and services* (1146), not as *Rent* (1415) (¶5.82).

- When the rights to extract natural resources involve the sale of assets (including the right to exploit the natural resource to the point of extinction), then treat the resultant payments as the sale of nonfinancial *Intangible non-produced assets* (3144) - specifically, contracts, leases, and licenses (31441) (¶5.78).

- The distribution of profits by fiscal monopolies and from export and import monopolies are not *Dividends* (1412) but are taxes (*Profits of fiscal monopolies* (1143) and *Profits of export or import monopolies* (1153), respectively) (¶5.114). It is important to remember that fiscal, export, and import monopolies are those monopolies established by government mainly for purposes of raising funds.[19]

- When the interest or exchange rates that are charged by central banks are higher than market rates, then the differences between the central bank and market rates are implicit taxes (*Taxes on specific services*, 1144) and should be recorded accordingly (¶5.70). If the central bank rates are lower than market rates, then *Subsidies* (25) should be recorded.

- “Super Dividends,” which are large payments from corporations or quasi-corporations that are inconsistent with their earnings (corporations’ distributable income), should not be treated as *Dividends* (1412) at all, but should be treated as a financial transaction (a withdrawal of owner’s equity) in the form of a sale of *Equity and investment fund shares* (3205) (¶5.115).

3.13. Other issues and recommendations

- Need to resolve the issue of government payment of taxes to itself which clashes with

[19] Fiscal monopolies are defined in ¶5.63.

the definition of revenue (Change in net worth) and that of taxes.

- There is need to streamline the national laws on treatment of late payment of taxes and interest/penalty due to lateness in payment in order to separate them as they should be classified separately according to *GFSM2014*.
- Research should be conducted in order to obtain a standard method for estimating tax expenditures across the EAC.
- A common tax expenditure reporting template should be developed for the EAC region.
- All EAC Partner States should incorporate accounts within the COAs for the proper tracking of tax expenditures.
- A task force should be established to resolve the latter three issues on the recording of tax expenditures.

Table 3.1: Summary Classification of Revenue[1]

1	**Revenue**	**12**	**Social contributions [GFS]**
11	**Taxes**	121	Social security contributions [GFS]
111	Taxes on income, profits, and capital gains	1211	Employee contributions [GFS]
1111	Payable by individuals	1212	Employer contributions [GFS]
1112	Payable by corporations and other enterprises	1213	Self-employed or unemployed contributions [GFS]
1113	Other taxes on income, profits, and capital gains[1]	1214	Unallocable contributions [GFS]
112	Taxes on payroll and workforce	122	Other social contributions [GFS]
113	Taxes on property	1221	Employee contributions [GFS]
1131	Recurrent taxes on immovable property	1222	Employer contributions [GFS]
1132	Recurrent taxes on net wealth	1223	Imputed contributions [GFS]
1133	Estate, inheritance, and gift taxes	**13**	**Grants**
1135	Capital levies	131	From foreign governments
1136	Other recurrent taxes on property	1311	Current
114	Taxes on goods and services	1312	Capital
1141	General taxes on goods and services	132	From international organizations
11411	Value-added taxes	1321	Current
11412	Sales taxes	1322	Capital
11413	Turnover and other general taxes on goods and services	133	From other general government units[1]
11414	Taxes on financial and capital transactions	1331	Current
1142	Excise	1332	Capital
1143	Profits of fiscal monopolies	**14**	**Other revenue**
1144	Taxes on specific services	141	Property income [GFS]
1145	Taxes on use of goods and on permission to use goods or perform activities	1411	Interest [GFS][1]
11451	Motor vehicle taxes	1412	Dividends[1]
11452	Other taxes on use of goods and on permission to use goods or perform activities[1]	1413	Withdrawals from income of quasi-corporations
1146	Other taxes on goods and services	1414	Property income from investment income disbursements
115	Taxes on international trade and transactions	1415	Rent
1151	Customs and other import duties	1416	Reinvested earnings on foreign direct investment
1152	Taxes on exports	142	Sales of goods and services
1153	Profits of export or import monopolies	1421	Sales by market establishments
1154	Exchange profits	1422	Administrative fees
1155	Exchange taxes	1423	Incidental sales by nonmarket establishments
1156	Other taxes on international trade and transactions	1424	Imputed sales of goods and services
116	Other taxes	143	Fines, penalties, and forfeits
1161	Payable solely by business	144	Transfers not elsewhere classified
1162	Payable by other than business or unidentifiable	1441	Current transfers not elsewhere classified
		14411	Subsidies[1]
		14412	Other current transfers not elsewhere classified[1]
		1442	Capital transfers not elsewhere classified
		145	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes[1]
		1451	Premiums, fees, and current claims[1]
		1452	Capital claims

[1] *Indicates that a further breakdown may be analytically useful and is presented in detailed tables.*

Source: GFSM2014, p. 88.

CHAPTER 4. TREATMENT OF GRANTS

4.1. Introduction

EAC Partner States receive substantial amounts of foreign aid, often in the form of various types of grants and loans. Interpreting and practical implementation of the *Government Finance Statistics Manual 2014 (GFSM 2014)* principles and rules on the treatment of grants is not always straightforward and further guidelines are needed with respect to the classification, time of recording and valuation. In particular, the challenging issue is how to distinguish between grants and other forms of external support; define which unit is to be considered the final beneficiary as only the latter should record the revenue from grants; how to treat grants in kind; and to harmonize the time of recording of grants across the region. In addition to the methodological issues, a big challenge in the region is to ensure comprehensive, timely and reliable data sources on grants since many grants are paid by donors directly to contractors. This chapter aims at providing operational guidelines on these specific issues.

According to the *GFSM 2014*, Grants (13) are defined as transfers receivable by government units from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy or social contribution (6.92). A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart (3.10). contribution Grants are normally receivable in cash, but may also take the form of the receipt of goods or services (in kind). Grants are also split into current and capital grants depending on the nature of the expenditure to be financed by grants. Both current and capital grants could be provided in cash and in kind.

There are three sources of grants, namely:

(i) Grants from foreign governments,

(ii) Grants from international organizations, and

Grants from other general government units.

Transfers from private institutions including individuals are not classified as grants and are treated as other revenues (transfers not elsewhere classified). Considering disbursement modality, grants can be classified as general budget support, project support and basket (program/sector budget) support. The following sections cover general principles of treating grants, specific issues attached to grants and recommendations.

4.2. General Principles

4.2.1. Time of Recording

There are two alternatives basis of recording grants, i.e. accrual and cash. When using a cash basis of recording, the revenue is recorded when cash is received, and the related expenditure when the funds are actually spent. Thus, if grants are not spent in the same period as received, there is an impact on the net lending/borrowing. In contrary, when using the accrual recording, there is no impact on the net lending/borrowing as the revenue is recorded in the same period and for the same amount as the expenditure.

When using an *accrual* basis for recording, the time at which a grant is recorded is dependent on whether or not the recipient has a claim on the donor. In many cases, the grant recipient never has a claim on the donor and the grant should be attributed to the time at which the cash payment is made or the goods or services are delivered by the donor (These are mainly general budget support grants) (5.105) When a claim is involved, grants are recorded when all requirements and conditions for receiving them are satisfied and the receiving unit has an unconditional claim recorded under other accounts receivable.(These are mainly project grants).

In some cases, a potential grant recipient has a legal claim when it has satisfied certain conditions, such as the prior incurrence of expenses for a specific purpose or when a certain event has occurred such as the passage of legislation. Determining this time can be complex because there could be a wide variety of eligibility conditions that have varying legal powers and so grants are most commonly recorded when received. In these cases, to ensure that there is no impact on net lending/borrowing arising from such transactions, the time of recording and the value should be the same as the national government expenditure. It is also possible that governments receive cash amounts before having an unconditional claim on them. Such circumstances include advances for grants for the construction of fixed assets over several periods. When using the accrual basis of recording, these cash receipts cannot be recognized as revenue (but rather as a liability) until the government acquires an unconditional claim on the amount (5.16 of GFSM2014). However, when using the cash basis of recording, the full amount of revenue will be recognized in the period in which the cash amounts were received, irrespective of whether the service, delivery, or compliance with the conditions were met in the past or will be met in the future.

Grants in kind, being a non-cash element, will be recorded when associated monetary value is established reliably, otherwise, it will constitute a memorandum item. Similar treatment will apply to commodity grants[20] and technical assistance. Commodity grants should be treated as grants in kind if the recipient government becomes the economic owner of the commodity.

When an unconditional grant is received from donors it should be recorded as revenue when, deposited in the government account at the Central Bank while a conditional grant should be recorded as a liability (other accounts payable) when deposited in the government account and as revenue when the funds are accounted for after completion of the project.

4.3. Grants and other transfers

Grants are defined as transfers other than taxes, subsidies and social contributions. While it is somewhat clear how to differentiate between grants and taxes and social contributions, some

[20] Commodity grant is different from grant in kind since the government can sell and utilize the proceeds.

difficulties may arise with regard to subsidies. *Subsidies* (14411) are current unrequited transfers to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. Subsidies may be designed to influence levels of production, the prices at which outputs are sold, or the profits of the enterprises (6.84).

4.4. Classification of Donors

Three sources of grants are recognized in GFSM 2014: grants from foreign governments, grants from international organizations, and grants from other general government units (5.103). According to GFSM 2014, possible transfers granted by private donors should not be reported under grants, but rather revenue under *transfers not elsewhere classified*.

4.5. Consolidation

Grants between Government units are termed as inter-entity transfers between government reporting entities. During the consolidation process of government accounts, the transfers between government reporting units are reconciled and eliminated to avoid double counting.

When statistics are compiled for the general government sector, grants from other domestic government units would be eliminated in consolidation so that only grants from foreign governments and international organizations would remain in the general government accounts and would be used for the convergence criteria. Grants from other domestic government units will thus have a nonzero value only when statistics are compiled for a subsector of the general government.

4.6. Classification of Beneficiaries

To accurately record transactions in grants, the ultimate beneficiary should be identified regardless of the practical and/or institutional arrangements for channeling the amounts payable from donor agencies to the economic beneficiaries (A.5.30). There might be cases when grants initially deposited in the central government unit‘s account are further distributed, on behalf of the donor, to other government or non- government units, which appear to be the final beneficiary (e.g. extra-budgetary or local government units). In principle, the grant should be classified as a grant from foreign governments and/or international organizations to the final beneficiary and not to the initial recipient when the latter just acts as an agent on behalf of the donor.

4.7. Definition of Current vs Capital Grants

The GFSM 2014 provides definitions distinguishing current and capital grants that should be used. Current grants are current transfers receivable by government units, from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy, or a social contribution. Current grants are those transfers receivable that are not capital transfers. Such directly affect the level of disposable income and influence the consumption of goods or services. That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient.

Capital grants are capital transfers receivable by government units, from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy, or a social contribution. Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories). or where a liability is forgiven by the creditor). Transfers in kind involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers (¶1.2.7). A capital transfer results in a commensurate change in the stock position of assets (or liabilities) of both parties to the transaction.

4.7.1. Grants in cash and grants in kind

Grants are receivable in cash, but may also take the form of the receipt of goods or services (in kind). Goods and services that are consumed, such as food contributions, blankets, and medical services are classified as current grants in kind. Grants in the form of capital goods and services, such as machinery, equipment, constructions of buildings and structures are classified as capital grants in kind. When a liability is forgiven by the creditor (debt cancellation) or when a liability is assumed by another unit, such transactions are also classified as capital transfers in kind.

4.7.2. Valuation of Grant in Kind

While valuation of grants in cash should not create difficulties, determining the value of grants in kind is challenging. According to GFSM 2014, grants in kind should be valued at market prices If market prices are not available, then the value should be the explicit costs incurred in providing the resources or the amounts that would be received if the resources were sold. As a practical guidance applicable to the region, the value provided by donors should be used. If the donor and the recipient have different views on the value of the transfer, the view of the donor should prevail. However, in any case, a capital grant in kind should have no effect on net lending/borrowing as the inflow from revenue (capital grant in kind) will be neutralized by the expenditure in the form of acquisition of a nonfinancial asset (¶5.104).

4.8. Specific Issues – Implementation of Methodological Principles in the Region

4.8.1. Classification of Donors

The Donors are classified as follows:

i. **Bilateral:** These are foreign governments providing grants to the government (Appendix 4.2).

ii. **Multilateral:** These are International Organizations providing grants to the Government (Appendix 4.3).

4.8.2. Classification of Beneficiaries

To avoid recording of the same grant by two or more government units through which the funds are channeled, and to avoid double counting of the grants while measuring the convergence criteria, it is recommended that such grants are recorded by the Treasury or department of the Treasury once the information is submitted by the recipient government unit. For harmonization purposes, the government should always be considered the final beneficiary if:

- The funds are used to perform government functions (e.g. social assistance), or/and
- If there is an official legal agreement between the government and the donor; and
- The grants should be on the government budget.

4.8.3. Definition of Current vs Capital Grants

For harmonization purposes, funding modality should be the main criterion for determining whether the grant is capital or current. These are as outlined below.

- General Budget Support – Current
- Project support – Capital
- Basket support – Capital

Budget support funds which are tied to specific project should be classified as capital.

4.8.4. Valuation of grants in kind

Taking into account practical difficulties in the region, grants in kind should be valued at the value provided by donor. In its absence, market prices should be used. If market prices are not available, then the value of closely related items should be used.

4.8.5. Treatment of Debt Cancellation

Most of the countries in the EAC have contracted concessional or non-concessional debt from bilateral, multilateral and other sources of financing and some have already benefited from the HIPC Relief and Multilateral Debt Relief Initiative (MDRI).

The cancellation of the debt stock should be recorded as capital grant at the time of the completion point (i.e. when a formal commitment is established by the donor via an official document or a legal act, the amount is known with certainty, and there is no conditionality in place which could reverse the commitment). Currently most of the countries record debt cancellation in government accounts.

Under the debt service relief initiative, debt service should be recorded at the time it is due, but is not paid, making the difference between the debt service that is due and what is paid a HIPC/MDRI grant. However, different countries have different arrangements with creditors, hence the treatment may be country specific, but ultimately the recording should follow accrual basis as part of harmonization process[21].

4.9. Other Specific Issues and Recommendations:

4.9.1. Data collection issues

One of the most critical issues in the region is the absence of comprehensive data on grants paid directly by donors. This calls for efforts among Partner States on the following areas:

Improve internal processes: This may involve setting up project coordination unit within the MDAs to monitor respective projects; and enhance reporting requirement on quarterly or semi- annual basis.

- Donor processes: Strengthening coordination between donors and government through the department of Aid Coordination to encourage donors to report timely and comprehensive data on their aid. In addition, enhance Donor Assessment Framework where the system is in place and introduce one where is does not exist.

Reporting expenditure on grants is feasible for capital grant related expenditures, while it is not possible for current grants due to the fungibility of resources.

4.9.2. Other issues

We recognize that these are statistical guidelines, but the following issues should also be taken into consideration:

- Discounting of grants commitments due to predictability issues for the medium-term convergence program (MTCP)
- Mechanisms to ensure continuous capacity building reduce staff turnover by ensuring staff retention, motivation scheme.

Table 4.1: Proposed Template on Reporting Revenue from Grants by EAC Partner States

Total revenue from grants
Grants in cash - from foreign governments
Current
Capital
Grants in kind - from foreign governments
Current
Capital
Grants in cash - from international organizations
Current
Capital
Grants in kind - from international organizations
Current

[21] Completion period means when conditions between the creditor and government on debt are met.

Capital
Grants in cash - from other general government units
Current
Capital
Grants in kind - from other general government units
Current
Capital
Total Expenditure from grants
Grants in cash
Capital
Grants in kind
Capital
Outstanding amount of unused funds from grants
Debt cancellation and debt assumption

Table 4.2: Bilateral Donor Countries and Agencies

Countries	
Austria	Korea
Belgium	Kuwait
Burundi	Netherlands
Canada	Nigeria
China	Rwanda
Democratic Republic of Congo	Saudi Arabia
Denmark	South Korea
Finland	South Sudan
France	Spain
Germany	Sweden
India	Switzerland
Iraq	Tanzania
Italy	Uganda
Japan	United Kingdom
Kenya	United States of America
Agencies	
AFD	Agence Francaise De Developpment
AusAID	Australian Agency for International Development
CIDA	Canadian International Development Agency
DAAD	Deutscher Akademischer Austausch Dienst
DFID	United Kingdoms' Department for International Development

GTZ	Deutsche Gesellschaft Fur Technische Zusammenarbeit
JICA	Japan International Cooperation Agency
NORAD	Norwegian Agency for Development Cooperation
NUFFIC	Netherlands Organization for International Cooperation in Higher Education
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
SKAT	Swiss Centre for Development Cooperation in Technology and Management
USAID	United States Agency for International Development

Table 4.3: List of Multilateral Donors

ACBF	African Capacity Building Foundation
ADB/AFDB	African Development Bank
ADF	African Development Foundation
ADF	African Development Fund
BADEA	The Arab Bank for Economic Development in Africa
EEC	European Economic Community
EIB	European Investment Bank
FAO	Food and Agriculture Organization of the United Nations
GEF	Global Environmental Facility
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
NDF	Nordic Development fund
OPEC FUND	OPEC Fund for International Development
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNIDO	United Nations Industrial Development Organization
WB	The World Bank
WHO	World Health Organization

CHAPTER 5. PUBLIC DEBT

5.1. Introduction

The primary goal of this chapter is to guide East African Community (EAC) Partner States on the measurement of public debt specifically, sectoral coverage and classification of institutional units. The *GFSM 2014* and *Public Sector Debt Statistics Guide for Compilers and Users 2013* (*PSDSG 2011*) have been adopted by EAC Partner States as a basis for the guidelines on the coverage and classification of public debt[22]. This is in line with the decision of 5th meeting of EAC's Sectoral Council of Finance and Economic Affairs (SCFEA), which directed that the government finance statistics (GFS) working group develop guidelines for harmonizing compilation practices of public sector debt statistics (PSDS) across the region; including coverage, instruments, frequency and timeliness.

5.2. Statement of the problem

Having comparable and reliable PSDS is crucial for a monetary union: the amount (and trend) of public debt is an indication of the sustainability of the economic policy of any government, and an excessive level of debt can be a potential source of instability for a common currency. In this sense, the East African Monetary Union (EAMU) Protocol establishes that, to join the monetary union, EAC Partner States should maintain a ceiling on gross public debt of 50 percent of gross domestic product (GDP) in net present value terms (NPV)[23].

While this definition of debt may seem straightforward, there are many aspects that need to be taken into account to obtain debt statistics that can be comparable across Partner States. For example, the amount of total debt will change depending on the valuation method--market, nominal, or face value[24]. In the same way, the treatment of borderline cases concerning different debt instruments, the time of recording or the treatment of specific debt transactions, such as debt cancellations, will also have an impact on the level of debt. In addition, having comprehensive and timely source data is a must for the compilation of good quality debt statistics. Clearly defining all these aspects and establishing a harmonized manner for treating them is the main objective of the following points of this chapter.

[22] IMF PSDSG, 2011 & IMF *GFSM* 2014

[23] Protocol on the Establishment of the East African Community Monetary Union, 30th November, 2013

[24] IMF PSDSG, 2011, pp 22-23

5.3. General principles

5.3.1. Sector coverage

As specified in the chapter on delineation of the public sector in the *EAC Guidelines on Compilation of Government Finance and Public Sector Debt Statistics- 2015*, the public sector comprises central government (budgetary and extra-budgetary units), local government, social security funds, and public corporations (financial and non-financial corporations).

5.3.2. Financial instruments

A liability is established when one unit (the debtor) is obliged, under specific circumstances, to repay funds or other resources to another unit (the creditor). Whenever a liability exists, the creditor has a corresponding financial claim on the debtor. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability. Financial assets are financial claims plus monetary gold and they are classified into the following eight categories:

- Monetary gold and Special drawing rights (SDRs)
- Currency and deposits
- Debt securities
- Loans
- Equity and investment fund shares
- Insurance, pensions, and standardized guarantee schemes
- Financial derivatives and employee stock options
- Other accounts payable/receivable

Liabilities instruments comprise all the financial instruments as stated in section 5.32, with the exception of monetary gold.

5.3.3. Debt instruments25

The *PSDSG 2011* defines a debt instrument as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future. The following is the list of debt instruments consistent with this definition and is generally accepted internationally:

- SDRs
- Currency and deposits
- Debt securities

[25] In line with the decision of 5th meeting of EAC's Sectoral Council of Finance and Economic Affairs (SCFEA), only four of the instruments are covered as indicated in paragraph 4.4

- Loans
- Insurance, pensions, and standardized guarantee schemes
- Other accounts receivable (payable)

The classification of the debt instruments and sectorization shall be fully consistent with the definitions as used by the IMF/WORLD BANK database on Public Sector debt.

5.3.4. Time of recording

The *GFSM 2014* and *PSDSG 2011* recommend that flows and stock positions are recorded when economic value is created, transformed, exchanged, transferred, or extinguished; i.e., both manuals recommend an accrual basis of recording. This approach is particularly important for the measurement of debt as a cash-based recording system would not accurately reflect the amount due to a creditor.

5.3.5. Valuation

There are four valuations[26] methods for financial assets and liabilities;

- **The market value** is the prevailing market price, which is the best indication of the value that economic agents currently attribute to specific financial claims.
- **The nominal value** is a measure of value from the viewpoint of the debtor, at any moment in time it is the amount that the debtor owes to the creditor. It refers to the value of a debt instrument at creation plus any subsequent economic flows such as transactions (accrual of interest/repayment of principal) and exchange rate changes.
- **The face value** of a debt instrument is the undiscounted amount of principal to be repaid at maturity.
- **The fair value** of a debt instrument is its “market-equivalent” value and is defined as the amount for which a financial asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s-length transaction. The fair value may be used when market value is not available. Market value is only available for tradeable instruments.

According to the International Statistical standards (*PSDSG 2011*) the recommended valuation for debt instruments are market value and nominal value.

5.3.6. Consolidation

The *GFSM2014* defines consolidation as a method of presenting statistics for a set of units

[26] see PSDSG 2011 ¶ 2.115 to 2.123

(or entities) as if they constituted a single unit. Proper consolidation is important as it would facilitate comparability of the debt statistics among EAC Partner States. Consolidation of debt statistics entails the elimination of all debtor-creditor relations among the units or entities that are in the same sector in-country. In the case of a full monetary union, the same principle of consolidation will also apply to debtor-creditor positions for countries within the EAC. In either scenario, the following major stock positions, in likely order of importance, should be eliminated for debt statistics covering any part of, or the entire public sector[27]:

- Loans;
- Debt securities; and
- Other accounts payable.

5.4. Debt under EAMU Protocol convergence criteria Sector Coverage

A sustainable monetary union requires comprehensive coverage and measurement of the public sector debt of the Partner States as such coverage includes public corporations, which may be involved in quasi-fiscal activities, playing an important role in countries' fiscal risks. However, the main challenge of using public sector coverage for the criteria is that the timeliness, frequency and details of financial reporting applicable to corporations may differ substantially from the reporting used by general government units. The 5th meeting of EAC's Sectoral Council of Finance and Economic Affairs (SCFEA) decided that the EAMU debt sector coverage shall be the general government. Some memo[28] items shall also be provided to capture the fiscal risks outside of the general government.

The advantages of focusing on the general government rather than the public sector are that general government contains a relatively homogeneous group of non-market producers. In addition, this approach builds on the significant progress that Partner States have made in compiling general government statistics.

5.5. EAMU Protocol debt instruments:

Measurement of general government debt by the EAC Partner States shall cover four debt instruments: SDRs, currency and deposits, debt securities, and loans. However, the Partner States shall be required to disclose the debt relating to other debt instruments; i.e., Insurance, pensions, and standardized guarantee schemes; and Other accounts payable including arrears as memorandum items. In addition, Partner States shall be required to report on the debt of public corporations relating to the above debt instruments as memorandum items *(Appendix 5.2, Table 1).*

[27] For more practical guidance, refer to chapter 8 of the PSDSG 2011

[28] Refer to paragraph 4.9

5.6. Borderline cases

This section highlights some scenarios on debt that should be taken into account in the measurement of EAMU convergence criteria on debt.

a. **Loans versus overdrafts:** In line with EAMU protocol, all central bank lending (overdrafts) to government shall be cleared within the same financial year. Any outstanding overdraft of general government to the Central Bank at the end of the financial year will be considered either as a liability in the form of loans or it will be part of debt securities if the liability has been securitized. A reclassification of overdrafts to loans affects only the composition but not the level of EAMU debt.

b. **Loans versus other accounts payable:** Accounts payable are expected to be cleared within the financial year. In the event that they are verified and not cleared within ninety days after the close of the financial year to which they relate, they should be reclassified as loans. This will have an impact on EAMU debt.

c. **Loans versus debt securities:** When a loan is traded, it shall be reclassified as a debt security. This will affect only the composition but not the level of EAMU debt.

5.7. Specific issues

There are a wider range of specific transactions which might have implications on debt [e.g. Public Private Partnerships (PPPs)[29], Securitization, sale and leaseback etc.]. For the purposes of this manual the guidelines will focus on the following transactions as they are deemed to be the most appropriate for the region:

- **Debt cancellations**[30] (or debt forgiveness): Debt forgiveness is voluntary cancellation of all or part of a debt obligation within a contractual arrangement between a creditor and a debtor. Debt shall be considered canceled upon receipt of written communication from the creditor. The time of recording and amount cancelled shall be as specified in the written communication. Debt forgiveness shall be recorded as a capital grant or transfer from the creditor to the debtor, which extinguishes the financial claim and the corresponding debt liability, thus reducing the level of the EAMU debt.
- **Debt assumptions**[31]: Debt assumption is a trilateral agreement between a creditor, a former debtor, a new debtor (typically a government unit) under which the new debtor assumes the former debtor's outstanding liability to the creditor, and shall be liable for the repayment of debt. A debt shall be considered assumed and its amount recorded

[29] Please note that a separate chapter has been provided to discuss this

[30] Refer to box 4.2 of the *PSDSG 2011*

[31] Refer to box 4.7 of the *PSDSG 2011*

upon receipt of written communication by the original contract[32]. A good example of debt assumption would be calling a guarantee. If the original debtor defaults on its debt obligations as outlined in the contract, the creditor may then invoke the contract conditions permitting the guarantee from the guarantor to be called. The guarantor unit must either repay the debt or assume responsibility for the debt as the primary debtor (i.e., the liability of the original debtor is extinguished). The net effect is that this event will increase the level of the EAMU debt when a general government unit assumes debt.

- **Debt rescheduling**[33]**:** Debt rescheduling is a bilateral arrangement between the debtor and the creditor that constitutes a formal postponement of debt service payments and the application of new and generally extended maturities. The new terms normally include one or more of the following elements: extending repayment periods, reductions in the contracted interest rate, adding or extending grace periods for the payment of interest and principal, fixing the exchange rate at favorable levels for foreign currency debt, and rescheduling the payment of arrears, if any. Debt shall be considered and recorded as rescheduled upon receipt of written communication from the creditor. Given that gross debt is valued using in Net Present Value (NPV)[34] approach, then debt rescheduling may lead to a reduction in the level of EAMU debt due to favorable terms and an increase in the repayment period.

5.8. Valuation Method Used by The EAC Partner States

In line with the EAMU Protocol, the measurement of debt will be in NPV terms as specified in this paragraph. This is consistent with the IMF Low Income Countries Debt Sustainability Analysis (DSA) framework that was adopted by Partner States. Also, debt indicators for EAC Partner States are expressed in present value terms because it is a better measure of the burden of future debt service payments for countries whose debt is predominantly concessional. In addition to reporting in NPV terms, Partner States will also be required to report the Nominal value of their public debt. The discount rate used to compute public debt in NPV terms shall be the 5% for all debt instruments[35]. Public debt in NPV terms is calculated as follows;

[32] For example, if the original creditor defaults three times, then the government comes in and assumes the debt.

[33] Refer to box 4.3 of the *PSDSG 2011*

[34] See paragraph 4.10.3 for the formula on how to calculate the applicable NPV.

[35] In line with the current proposal of the Executive Boards of the IMF and the World Bank, last reviewed in 2013.This is subject to future reviews by the two institutions.

$$DNPV = \sum_{t=0}^{n} \frac{DS_t}{(1+\beta)^t}$$

Where; $DNPV_0$- public debt in Net Present Value at time, t=0; DS_t- gross debt service at time t; β- discount rate and n- maturity period.

5.9. Frequency of reporting

Debt in nominal value and Net Present Value terms shall be reported on quarterly and annual basis in order to facilitate monitoring and compilation of debt ratios on quarterly and annual basis. Quarterly and annual reporting will have lags of 60 days and 90 days, respectively.

5.10. Data sources

The Debt Management and Financial Analysis System (DMFAS) and Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) software will be used to record and organize source data on debt as they have capabilities to produce periodic reports in both nominal and NPV terms. In addition, Partner States shall maintain up-to-date debt databases in DMFAS and CS-DRMS, which conform with the PSDSG 2011.

Table 5.1: Major Data Sources for Debt Statistics

Debt Instrument	Data Source
Debt Instruments as per EAMU protocol	
SDRs	Central Bank
Currency and deposits	Central Bank, Ministry of Finance and Other public deposit-taking institutions
Debt securities	Ministry of Finance and Central Bank (DMFAS/CS-DRMS)
Loans	Ministry of Finance and Central Bank (DMFAS/CS-DRMS)
Memo Items under EAMU protocol	
Insurance, pensions, and standardized guarantee schemes.	Ministry of Finance and Balance sheets of social security funds
Other accounts payable	Ministry of Finance
Arrears	Ministry of Finance

Table 5.2: General Government Gross Debt Instruments as per EAMU protocol

Summary of Sectoral Coverage and Presentation of General Government debt for EAC Partner States

Quarter	xxxx	xxxx	xxxx
Budgetary Central Government Debt			
Special Drawing Rights (SDRs)			
Currency and deposits			
Debt securities			
Loans			
Extra-Budgetary Central Government Debt			
Special Drawing Rights (SDRs)			
Currency and deposits			
Debt securities			
Loans			
Local Governments Debt			
Special Drawing Rights (SDRs)			
Currency and deposits			
Debt securities			
Loans			
Social Security Funds Debt			
Special Drawing Rights (SDRs)			
Currency and deposits			
Debt securities			
Loans			
General Government Debt			
Special Drawing Rights (SDRs)			
Currency and deposits			
Debt securities			
Loans			

Table 5.3: Memorandum Items and Gross Public Corporations Debt

Memorandum items:	XXXX	XXXX	XXXX
Budgetary Central Government			
Insurance, Pension and Standardized Guarantee Schemes			
Other Accounts Payable			
Arrears			
o.w. Compensation of Employees			
o.w. Use of Goods and Services			
o.w. Pensions			
o.w. Court Awards			
o.w. Others			
Extra-Budgetary Central Government			
Insurance, Pension and Standardized Guarantee Schemes			
Other Accounts Payable			
Arrears			
o.w. Compensation of Employees			
o.w. Use of Goods and Services			
o.w. Pensions			
o.w. Court Awards			
o.w. Others			
Local Governments			
Insurance, Pension and Standardized Guarantee Schemes			
Other Accounts Payable			
Arrears			
o.w. Compensation of Employees			
o.w. Use of Goods and Services			
o.w. Pensions			
o.w. Court Awards			
o.w. Others			
Social Security Funds			
Insurance, Pension and Standardized Guarantee Schemes			
Other Accounts Payable			
Arrears			
o.w. Compensation of Employees			
o.w. Use of Goods and Services			
o.w. Pensions			
o.w. Court Awards			
o.w. Others			
General Government			
Insurance, Pension and Standardized Guarantee Schemes			
Other Accounts Payable			
Arrears			
o.w. Compensation of Employees			

o.w. Use of Goods and Services			
o.w. Pensions			
o.w. Court Awards			
o.w. Others			
Gross Public Corporations Debt			
Quarter	xxxx	xxxx	xxxx
Public Financial Corporations			
Special Drawing Rights (SDRs)			
Currency and deposits			
Debt securities			
Loans			
Public Non-Financial Corporations			
Special Drawing Rights (SDRs)			
Currency and deposits			
Debt securities			
Loans			

CHAPTER 6. ABOVE AND BELOW THE LINE TRANSACTIONS

6.1. Introduction

This chapter is introduced to help guide compilers for the East African Community (EAC) Region on the correct recording of above and below the line transactions in an effort to produce quality and harmonized GFS within the EAC Partner States. The *Government Finance Statistics Manual 2014* (*GFSM 2014*) has been adopted by EAC Partner States as a basis for the guidelines on the recording of above and below the line transactions.

Transactions should only be recorded above the line (revenue and expenditure) if the Net Financial Worth (NFW) is affected. On the other hand, transactions should be recorded below the line only when the NFW is not affected (in other words when both counterparts are transactions in financial assets/liabilities). The main balancing items, such as cash surplus/cash deficit or Net Lending/ Net Borrowing (NLB), serve as the **"line".**

6.2. Statement of the Problem

It is not always clear-cut for compilers whether to record an event as either an above the line transaction (e.g. a transfer) or a below the line transaction (e.g. acquisition of equity or another financial claim). Recording transactions correctly above or below the line will ensure that the results produced by the Partner States are consistent and comparable. On the other hand, incorrect recording of transactions may result in either the understating or overstating of the main fiscal indicators of the Partner States. Some economic events require a detailed assessment to decide how NLB and NFW is affected and hence how to record the event in an appropriate fashion. The treatment often has a critical impact on key fiscal balance indicators and, thus, is very important. Compilers need to classify above the line transactions consistently as NLB is one of the convergence criteria based on the EAMU protocol (Article 6).

6.3. Definitions: General Definitions

Above-the-line transactions are all transactions in revenue, expense, and net investment in nonfinancial assets; or in other words revenue and expenditure (Table 4A.1 GFSM 2014). These transactions affect NFW and the GFS manual provides detailed information on compositions and definitions of revenue and expenditure (GFSM2014 chapters 5, 6 and 8).

Net lending/Net borrowing (NLB) is revenue minus expense minus net investment in nonfinancial assets; or revenue minus expenditure; or Net Operating Balance (NOB) minus net investment in nonfinancial assets; or Gross operating balance minus gross investment in nonfinancial assets (Table 4A.1 GFSM 2014).

Below-the-line transactions are the net acquisition of financial assets, and the net incurrence of liabilities—also referred to as financing transactions (Table 4A.1 GFSM 2014). Transactions below the line do not affect NFW (i.e. when both counterparts are transactions in financial assets/liabilities). The balancing item from below the line transactions (net financing) should ideally be equal to NLB. GFSM 2014 provides detailed information on below the line transactions (GFSM 2014 chapter 9).

Net Financial Worth is the difference between stock position in financial assets and liabilities (Table 4A.1 GFSM 2014). This is a balancing item and it is often cited because of the general government and public sectors' influence on the financial system.

A **financial claim** is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability (unconditional; Table 4A.1 GFSM 2014). GFSM2014 recognizes only those claims that are effective. Government acquires an effective claim if the payment is not just a gift and Government expects to get back the invested funds. Effective claim should refer to an investment with realistic expectations, i.e. Government shall receive a market rate of return (e.g. in the form of dividends, interest) from the investment.

6.4. Statistical Treatment

Given the nature of certain transactions, compilers are faced with different straightforward cases that can lead to clear statistical treatments or with some borderline cases that require application of different tests.

In principle, if both counterpart transactions are in the financial asset or liability categories, they are recorded below the line. However, not all transactions in financial assets and liabilities as defined by national legislation are true financial transactions as based on the GFSM 2014 methodology. One of the main principles in the GFSM is that economic substance of an event should be reflected rather than its legal form.

Therefore, it is important to check whether a "transaction in financial instrument" as legally defined actually affects or not NFW. To clarify if a transaction affects NFW or not, one should examine if the "claim" is effective or not. The claim is not effective, if the Government cannot expect any return from it (see 6.7).

To examine if the claim is effective, compilers should check if funds are provided in exchange for a financial asset or liability of equal or different value. Some events require partitioning to reflect economic reality, whereby one element of the flow is considered a transaction in assets/liabilities; the other element of the flow is considered an operative flow (revenue/expenditure).

If the amount paid by Government is:

- equal to the value of the effective claim, then the transaction should be recorded below the line (and respective changes should be recorded in the relevant financial instruments);
- above the value of the effective claim, the transaction should be partitioned. The

difference between amount paid/received and the assessed value should be recorded above the line (capital transfer); and the value of the claim should be recorded below the line as a transaction in respective financial instrument. If the value of claim is equal to zero, the entire amount should be above the line as capital transfer received/paid at (estimated) value of the asset/liability involved.

6.5. Dividends/Super-dividends

Not all dividends as defined by the national legislature should be recorded as revenue. Some forms of dividends should be recorded as a withdrawal of equity (super-dividends) under the GFSM 2014. Dividends are the distributed earnings allocated to government or public-sector units, as the owners of equity, for placing funds at the disposal of corporations (GFSM 2014, ¶ 5.111); while super-dividends are often based on accumulated reserves, privatization receipts, other sales of assets, or holding gains (GFSM 2014, ¶ 5.115).

The transactions should be recorded as **dividends** if they are paid out of operating surplus (operating profit after tax) **excluding** receipts from sales of assets and/or holding gains and reserves.

The transactions should be recorded as **super dividends** (withdrawal of equity) if declared dividends are:

- disproportionally large relative to the recent level of dividends and earnings; and/or
- paid out of accumulated reserves, privatization proceeds and other sales of assets, or holding gains.

The transaction should be **partitioned** if it is the case that dividends are payable from a mixture of operation profit and profit arising from accumulated reserves, privatization proceeds and other sales of assets, or holding gains:

- the portion payable from operating profit (excluding holding gains) should be recorded as revenue (dividend); and,
- the portion payable on profit from accumulated reserves, privatizations proceeds and other sales of assets, or holding gains should be recorded as withdrawal of equity (super dividend).

If the corporation pays to the Government interim dividends (prepayments) which are disproportional and larger than the estimated operating profit of the current year, the transactions should be recorded as **super dividends** (withdrawal of equity).

6.6. Capital Injections

Government can make a financial support to a corporation with the intention of capitalizing or recapitalizing the corporation. Such financial support, recorded as a **Capital Injection**, may take various legal formats (for example, loans or equity injection) and its' economic substance may also vary. In principle, shareholders generally provide a capital injection with the objective of increasing future dividends. The recipient is usually free to use the funds to maximize profits and the shareholders expect a market return on its investment which could be obtained, from the acquisition of shares quoted on the market.

GFS compilers in the EAC Partner States need to inquire for additional information and apply various appropriate tests to different cases to determine whether capital injection provided by the Government to a unit suffering financial distress is usually a loan or capital transfer or equity injection. In this case, compilers should refer to the decision tree for guidance in statistical treatment.

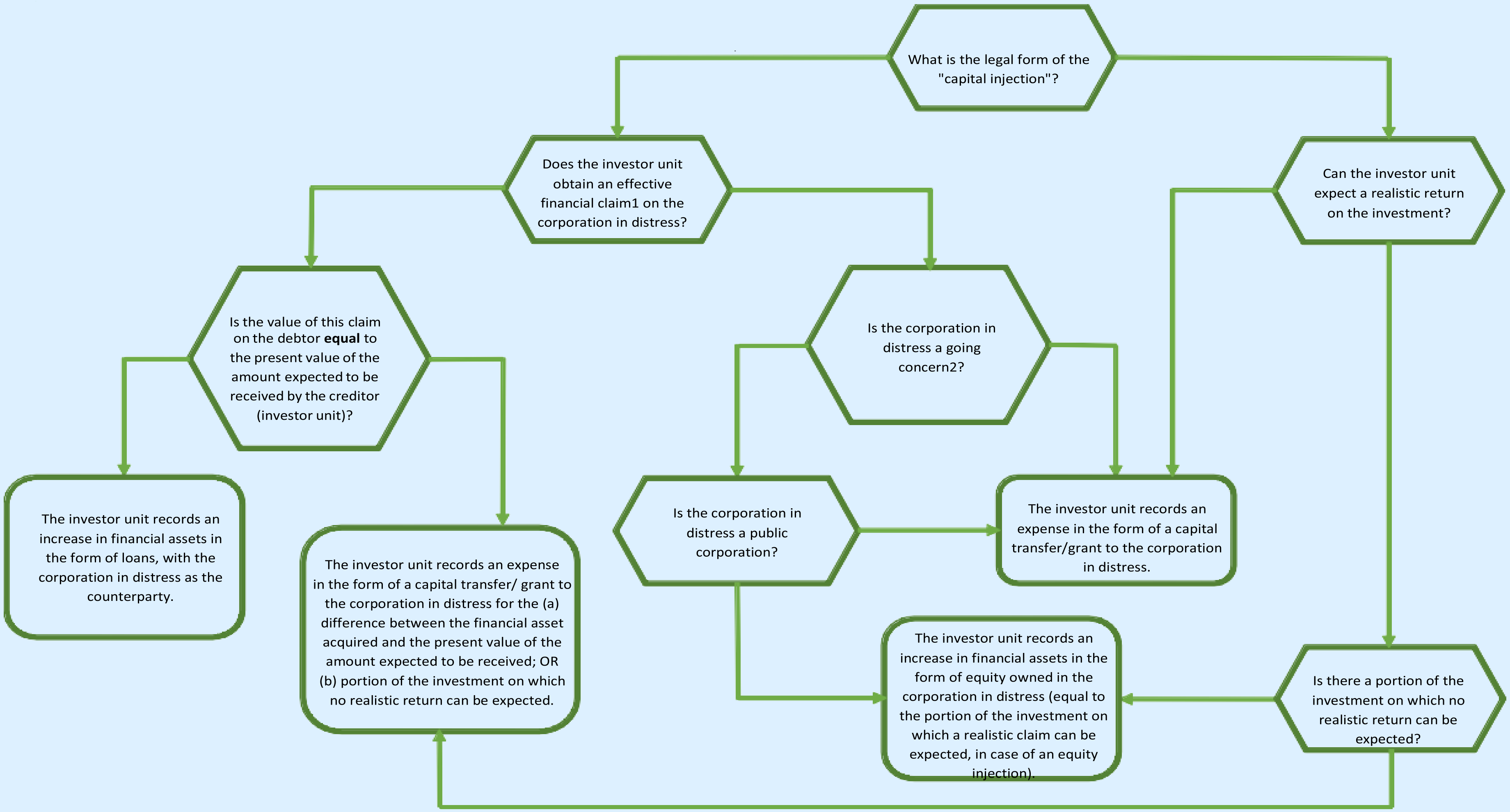
The statistical treatment of capital injections depends on form of the financial support provided. Capital injections can be recorded as (GFS Manual 2014 Box 6.3):

- An expense, either as a subsidy or capital transfer; or
- A transaction in financial assets/liabilities, either as an addition to equity or an issuance of a loan or securities other than shares; and
- Partitioned into expense and transaction in financial assets.

Capital injections without any realistic expectation of a sufficient rate of return (by means of dividends or interest for example) should be recorded as **expense**; such as when the injection is:

- made to cover the value of recurrent losses as matter of economic or social policy objectives (a subsidy); or
- made to cover future losses (capital transfer); or
- made to cover the value of accumulated losses as well as the cases when the corporation is in financial distress (a capital transfer); or
- made to finance the value of acquiring of fixed assets by the recipient (assuming the Government does not hold equity in the corporation), whether the transfer is in cash or in kind (capital transfer); or
- Government cancels or forgives debt of a corporation (capital transfer); or
- Government assumes debt of a corporation and does not expect any future repayments by the corporation; or
- Government makes repetitive payments to a corporation (capital transfer or subsidy).

Figure 6.1: Decision Tree on Statistical Treatment of Capital Injections



Capital injections should be recorded as a **transaction in financial assets** when there are expectations that Government will receive a sufficient rate of return, such as when:

- Government obtains an effective (recoverable) financial claim (acquisition of loans or debt securities); or
- The injected funds will increase the market value of the assets and will generate a market rate of return (acquisition of shares and equity or increase the value of the currently held equity); or
- Government acquires quoted shares of equal value (acquisition of shares and other equity); or
- It is made as part of a privatization process within a short-term perspective (less than one year), such that government expects to get its money back (equity and investment fund shares within the limit of the amount of the privatization proceeds).

Capital injections should be **partitioned** when realistic return can only be expected from some part of the financial support. In this case, the part which will not bring returns should be recorded as expense (capital transfer), and the part which is expected to bring returns (in other words, Government has an effective claim) should be recorded as a transaction in financial assets (acquisition of financial assets). Capital Injections should be partitioned when:

- Government pays more than the quoted share price on the market, the difference exceeding the market price should be recorded as an expense (capital transfer); or
- Government gives financial support that covers more than the value of the previous periods losses, the difference between the capital injection and the amount of losses should be recorded as a transaction in financial assets (acquisition of equity), if there are realistic expectations that Government will obtain dividends or other income from the investment in the future; or
- If Government provides financial support to cover more than the cost of acquisition of fixed assets by a corporation, the difference should be recorded as a transaction in financial assets (acquisition of equity) only if there is realistic expectation that Government will obtain dividends or other income from the investment in the future; or
- Government assumes the debt of a corporation and expects that the corporation will pay back to Government only part of the debt, the latter amount should be recorded as a transaction in financial assets (acquisition of loan) and the difference should be recorded as expense (capital transfer).

6.7. Practical implementation

The EAC should develop specific questionnaires to examine challenging transactions in recording capital injections and dividends/super-dividends. These would provide the GFS compilers with the necessary background information and data to help decide on the correct treatment of capital injections and dividends/super-dividends.

For Capital injections, the questionnaires should assess if the injection is made to cover:

- Cumulated losses;
- losses in the previous year;
- Amount of the capital injection paid by private share holder alongside Government, if applicable;
- Dividends paid in previous years; or
- Expected losses based on the business plan

The questionnaire should assess if remittance of dividends/super-dividends is a result of:

- Operating profit after tax of the previous years;
- Impact of sales of assets or holding gains/reserves on the operating profit after; or
- Dividends and super dividends paid to government in previous years.

CHAPTER 7. PUBLIC PRIVATE PARTNERSHIPS

7.1. Introduction

The primary goal of this chapter on Public Private Partnerships (PPPs) is to assist East Africa Community (EAC) compilers and users of Government Finance Statistics (GFS) in interpreting the *Government Finance Statistics Manual 2014* (*GFSM 2014*) and *Public Sector Debt Statistics Guide 2011* (PSDSG 2011) methodological rules on the treatment of PPPs. The chapter explains what PPPs are, provides practical guidance on how to approach the sector classification of PPPs and based on this classification how then to record the PPPs in GFS.

7.2. Statement of the Problem

In recent years PPPs have been used increasingly in the EAC region. The PPPs are of various types, complex in nature, tend to involve lengthy contract documentation and are established under different legal frameworks in the different Partner States. In order to harmonise GFS compilation, it is critical that Partner States adopt a uniform statistical treatment of PPPs. Hence, this chapter seeks to provide guidance to EAC Partner States concerning how PPPs should be treated in their GFS. Specifically, this chapter explores the challenges associated with the statistical recording of PPPs. It provides guidance to GFS compilers on how to assess whether PPP assets should be recorded on the Government's balance sheet or on the Private Party's balance sheet by determining the economic ownership based on the risks and rewards associated with PPP assets.

GFS compilers must realise that, depending on their decisions, the statistical treatment can change the picture of the general government's accounts substantially, and can impact significantly on general government debt and, to a lesser extent, general government's net lending/borrowing.

7.3. Definition of PPPs

PPPs are defined under the GFSM 2014 as long-term contracts between two units, whereby one unit acquires or builds an asset or set of assets, operates it for a period, and then hands the asset over to a second unit… Such arrangements are usually between a private corporation and government, but other combinations are possible, with a public corporation as either party or a private nonprofit institution as the second unit. [GFSM 2014 A4.58]

Legislation in various EAC Partner States on PPPs have adopted definitions which are in broad terms consistent with GFSM 2014 definition of PPPs but also recognize that a hand back of the asset at the end of the contracted period is not in all cases a requirement.

The GFSM 2014 explains that the nature of activities that PPPs are involved with varies greatly. Generally, the private corporations construct and operate assets of a kind that are usually the responsibility of the general government or public corporations. These commonly include roads, bridges, water supply and sewerage treatment work, hospitals, prison facilities, electricity generation and distribution facilities, and pipelines. [GFSM 2014 A4.59].

7.4. Types of PPP Arrangements

Certain types of PPP arrangements are listed below, the list is illustrative in nature and not exhaustive.

a) Build-Own-Operate-Transfer; private party designs, constructs, finances, operates, maintains and owns an infrastructure facility for a specified time period, after which the private party transfers the facility to the public partner.

b) Build-Own-Operate; private party designs, finances, constructs, operates and maintains the infrastructure facility and provides services for a specified period of time.

c) Build-Operate-and-Transfer; private party finances, constructs, operates and maintains an infrastructure facility and transfers the facility to the public partner at the end of a specified term.

d) Build-Lease-and-Transfer; contracting authority authorises the private party to finance and construct an infrastructure and leases it to the public partner for a specified time period after which, ownership is transferred to the public partner.

e) Build-Transfer-and-Operate or Build-Transfer-and-Maintain; private party constructs an infrastructure facility and assumes the associated costs and risks, transfers ownership to public partner upon completion and operates the facility on behalf of the public partner.

f) Rehabilitate-Operate-and-Transfer; private party refurbishes, operates and maintains for a specified period, an existing facility at the expiry of which the private party transfers the facility to the public partner.

g) Rehabilitate-Own-and-Operate; an existing facility is transferred by the public partner to the private party to refurbish and operate it with no time limitation imposed on ownership and the private party abides by the conditions of the arrangement during the operation of the facility.

h) Land Swap; a public partner transfers existing public land or an asset to the private party in consideration of an asset or facility that has been developed by that private party.

i) Management and Output based contract; the government incurs expense in the form of use of goods and services for services provided by the private sector. In this case of PPP, the government remains the economic and legal owner of the asset therefore no transaction regarding change of asset ownership is recorded.

j) Lease; private party pays public partner rent and operates and maintains the facility receives fees/charges from consumers for the provision of the service or sale of products for specified period of time.

k) Concession; public partner issues a contractual license to the private party to operate, maintain, rehabilitate or upgrade an infrastructure facility and charge a user fee, while usually paying a concession fee to the contracting authority.

7.5. PPP legal framework in the EAC Region

As already noted, PPPs have become an integral part of public and private operations in the EAC

Region. EAC Partner States have developed policies and laws to guide the implementation and operations of PPPs. The policies and laws provide for institutional oversight, creation of PPP units, PPP committees, PPP tribunals and frameworks for assessment and allocation of risks, as well as management of contingent liabilities.

7.6. GFS Recording of PPPs

There are several aspects to recording PPPs described within the GFSM 2014 and PSDSG 2011. This section of the chapter includes: a note about international standards that provide guidance on how to account for PPPs; a discussion of how to determine PPP ownership; guidance on statistical treatment of PPPs and the identification of certain sources of data for PPPs.

7.7. International Standards on PPPs

These guidelines on the recording of PPPs are drawn from the following international standards and guidelines:

a) GFSM 2014, A4.58 to A4.65;

b) PSDSG 2011, 4.119 to 4.126; and,

c) System of National Accounts (SNA) 2008, 22.154 to 22.163.

In addition, these guidelines are further informed by:

a) European System of Accounts (ESA) 2010, 15.41 and 20.276 to 20.290; and,

b) Manual on Government Deficit and Debt (MGDD) 2016, chapter VI.4 and VI.3.

These statistical guidelines are based on international statistical standards and the approach described may differ from the approach set out in the International Public Sector Accounting Standards (IPSAS) which are used by accountants, nevertheless the IPSAS treatment of a PPP may provide a useful data source for the GFS compiler.

7.8. Statistical Approach to the Recording of PPPs

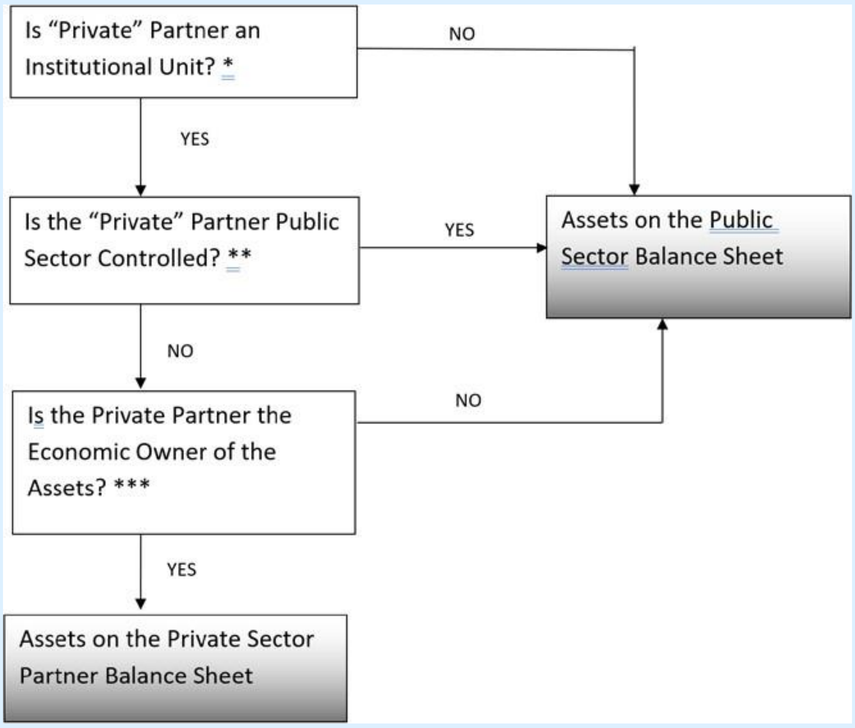
It is important to adopt a structured statistical methodology in the assessment of whether the PPP arrangement is on/off the government balance sheet and the principles for such assessment should be undertaken in the following order:

i. **Who are the ‘actors’ involved?** Are they institutional units? In determining whether the actors are institutional units, the principles outlined in Chapter 1 of these guidelines apply. In addition, it is important to determine whether such actors are public or private entities.

ii. **Who is the economic owner of assets?** Economic owner of an asset in a PPP is the institutional unit that bears the majority of the risks and is expected to receive the majority of the rewards. PPP assets and related liabilities are recorded on the balance sheet of the economic owner.

The different types of risks and rewards that are associated with PPPs are discussed in detail below (See Appendix 7.1) and are in addition referred to in box A 4.4 in the GFSM 2014.

Figure 7.1: Flow Chart of Statistical Approach to Classifying PPPs



- The purpose of this test is to check that the body has sufficient autonomy of decision from government to be considered an institutional unit, as described in Chapter 1 of the EAC Guidelines.
- Public sector control is determined using the statistical rules for control set out in Chapter 1 of the EAC Guidelines.
- Economic ownership is determined by assessing who has the majority of the risks and rewards associated with assets.

7.9. Sector classification of PPP bodies

For purposes of PPP statistical treatment, it is important to take into account the unique attributes of Special Purposes Entities (SPEs), where they exist, and the extent to which they are independent. The considerations include the following:

(i) Whereas Chapter 1 of these guidelines provides general rules on how to assess whether a body is an institutional unit and whether an institutional unit is public or private, it is notable that these distinctions may not always be obvious for PPP SPEs as they have narrow, specific or temporary objectives. It is therefore useful to determine first whether the SPE is resident or non-resident. Non-resident SPEs would always be treated as institutional units. Resident SPEs should be reviewed using usual institutional unit tests in Chapter 1, that is, whether they can act independently, can own assets and acquire liabilities, and take risks as elaborated under GFSM 2014 2.136 to 2.139.

(ii) In determining control, the compiler will not only look at control criteria listed in Chapter 1 of these guidelines, such as equity ownership, financing and appointments, but also at other controls in contract documents, articles of association, share class rights or other similar documents. When reviewing these documents, the compiler will not only be looking for direct public sector controls but also the ability of government to veto important decisions, which is in effect control.

7.10. Economic Ownership of PPP Assets

In determining the economic ownership of an asset, the aggregate of risk and reward allocation from the following scenarios will be relevant. The core rule of thumb is that where most of the key risks and or rewards, outlined below (the list is not exhaustive), are allocated to one party, it is that party that has the economic ownership of the asset, with concomitant statistical treatment of the asset.

a) **Financing**: With respect to project finance and government guarantees, who bears liability for the following: provision of the equity? Provision of the loan? Provision of any grant element to the project? Repayment of the loan and equity? Provision of guarantees or approval of any refinancing? How much of the total financing is provided by public sector? Is the government providing any project guarantees? If so, are the guarantees contractual, and what is their value?

b) **Design**: **Who** is responsible for operational success of design? Which party controls the design quality, or controls project optimisation? Who is liable for construction delays or increased costs related to design deficiencies? Who is liable for increased maintenance or operating costs related to design deficiencies? Who is liable for operational failures related to design deficiencies?

c) **Construction**: Who is liable for construction cost overruns? Who is liable for construction not meeting specified legal standards? Who is responsible for construction not meeting design specification and completion criteria (output specifications)? Who is liable for increased costs arising from design deficiencies?

d) **Supply**: Who is responsible for setting the volume and price of the services - is the price for the services set by the public sector, or does the public sector have substantial control over the services to be produced, or the units to which the services are to be provided, or who can access and consume the services produced, or the cost of such access? Is the public sector entitled to penalise for failure to provide the contracted services? Does the public-sector party provide minimum price guarantees?

e) **Demand**: Who is responsible for ensuring sufficient demand for the services? Who is liable should the demand for the services not be at the level envisaged in original PPP contract?

Does the public-sector party provide minimum revenue guarantees or similar financial support for lower than expected demand, such as viability gap funding or capital and or operational subsidies?

f) **Residual Value and Obsolescence**: Who is liable for the risk that the value of the asset is above or below the agreed contracted transfer price? Is the public sector required to compensate the private sector for the residual asset value at the end of the contract period for; (i) higher than expected end-of-life asset values or (ii) financial losses arising from lower asset values at end of contract period? Is the public sector entitled to penalise the private party for maintenance failures at the end of the contract period? Who is responsible for ensuring funds are in place to cover decommissioning? Is the public sector responsible for meeting asset obsolescence costs?

g) **Availability (Operation and Maintenance):** Which party is liable for the service not being available or delivered? Which party is liable for ensuring that the services delivered meet the agreed project performance criteria? Who is liable for failures in maintaining project assets during contract period? Which partner is responsible for environmental compliance, and similar obligations?

h) **Compensation and Insurance**: Under what circumstances will government provide compensation payments to other party? Who is responsible for ensuring assets are fully insured? Does the public-sector party provide guarantees to the other party? Who is responsible for increased capital/operational costs due to changes in law? Who is responsible for increased capital/operational costs due to *force majeure* events? What are the respective roles/costs for government and private sector partner on early termination of PPP contract? Which party retains liability for any project cost variations during the life of the contract?

i) **Rewards**: Does the public sector party benefit from delivery of construction under budget or earlier than planned (and is this benefit not relative to its equity share in project)? If the public sector benefits from early completion of construction, does it share in the upside arising from early construction? Does the public sector party benefit from refinancing (and is this benefit not relative to its equity share in the project)? Does the public sector party benefit from operational profit sharing (and is this benefit disproportionate to its equity share in project)? Does the public sector share in the benefits of refinancing and/or enjoy the windfalls arising from higher-than-expected asset performance targets? Does the public sector party benefit from gains related to the transfer of assets at the end of the contract (and is this benefit disproportionate to its equity share in the project)?

Applying the economic ownership test, the party that bears the majority of the risks, and/or is expected to benefit from the majority of the rewards, will be the economic owner of the asset. The relative importance of each of the risk and reward categories tends to vary with each PPP. The GFS compiler will need to aggregate the balance of risks for each project under assessment in determining which unit is the economic owner. The aggregated outcome of the assessment will demonstrate whether the asset should be statistically treated as being on-or-off the public sector balance sheet. Annex 6.1 provides an example of a questionnaire for compilers to use to collect the information required to make a decision on the economic ownership of PPP assets.

A majority of the risks and rewards must be transferred and not all of the risks and rewards. As a matter of fact, some sharing of risks between the public sector and the private partner is usually observed in partnerships. It is reasonable that some risks might be taken by government, for instance in the case of exceptional events (*force majeure*), in the context of a government action which would change the conditions of activity that were contractually agreed, or for specific risks, notably in relation with environment, public security, enforcement of legal decisions, etc., for which government behaviour may have a decisive influence. However, normal risks and benefits associated to the economic ownership of the asset should be taken by the private partner if the asset is going to be classified in its balance sheet.

To aid the GFS compiler in their assessment, and to clarify the idea of the majority of risks, it has been agreed within the EAC Partner States that of the following statements, where either (i) or (ii) is true or any two of ((iii), (iv) & (v)) are true then the public sector partner is the economic owner of the asset:

7.11. Statistical treatment of PPP transactions when the private sector partner is the economic owner of the PPP asset(s)

When the private sector partner is the economic owner, the nonfinancial asset (i.e. physical asset) and the related financing liabilities (other than financing directly provided by the public sector) are not recorded in the balance sheet of the public sector.

Payments made by the public sector partner to the private sector should be subject to the above-the- line/below-the-line assessments set out in Chapter 6 of these guidelines. Payments during the operational phase of the project will usually be unitary payments, recorded as Use of Goods and Services (22), whereas payments during the construction phase will usually be either expenses, in the form of Capital Transfers not elsewhere classified (2822), or “below-the-line” financing flows. However, other options are possible and the compiler should carefully review the nature of each payment.

In the case where the government receives payment from the private sector, the nature of the payments should be determined and recorded appropriately, most commonly it will be as *Revenue*. Examples of Revenue transactions that commonly occur are:

- fees payable to operate a concession (Sales of Goods and Services (142))
- rent payable in relation to the land on which the asset is constructed (Rent (1415))
- dividends related to equity holdings in PPP (Dividends (1412))
- interest related to financing of PPP provided by government (Interest (1411))

In this arrangement (private sector partner is economic owner), when a transfer of the ownership of assets is involved at the end of the contract period, then there are two types of transactions that can be recorded to cover the transfer of the asset(s); (i) gradual transfer through a series of capital transfers; (ii) a one-time capital transfer at point of asset transfer. Although the GFSM 2014 allows compilers these two options for the treatment of assets at the end of the contract, compilers are advised to record a single capital transfer at the contract end once the residual value of the asset is known. This approach avoids the difficulty of compilers having to estimate, at the start of the PPP contract, the residual value of PPP assets at the end of the contract.

7.12. Statistical treatment of PPP transactions when the public sector partner is the economic owner of the PPP asset(s)

When the public sector partner is the economic owner, the nonfinancial asset (i.e. physical asset) and the related financing liabilities (other than financing directly provided by the public sector) have to be recorded in the balance sheet of the public sector. Most commonly these assets and liabilities have to be included in the public sector balance sheet by imputation as they are not included in the source data used by GFS compilers.

Where imputation is required then the value of the nonfinancial asset (i.e. physical asset) should be recorded as the value of construction. As the construction progresses then the nonfinancial asset will increase in value with an equally valued financial loan imputed as a liability for the public sector partner and an asset for the private sector partner (following the treatment for a finance lease).

Unitary payments made by the public sector partner will typically cover:

- a service fee to the private sector partner (Use of Goods and Services (22))
- imputed payments of loan principal (Transactions in Loans (3304))
- imputed payments of loan interest (Interest (24))

In case of an imputed loan the principal payments and interest payable will be derived using a model based on the total value of the loan, the length of the PPP contract, a typical market interest rate and the expected residual value of the asset at the end of the contract, if any. The amount after removing the loan interest payment and interest payable from the total unitary payment is the service fee.

There may be other payments or receipts for the public sector partner during both the construction and operational phases of the project and, as with the off-public sector balance sheet treatment, each of these should be carefully assessed and classified by the compiler.

7.13. Contingent Liabilities

The guarantees and indemnities which are a common feature of PPPs have to be analysed by compilers when assessing whether the PPP asset should be on or off the public sector balance sheet. However, they have no direct impact on debt or net lending/borrowing statistics, prior to the contingent event to which they relate materialising and them being called. This is in accordance with the general GFS principle that contingent liabilities, such as one-off guarantees, are outside the reporting framework. Nevertheless, it would be good practice for compilers to record them as memo items for purposes of fiscal monitoring and sustainability analysis.

7.14. PPP Source Data

GFS compilers who record the transactions related to PPPs can benefit greatly from statistics provided by the following sources:

- PPP Coordination Units;
- PPP Committees;
- Ministries in-charge of Finance;
- Contracting Authorities;
- Public Debt Management Office;
- National Audit Offices

To aid uniformity in PPP statistical recording, compilers need to note:

(i) From the perspective of the PPP project cycle, the logical point for an initial assessment will be at the financial close.

(ii) Thereafter, additional assessments may become necessary where significant events occur during project implementation (such as crystallisation of contingent liabilities, material changes to the contract conditions).

7.15. Conclusion

This Chapter has set out the varying types of PPP arrangements that compilers might encounter and provided principles by which those PPPs should be assessed when deciding how to treat them statistically. While the EAC region has increasingly legislated the PPP concept, national laws have not been harmonized and therefore have variations which represent practical challenges to the statistical compiler.

A key aspect of the statistical assessment of PPPs is the determination of the economic owner of the PPP assets. It requires careful review and analysis of PPP transaction structures and contract documents to determine the relative risks and rewards of the partnership so as to establish the proper statistical treatment of the arrangement. To this end, the Chapter has established guidelines and rules of thumb to guide and provide for a harmonised statistical treatment on PPPs across the EAC region.

Table 7.1: Compiler Risks & Rewards Assessment Framework for PPPs

	Main Risks / Rewards Type	Risk / Reward Sub-Category	Key assessment criteria	Compiler assessment and comments
1	Financing	• Project finance • Government guarantee	• Who provides the equity? • Who is providing loans? • Who is providing grants? • Who is responsible for repaying the loans and equity? • Who is able to approve any refinancing? • How much of the total financing is provided by public sector? • Is the government providing any project guarantees? If so, are the guarantees contractual, and what is the value?	
2	Design	• Control of design of asset • Size of asset • Maintenance of the assets	• Who is responsible for operational success of design? • Who is liable for construction delays or increased costs related to design deficiencies? • Who is liable for increased maintenance or operating costs related to design deficiencies? • Who is liable for operational failures related to design deficiencies?	
3	Construction	• Possibility of additional costs resulting from late delivery • Non-compliance with specifications or	• Who is liable for construction cost overruns? • Who is responsible for construction not meeting specified legal standards? • Who is responsible for construction not meeting design specification and completion criteria?	

	Main Risks / Rewards Type	Risk / Reward Sub-Category	Key assessment criteria	Compiler assessment and comments
		building codes • Environmental and other risks requiring payments to third parties		
4	Supply	• Degree to which the government is able to control the services produced • Units to which the services are provided • Prices of the services produced	• Who is responsible for setting the volume and price of the services? • Who is responsible for deciding who can access and consume the services? • Does the public sector party provide minimum price guarantees?	
5	Demand	• Possibility that the demand for the services, either from government or from the public at large in the case of a paying service, is higher or lower than expected	• Who is responsible for ensuring sufficient demand for the services? • Who is liable should the demand for the services not be at the level envisaged in original PPP contract? • Does the public sector party provide minimum revenue guarantees?	

	Main Risks / Rewards Type	Risk / Reward Sub-Category	Key assessment criteria	Compiler assessment and comments
6	Residual value and obsolescence	• Value of the asset will differ from any price agreed for the transfer of the asset to government at the end of the contract period	• Who is liable for the risk that the value of the asset is above/below the agreed contracted transfer price? • Who is liable for ensuring funds are in place to cover decommissioning? • Who is liable for failures in maintaining the assets during contract period?	
7	Availability (Operation and Maintenance)	• Possibility of additional costs or the incurrence of penalties because the volume and/or quality of the services do not meet the standards specified in the contract. • Asset maintenance	• Who is responsible for the service being available / delivered? • Who is responsible for ensuring that the services delivered meet the agreed project performance criteria? • Who is responsible for ensuring that the assets are adequately maintained?	
8	Compensation and Insurance	• Assurance • Change of law • Early termination	• Under what circumstances will government provide compensation payments to other party? • Who is liable for ensuring assets are fully insured? • Does the public sector party provide guarantees to the other party? • Who is liable for increased capital/operational costs due to changes in law?	

	Main Risks / Rewards Type	Risk / Reward Sub-Category	Key assessment criteria	Compiler assessment and comments
			• Who is liable for increased capital/operational costs due to force majeure events? • What are the respective roles/costs for government and private sector partner on early termination of PPP contract?	
9	Rewards	• Surpluses • Refinancing	• Does the public sector party benefit from delivery of construction under budget (and is this benefit relative to its equity share in the project)? • Does the public sector party benefit from refinancing (and is this benefit relative to its equity share in the project)? • Does the public sector party benefit from operational profit sharing (and is this benefit relative to its equity share in the project)? • Does the public sector party benefit from gains related to the transfer of assets at the end of the contract?	

CHAPTER 8. GUIDELINES ON DEVELOPMENT OF GFS AND PSDS REVISION POLICY

8.1. Introduction

The purpose of this chapter is to guide compilers in the East African Community (EAC) on Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS) data revision process in an effort to improve the quality of statistics produced and disseminated by Partner States.

8.2. Statement of the problem

Government Finance Statistics data sources and compilation methodologies change over time and therefore, it is important to update and communicate the revised information. Currently, there is no harmonized process followed by Partner States in undertaking and communicating data revisions to users. The aim of this chapter is to have a harmonized transparent process ensuring that data revisions are done according to set standards which follow international best practices. The minimum requirements for a model revision policy are here to attach as appendix.

8.3. Definition

Revision is defined generally as any change in data released to the public by a data producing agency, the revisions may pertain to a flow or a stock or any change such as an increase in the rate, it reflects some additional work done to revise already existing data series. The revision policy is a tool that prescribes the best practices, transparency and accountability in the compilation and dissemination of revised statistics. This revision policy guideline provides a structure and uniform way of carrying out benchmark and routine GFS and PSDS data revisions.

8.4. Objectives of the policy

The revision policy has the following objectives;

(i) To guide compilers on data revision procedures;
(ii) To ensure consistency, accuracy and reliability of data;
(iii) To provide the framework for communicating changes to data users;
(iv) To improve transparency and accountability; and
(v) To outline clear data revision timeline.

8.5. Effective date

The revision policy guidelines for GFS are effective from the date of adoption by the EAC council of ministers.

8.6. Institutional responsibility

The GFS compiling institution(s) in the respective Partner States shall be responsible for the revisions as guided by these revision policy guidelines.

8.7. Contextual framework

EAC Partner States agreed to implement a Medium-Term Convergence Program (MTCP) in a move to attain the requirements of EAMU. The MTCP includes economic convergence measured by fiscal indicators (among others). These indicators are based on statistics that are prone to change over time due to various reasons as indicated in paragraph 8.4. Therefore, guidelines for making data revisions are key.

8.8. Conceptual framework

8.8.1. Types of revisions

Revisions are broadly classified in two ways;

Benchmark

i. Major revisions will be undertaken inter alia when new data sources, methods, concepts and definitions, systems, guidelines and classifications are implemented.

Routine

ii. Routine refers to regular revisions made in published data which are related to a periodical process of statistical production.

Both benchmark and routine revisions normally follow the revision policy and are publicly available in the revision calendar.

8.8.2. Reasons for Revisions

The principles of these revision policy guidelines are consistent with revision policies for other macroeconomic statistics and international best practices. Reasons for revision include but not limited to:

(i) incorporate new source data and updating the existing data;
(ii) capture routine recalculations;
(iii) update the base period;
(iv) reflect improved statistical methods, concepts, definitions and classifications; and
(v) correct statistical data errors and omissions.

8.8.3. Revision Rules and Principles

Rules for revision and principles include:

i. Incorporation of new source data

Revision of data shall be done during the subsequent releases, with a maximum of 12 months from the date of first release.

ii. Improved data methodology

Changes in the methodology will be in line with latest manuals on GFS and PSDS or any other decision from a relevant EAC organ. In the event that the methodology changes, the previous data series shall be revised as far back as possible with a minimum of five (5) years. In case revision results into a break in data series, an explanatory note shall be released to users informing them of the changes during the first dissemination of the revised data.

iii. Correcting errors

For small or insignificant errors, revisions shall be done in subsequent releases, however for large or significant errors; revisions shall be done immediately and communicated to users since they may have substantial implications on policy formulation. In case errors and / or omissions are found in historical data, revisions shall be made for the corresponding period.

iv. Consistency

Revisions shall be undertaken to ensure consistency internally (e.g. below and above the line transactions) and with other macroeconomic statistics.

8.9. Coverage

The revision policy shall cover production and dissemination of as defined in the GFSM 2014 and the PSDSG 2011 or as may be provided for in the latest manuals. Public sector consists of General Government and Public Corporations. General Government consists of non-market resident institutional units that fulfill the function of government as their primary activity whereas Public Corporations comprise of institutions controlled by government units operating at a market price.

The General Government sector is made up of; Budgetary Central Government, Extra Budgetary Units, State Governments, Local Governments, and Social Security Funds. This policy shall apply in revision of both Government Finance Statistics and Public Sector Debt Statistics.

8.10. Dissemination modalities

The revised statistics shall be communicated through the established channels to the data users. The revised data shall be accompanied by a note on the changes made. This enhances transparency, credibility and integrity of the data and the institutions responsible for compilation and dissemination of data produced.

Table 8.1: Revision and Dissemination Calendar

Data category	1st date of Release	Revision date
Annual GG	t+9 months	t+21months
Quarterly BCG	t+2 months	t+4.5months
Quarterly CG	t+3months	t+6months
Monthly BCG	t+1month	t+2months
Quarterly Public debt statistics	t+3months	t+6months

Outline of the Revision Policy

1.1. Background
- Paragraph on Government Finance Statistics
- Paragraph on Debt Statistics

1.2. Problem statement

1.3. Definition of revision policy

1.4. Objectives

1.5. Effective date

1.6. Institutional responsibility

1.7. Reasons for GFS revisions

1.7.1. Incorporation of recent or new source data

1.7.2. Reflecting improved methodology

1.7.3. Correcting errors

1.8. Details of revision and periodicity

1.8.1. Comparability (time series)

1.8.2. Dissemination of revisions

2. Justification for a Data Revision Policy

3. Basic Concepts for data revisions

4. Coverage

5. Revision and Dissemination calendar

6. Annexes: The outline for revision policy shall include the following appendices (8.2 to 8.5)

Annual General Government Data Revision

	Data Release	Data Revised
Revenue	t+9 month	t+21 months
Expense	t+9 month	t+21 months
Net acquisition of nonfinancial assets	t+9 month	t+21 months
Net acquisition of financial assets	t+9 month	t+21 months
Net incurrence of liabilities	t+9 month	t+21 months

Quarterly BCG Data Revision

	Data Release	Data Revised
Revenue	t+1 month	t +2months
Expense	t+1 month	t +2months
Net acquisition of nonfinancial assets	t+1 month	t +2months
Net acquisition of financial assets	t+1 month	t +2months
Net incurrence of liabilities	t+1 month	t +2months

CG Quarterly Data Revision

	Data Release	Data Revised
Revenue	t+3 months	t +6months
Expense	t+3 months	t +6months
Net acquisition of nonfinancial assets	t+3 months	t +6months
Net acquisition of financial assets	t+3 months	t +6months
Net incurrence of liabilities	t+3 months	t +6months

BCG Monthly Data Revision

	Data Release	Data Revised
Revenue	t+1 month	t +2months
Expense	t+1 month	t +2months
Net acquisition of nonfinancial assets	t+1 month	t +2months
Net acquisition of financial assets	t+1 month	t +2months
Net incurrence of liabilities	t+1 month	t +2months

CHAPTER 9. DOCUMENTATION OF BUSINESS PROCESSES: INVENTORY OF METHODS, PROCEDURES AND SOURCES USED FOR THE COMPILATION OF GFS AND PUBLIC- SECTOR DEBT STATISTICS

9.1. Introduction

This chapter summarizes the methods, procedures and sources used for the compilation of Government Finance Statistics (GFS) and Public-Sector Debt Statistics (PSDS). The main purpose is to describe the current practices that Partner States apply in compiling their fiscal data. Such inventory helps to ensure consistency and continuity in producing statistics.

The term "Government Finance Statistics" refers to statistics that measure the financial activities of government and reflects the impact of those activities on other sectors of the economy.

9.2. Institutional arrangements, scope and data sources for the compilation of GFS and PSDS

This section provides a summary description of the units responsible of the compilation of GFS and PSDS, specifies institutional responsibilities, scope and basic data sources used for the compilation of general government fiscal data.

9.3. Institutional Arrangements

This section provides general information on institutional arrangements relating to the compilation and dissemination of general government fiscal statistics:

i. Legal framework relating to fiscal accounts which are used by statistical authorities for compilation of general government fiscal statistics;
ii. Responsibility of national authorities for compilation of GFS and PSDS;
iii. Arrangements between individual national authorities involved in the GFS/PSDS compilation process;
iv. Unit responsible for publishing fiscal statistics to the public.

9.4. Institutional responsibilities for compilation of GFS and Public Sector Debt Statistics

This sub-section describes institutional responsibilities for compilation of GFS and PSDS. Partner States should highlight the existence of the TWG and its composition; and the arrangement mandating the TWG.

9.4.1. Compilation of GFS

This sub-section specifies the institution or department responsible for compilation of GFS, for instance, Macro Department of the Ministry of Finance/ Statistics Office compiles GFS data in accordance with statistical law or any other legal acts. It should further indicate the departments responsible for collection, processing, compiling statistics and analyzing the data. It should also specify the existence of TWG, its composition (indicate all institutions and departments in the TWG) and arrangement.

9.4.2. Compilation of PSDS

This sub-section specifies the institution or department responsible for compilation of PSDS, for instance, Debt Department of the Ministry of Finance/ Central Bank/Statistics Office compiles PSDS data in accordance with statistical law or any other legal acts. It should further indicate the departments responsible for collection, processing, compiling debt statistics and analyzing the data. It should also specify the existence of TWG, its composition (indicate all institutions and departments in the TWG) and arrangement.

9.4.3. Agreements on co-operation

This section describes arrangements in data sharing and compilation between data compilers and providers.

9.4.4. Arrangements for data sharing and compilation between/among institutions

Partner States should state the existence of a formal agreement between the institutions compiling GFS and PSDS, for instance, 'there is a formal Agreement between the two institutions/departments in the form of Memorandum of Understanding that stipulates the responsibility of each department and the data sharing process'. Co-operation between representatives of the institutions compiling GFS and PSDS takes place via a number of different fora, including regular (monthly/quarterly) meetings to examine the quality of the monthly data.

9.4.5. Arrangements between compilers and data sources/providers on BCG Data; EBUs; SSF; Local/County governments; and PSDS

The process of compiling GFS and PSDS is that the GFS and PSDS compiler unit receives data relating to level of Government from different data providers. Partner States should state the existence of agreements, for instance MoUs between data providers and compilers of GFS and PSDS for each particular level of Government. For details of data sources see paragraph 9.4 of this inventory.

9.4.6. Unit responsible for GFS and PSDS dissemination

Under this sub-section, Partner States should indicate the unit responsible for disseminating GFS and PSDS to the public.

9.5. Scope of GFS and PSDS –coverage of the General Government

This section describes the coverage of the general government sector and its subsectors for the Partner States. The general government sector is composed of the following subsectors:

- *Budgetary Central Government:* This sub-sector includes xx units that cover [state the groupings] (for instance, ministries, offices, Parliament);
- *EBUs:* This sub-sector includes xx units;
- *Social Security Funds*: This sub-sector includes xx units. [Or in country xx does not have a SSF subsector and so this section does not apply to xx];
- *Local Government: This sub-sector includes xx units*
- *State Government:* This sub-sector includes xx units

A list of all institutional units included in general government sector is available in Appendix 9.1.

Partner States should include a summary table for the different levels of Government and indicate whether the data is available and whether it is used.

Table 9.1: Summary data availability by subsectors of the general government

Level of Government	Availability (A)/ Not Available (NA)	Covered (C)/ Not covered (NC)
BCG	A	C
EBUs	A	80%
SSF	NA	NC
LG	A	NC
State Government (SG)	A	C

NB: If sub-sector is partially covered, indicate the percentage of coverage in the columns.

9.6. Data sources for GFS36

This section describes data sources used for the compilation of GFS for the general government and its sub-sectors. It also aims at describing adjustments made to basic data sources in order to compile GFS data according to the GFSM 2014. Partner States should indicate the periodicity and timeliness of the data being compiled.

Data sources for BCG (for BCG data sources there is a need to break down as much as possible as long as there are multiple data sources as indicated in **Table 9.2)**[37]

[36] Some items may not be applicable in some Partner States, in those cases, the non-applicable items should not be considered

[37] The filled in lines are examples

Table 9.2: Illustration of breakdown of data sources

Data source	Data provider	Access / format	Periodicity	Timeliness
Revenue	**MoF/ Tax office**		**e.g. M**	**e.g. M+20 days**
Tax				
Other revenues				
Expenses		**IFMIS**		
Compensation of employees	MoF/ Budget office			
Use of good & services				
Interest				
CFC	NA	NA	NA	NA
NANFAs				
NAFAs				
NIL				

Partner States should indicate if a complementary data source is used. In most cases, some of expense items come from sources other than IFMIS. Debt interest for instance, is collected from the Debt Office (external/domestic).

Some of the statistical aggregates require some adjustments/treatments, for instance, adjustments that are made to include additional expenditure not reported on IFMIS. Partner States should report adjustments that have been applied to the data during the compilation process.

9.7. Data sources for EBUs

Partner States should indicate the data sources and frequency of compilation of EBU statistics. For instance, in country xx, the main data sources used to compile EBUs annual GFS data are the annual Audited Financial Statements published by [xx] with a lag of [xx] or quarterly Management Accounts published by [xx] with a lag of [xx] for quarterly GFS. Both statements contain data on revenue, expenditures, and financing as detailed in Table 9.1.

9.8. Data sources for SSF

Partner States should indicate the data sources and frequency of compilation of SSF statistics. For instance, in country xx, the main data sources used to compile SSF annual GFS data are the annual Audited Financial Statements published by [xx] with a lag of [xx] or the quarterly Management Accounts published by [xx] with a lag of [xx] for quarterly GFS. Both statements contain data on revenue, expenditures, and financing as detailed in Table 9.1.

9.9. Data sources for LG

Partner States should indicate the data sources for local governments being as detailed in Table 9.1. Partner States should indicate if a complementary data source is used. In most cases, some of expense items come from sources other than IFMIS.

Some of the statistical aggregates require some adjustments/treatments, for instance, adjustments that are made to include additional expenditure not reported on IFMIS. Partner States should report adjustments that have been applied to the data during the compilation process.

9.10. Data sources for SG

Partner States should indicate the data sources for State governments being used as detailed in Table 1. Partner States should indicate if a complementary data source is used. In most cases, some of expense items come from sources other than IFMIS.

Some of the statistical aggregates require some adjustments/treatments, for instance, adjustments that are made to include additional expenditure not reported on IFMIS. Partner States should report adjustments that have been applied to the data during the compilation process.

9.11. Data sources for PSDS

The definition of public sector debt used will be the one indicated in the EAC guidelines. Partner States should indicate the periodicity and timeliness of the data sources of the debt statistics being compiled.

Data sources for BCG

Table 9.3: Illustration of breakdown of public debt data sources

Data source	Data provider	access / format	Periodicity	Timeliness
Domestic debt			**Q**	
Currency and deposits	**e.g. Central Bank**		**e.g. W**	**e.g. W+7 days**
Loans				
Securities				

External debt			Q	
Currency and deposits				
Loans				
Securities				

Data sources for EBUs

Partner States should indicate the data sources and frequency of compilation of EBUs debt statistics as detailed in Table 9.3. For instance, in country xx, the main data sources used to compile annual EBUs debt statistics are the annual Audited Financial Statements published by [xx] with a lag of [xx] and the quarterly Management Accounts for quarterly debt statistics published by [xx] with a lag of [xx].

Data sources for SSF

Partner States should indicate the data sources and frequency of compilation of SSF debt statistics as detailed in Table 9.3, for instance, in country xx, the main data sources used to compile SSF annual debt statistics are the annual Audited Financial Statements published by [xx] with a lag of [xx] and the quarterly Management Accounts for quarterly debt statistics published by [xx] with a lag of [xx]. Where SSF are not mandated to borrow, this should be indicated under this sub-section.

Data sources for LG

Partner States should indicate the data sources and frequency of compilation of LG debt statistics as detailed in Table 2. Those countries whose LG are not mandated to borrow, this should be indicated under this sub-section, for instance, in Partner State [xx], LG are not mandated to incur liabilities, thus, this section does not apply.

9.12. Methodological issues

Compilation of GFS and PSDS should be consistent with the GFSM 2014 and PSDSG 2011 standards which are internationally recommended as the appropriate framework on which to base the compilation and presentation of fiscal data.

In this section, the Partner States should indicate the statistical standards underlying the compilation of their fiscal statistics. For instance, 'in Partner State [xx], the compilation of GFS is based on the following two international statistical standards:

- GFSM 2014/2001 or GFSM 1986;
- PSDSG 2011.

This section describes the current practices that the compilers apply to ensure consistency and quality of fiscal statistics. Partner States should also report the current treatments for certain specific items that appear in statement of operations and the balance sheet, including:

Sector delimitation

For purposes of consistency:

a. GFS compilers in Partner States should indicate whether the institutional table is consistent across macroeconomic statistics e.g. National Accounts, BOP, Monetary and Financial statistics.

b. For borderline cases, the TWG should decide on how to classify such units and the Partner States should report the processes applied. For instance, the processes undertaken to classify public universities. For the general principles in sectorization of borderline cases, refer to chapter one of EAC guidelines.

c. Institutional table update should be conducted annually. This is in line with EAC recommendations stated in chapter one of the Guidelines. Under this sub-section, Partner States should indicate the current practice in updating the institutional table.

Time of recording

Partner States should indicate the basis of recording their transactions, whether it is on cash, accrual or modified cash basis.

For items that are on modified cash or accrual basis, Partner States need to specify the time of recording for particular transactions. Common items that should be reported by the Partner States may include interest, accounts payable/receivable and project financing.

9.13. Other Specific Government Transactions

Under this section, Partner States should indicate the sources of data and actual treatment for these specific transactions during the reporting period:

i. Guarantees and debt assumptions

ii. Debt cancellations and write-offs

iii. Capital injections in public corporations

iv. Privatizations

v. Private Public Partnerships

vi. Transactions with the Central Bank

9.14. Data Consolidation

Partner States should indicate the steps that are undertaken in consolidating data across the different levels of Government, whether for CG, or GG; and across different transactions.

- For GFS, the two most significant areas of consolidation are interests and grants/transfers paid to other GG units;
- For PSDS, the two most significant areas of consolidation are for government holdings of government issued bonds (by SSF) and for government loans to EBUs or LG.

9.15. Data validation processes

Validation should be done at two levels: by the compiler and by the TWG to check for consistency and quality of the data. Partner States should describe the processes undertaken in validating their data using horizontal and vertical checks at different levels of compilation. Compilers should also indicate whether they check for consistency of output and methodology in comparison to the previous accounting periods as well as consistency in other macro-economic statistics for instance interest payments for non- residents should be consistent between GFS and BoP.

9.16. Data Revision Policy

Partner States need to indicate whether they have a revision policy in place. Partner States should also indicate how often they revise their annual, quarterly and monthly data for GFS and PSDS. For details, refer to the revision policy guidelines.

9.17. Transparency

Partner States should report any changes that have been made to the previous data in terms of the compilation methodology. It is recommended that the inventory should be updated whenever there are major changes in the compilation practices.

9.18. Data Dissemination

Partner States should indicate the current practice for data dissemination, for instance, reports, press releases, website, or dissemination conferences among the many forms.

Table 9.4: Calendar of dissemination of GFS and PSDS data by Partner States

Level of Government	Monthly	Quarterly	Annual
BCG	+1 M	+ 1Q	+ 6M
EBUs	NA	NA	+ 1Y
SSF	NA	+2 Q	
LG			
SG			

Appendix 9.1: Institutional Table

Partner States should insert the latest institutional table available indicating the date of the last update.

Appendix 9.2: Glossary

Glossary (COA; COFOG etc.)

CHAPTER 10. RECORDING OF GOVERNMENT POLICY INTERVENTIONS RELATED TO DISASTERS IN GOVERNMENT FINANCE STATISTICS

10.1. Introduction

This chapter provides statistical advice to GFS compilers in the EAC Partner States on how to record transactions related to government policy interventions associated with disasters, in Government Finance statistics. The EAC region, over the course of time even of its relatively recent history, has known many disasters, including; earthquakes, floods, landslides, droughts, volcanic eruptions, locust invasions, pandemics, banditry and civil unrest among others. Disasters cause massive social disruptions and can lead to significant economic and human losses. Given their uncertain and destructive nature, disasters invariably induce significant governmental responses and typically pose severe financial challenges for jurisdictions across all levels of government. Disasters cause governments to incur additional spending on various emergency management activities, and by disrupting normal business activities they also affect tax base robustness and cause revenue losses. Following disasters, governments in the EAC Partner States just like the rest of the world would require to take interventions to mitigate the effect of the disaster on households and corporations. These interventions directly affect government finances, however, the wider impacts of disasters on society and the economy may also indirectly impact government finances. The interventions could either be in the form of provision of relief supplies or relief in taxes. These would be generally fiscal transactions and require to be recorded in a consistent manner for the government finance statistics to be comparable and consistent. This chapter therefore advises on how to record in the government accounts, the financial impact of the most commonly observed types of disaster related government interventions.

10.2. Problem Statement

Having comparable and reliable GFS is important for the East African Monetary union (EAMU). EAMU Protocol establishes that, to join the monetary union, EAC Partner States should maintain a ceiling on deficit excluding grants at 6 percent of gross domestic product (GDP), and the deficit including grants at 3 percent. In addition, tax revenue as a percent of GDP is expected to be achieved and maintained at 25 percent of GDP. The way fiscal policy related to disasters transactions are recorded in government finance statistics by Partner States may affect these requirements. It is therefore important to guide the compilers to record disaster interventions transactions in a harmonized way

10.3. Impacts of Disasters on the Regional Economies

The response to the disasters varies from country to country and could impact heavily on the economy with the following impacts.

a. Socio-economic Impacts

- Large-scale disasters that exceed the coping capacity of local governments often trigger intervention and assistance from the national government or even from the international community. The following socio-economic impacts may be experienced by countries:
- Large scale destruction of property and Infrastructure
  - Affects service delivery such as transportation
  - Slows down economic activity
  - Requires extra government expenditure allocations
  - Exposure to increased risk of suffering devastating losses for living in conflict areas.
- Environmental damages and crop destruction
  - The problem of food insecurity and malnutrition could prevail;
  - Displacement of people
- Lockdown measures aimed at mitigating and containing infection-related disasters could:
  - Have negative impacts on the travel and tourism sectors
  - Lead to shutdowns that could lead to business losses, resulting in rising unemployment and reduced tax receipts
  - Lead to rise in unemployment and poverty due to the negative impacts of extreme social distancing particularly in the informal sector
  - Schools may be closed for a long time while at the same time remote learning could be less effective and not accessible for some.
- People who are living in conflict areas could be exposed to increased risk of suffering devastating losses;
  - Loss of lives
  - People move to resettlement areas where water borne diseases like Cholera are prevalent
- Schools may be closed for a long time, while at the same time remote learning could be less effective and not accessible for some.

b. Impact on debt sustainability

- Rise in borrowing and debt;
- Increased risk of debt default due to significantly impaired fiscal capacity to service debt; and
- Reduction in fiscal space: the fiscal deficit may widen with fiscal interventions such as stimulus packages.

c. Impact on revenues

Table 10.1 presents the impacts on the revenue streams countries may experience disasters.

Table 10. 1: Impact Disasters on the Fiscal Space

Key Revenue Streams	Impact from disasters
Tax revenue	• Unemployment affects income taxes • Low demand for goods and services which affects excise duty and VAT • Reduction in imports which affects international trade taxes • Reduction in production of goods • Fluctuations in commodity prices
Grants	• Reduction in the inflow of Official Development Assistance (ODA) from countries that are experiencing conflict or natural disasters which would reduce our revenue • On the other hand, revenue collected from grants can increase when faced with conflict or natural related disasters
Debt Financing	• Foreign Direct Investment (FDI) to the EAC Partner States, likely to decline with the deteriorating investment climate • Private savings and portfolio inflows on the decline as investors look for safe havens • Reduction in revenue which causes the Central Bank to finance government activities using overdrafts
Impact on expenditure could affect government finances and fiscal deficit.	• Disaster increases social spending needs by government beyond the limits set during the budget processes. • Spending on the provision of emergency and relief supplies, • Hiring additional staff in times of disaster. • Support required to rebuild destroyed infrastructure.

d. Impacts on Data collection and Management

The impact of disasters on administrative data is completely different from censuses and surveys however the production of administrative data and register statistics may have limited functionalities

Table 10. 2: Impact of Disasters on Data Collection and Management

Type of data collection	Impact on data collection and management
Censuses and Surveys	• Limited or no resources available to carry out data collection activities • Inability to collect data due to restrictions of movement to areas affected by conflict, pandemics or other natural disasters • Distortion of data due to sampling techniques used during surveys • Timeliness of data analysis and dissemination is affected
Administrative data	• Destruction of infrastructure which leads to the loss of documents and files that hold information needed • Failure to collect from hard to reach areas affected by conflicts or natural disasters • Laying off of the workers that produce the administrative data in areas that are affected • Timeliness of data analysis and dissemination is affected

10.4. Government Interventions to Disasters

There are a lot of commonalities between the different measures from a government finance statistics perspective. The government interventions towards disasters may be grouped into the following broad categories:

- Increased government expenditures due to disaster
- Provision of in-kind assistance to households and extend credit to enterprises (through loans and debt rescheduling);
- Relaxation of tax obligations for households and corporations;
- Provision of financial assistance to corporations (and other units other than households);
- Capital injections, establishment of new, or extended, lending facilities and provision of guarantees;
- Emergency assistance from international organizations and foreign governments;
- Liquidity and quasi-fiscal operations by public financial institutions;
- Debt reorganization;
- Allocation of sufficient funds by the government to a contingent fund to cater for disasters; and
- Investment in technology by government agencies.

10.5. Recording of Government Transactions Related Disasters Interventions

The guidance on how a wide range of government interventions related to disasters should be recorded in government finance statistics are summarized in Table 10.3, in accordance with the *Government Finance Statistics Manual 2014* (*GFSM 2014*). Applying the recommended recording will help to ensure the accuracy of both key fiscal indicators, such as government deficit, as well as other key macroeconomic indicators, such as GDP. Even for countries which have not yet implemented the *GFSM 2014*, applying the classification of events consistently is important to collect comparable data over time and across countries, and to estimate aggregate data which capture the global responses.

Table 10. 3: Recommended Recording of Government Transactions Related Disasters Interventions

Government intervention	GFS recording
1.0 Increased Government Spending in Response to Disasters	
1.1 Additional disaster spending requiring more workers	Recorded as Expense/Compensation of employees (21), in general. However, if the government is buying the services from private entity contractors, then this would be recorded in Expense/Use of Goods and Services (22).
1.2 Additional spending such as on medical supplies (such as antiviral masks, antiseptics and pharmaceuticals) for health-related disasters.	Recorded as Expense/Use of Goods and Services (22), in general, where the supplies are being purchased for use by government healthcare providers. However, where general government purchases the supplies to distribute for use by households then the recording in Item 2.3 (below) should be followed.
1.3 Construction of new facilities (examples including dispensaries and new or extended medical facilities) that meet the definition of a fixed asset and acquisition of machinery and equipment (such as respiratory ventilators) for health-related disasters.	These costs will be recorded as acquisitions of nonfinancial assets, specifically transactions in nonfinancial fixed assets. Depending on the type of asset, either: Transactions in Nonfinancial Assets/Fixed Assets/Buildings other than dwellings (31112), or Transactions in Nonfinancial Assets/Fixed Assets/Machinery and equipment (3112). However, if the government unit is only making a payment to another entity, who will construct/purchase the asset and become the economic owner of that asset then this will be recorded as:

Government intervention	GFS recording
	Expense/Grants/Capital grants to other general government units (2632), if the payment is to a government unit in another level of government Expense/Other Expense/Capital transfers not elsewhere classified (2822), in other circumstances. Note, constructions that don't meet the definition of a fixed asset (such as temporary tents used for testing, which are not intended to be used for multiple years) should be recorded under the use of goods and services (22) and the guidance in item 1.2 followed.
2.0 Provision of assistance to households	
2.1 Cash payments designed to address social needs arising from social risks (i.e., the amounts paid depend on specific conditions such as the level of income, whether the recipients lost their jobs, etc.) - for example, government schemes to pay sickness benefit while an individual is in quarantine and unable to work, or unemployment benefits to those temporarily unable to work and not in receipt of salaries.	Recorded as Expense/Social Benefits/Social assistance benefits (272), in most cases. However, (i) if the payments are made through a social insurance scheme, and the recipients are limited to those households which have contributed to the scheme, then they should be recorded as Expense/Social Benefits/Social security benefits (271); (ii) if the payments are social benefits payable by governments to their own employees for short periods of absence (due to sickness, isolation etc.) they should be recorded as Expense/Social Benefits/Employment related social benefits (273). Where it is difficult to separate these payments from other payments of wages and salaries, the payments will remain included in Expense/Compensation of Employees/Wages and salaries (211).
2.2 Fixed-amount cash transfers not based on social needs arising from social risks (i.e., the amounts paid do not depend on specific conditions but instead are distributed to all).	Recorded as Expense/ Other Expense/Current transfers not elsewhere classified (2821).

Government intervention	GFS recording
2.3 Provision of food, medicines and other household goods for free by governments.	Recorded as Expense/Other Expense/Current transfers not elsewhere classified (2821), in general. However, if the goods are provided by governments solely to their employees, they will be recorded as Expense/Social Benefits/Employment-related social benefits in kind (2732). Note, that if the goods are being provided under the terms of a social protection scheme, then the recording in Item 2.1 (above) should be followed. Although these transactions are in-kind and not in-cash, cash reporting countries are strongly encouraged to identify and report these transactions separately.
2.4 Onward distribution by government of food, medicines and other household goods provided by donors (these donors could be foreign governments, international organizations, other subsectors of the government or other donors).	The redistribution by government of the goods should be recorded as Expense/Other Expense/Current transfers not elsewhere classified (2821). In addition, the receipt of the goods from donors should be recorded as: Revenue/Grants/Current grants in kind from foreign governments (1311), where they are received from foreign governments, Revenue/Grants/Current grants in kind from international organizations (1321), where they are received from international organizations, Revenue/Grants/Current grants in kind from other general government units (1331), where they are received from other subsectors of government (for example, central government providing goods to local government to distribute), or Revenue/Other Revenue/Current transfers not elsewhere classified (1441) where they are received from other donors. Although these transactions are in-kind and not in-cash, cash reporting countries are strongly encouraged to identify and report these transactions separately.

Government intervention	GFS recording
3.0 Relaxation of tax obligations for households and corporations	
3.1 Temporary changes to tax scheme rules to reduce tax obligations (such as changes to the tax rate, tax thresholds or even elimination of the tax entirely – the latter often being referred to as a tax holiday).	Reflected as a reduction in the expected revenue under the relevant tax category. The impact of the reduction in tax obligations will be reflected by replacing the level of reported revenue with the tax actually collected, or expected to be collected, after the changes in tax scheme rules.
3.2 Temporary changes to increase the level of payments and/or number of beneficiaries for tax credits.	Recorded as reduction in the expected revenue (in the relevant tax category) where the tax credit scheme is non-payable*. Recorded on a gross basis with the tax credits included as Expense where the tax credit is payable*. In the case of payable tax credits*, these are recorded as Expense/Subsidies (25), Expense/Social benefits/Social assistance benefits (272) or Expense/Other Expense/Current transfers not elsewhere classified (2821) depending on the nature of the tax credit. [More information is available in GFSM 2014 paras. 5.29 to 5.32] * Tax credits are amounts subtracted directly from the tax liability due by the beneficiary household or corporation after the tax liability has been computed. Payable tax credits are where any credit that exceeds the tax liability is still paid to the beneficiary. All other tax credits are non-payable.
3.3 Deferral of tax payments (such as allowing taxpayers to pay their tax obligations in the next tax year instead of this one).	As a general accrual principle, tax should be recorded when the tax obligation arises. This means for accrual reporting countries that deferred taxes should ideally continue to be recorded when the tax obligation is established even though the cash payment of that tax obligation will be receivable (and recorded) later than previously anticipated. In practice, application of this approach can be difficult, particularly for taxes such as corporate taxes where there are lot of factors that may impact the amount of tax that will be payable in the following year.

Government intervention	GFS recording
	Accrual reporting countries are therefore advised to only make adjustments for the deferral of tax payments where it is clear that a specific tax obligation has been irrevocably established, for later payment. Cash reporting countries will continue to report the actual cash tax receipts, at the time of receipt, without any adjustment required. However, forward estimates of such taxes need to be adjusted with the impact of the deferral.
4.0 Provision of financial assistance to corporations (and other units other than households)	
4.1 Increased subsidies (either new or existing) equally applicable to public and/or private corporations.	Recorded as Expense/Subsidies (25), where government makes unrequited payments to corporations to support the productive activities of the corporations based on scheme rules which apply equally to all corporations working within an industry/region. However, where government makes targeted ('bespoke') payments to individual corporations then these should be reviewed as described against the guidance for capital injections (see Items 5.1 and 5.2 (below)).
4.2 Payments from governments to corporations to support them in keeping part or all of their workforce temporarily idle ('furloughed') due to a downturn as a result of the pandemic.	* This is a provisional view and is subject to change following current international consultation on the topic. Recorded as Expense/Other Expense/Current transfers not elsewhere classified (2821), where government makes unrequited payments to corporations on the basis of the extent to which workers are furloughed (for example, wage bill for furloughed workers) but where some discretion is given to the corporation as to how the payment is used. However, the payment should be recorded as Expense/Social Benefits/Social assistance benefits (272) where, by scheme design, the government payments are to be used only to pay furloughed staff and cannot be used to defray other business expenses.
4.3 Payments from governments to corporations to help them cover exceptional losses due to	* This is a provisional view and is subject to change following current international consultation on the topic.

Government intervention	GFS recording
factors outside the control of the corporations in relation to the disaster.	Recorded as Expense/Other Expense/Capital transfers not elsewhere classified (2822), in general. However, if the losses incurred by the corporation are as a result of charging prices that are lower than their average costs of production as a matter of deliberate government policy, to help tackle the disaster (e.g., to provide free COVID-19 testing by market providers), then the payments from government should be recorded as Expense/Subsidies (25).
4.4 Unrequited payments from governments to other governments, domestic or external, where there is no financial claim established.	Recorded as Expense/Grants/Grants to other levels of government (263), where one level of government makes payments to other levels of government (e.g., central government providing funds for local government run public hospitals). Note, that the payments are eliminated in consolidation when reporting general government data, to avoid double-counting. Recorded as Expense/Grants/Grants to foreign governments (261), where a country makes a payment to another country.
5.0 Capital injections, establishment of new, or extended, lending facilities and provision of guarantees	
5.1 Capital injections by government into corporations (public and/or private).	Recorded as an Expense/Other Expense/Capital transfer not elsewhere classified (2822) where government cannot reasonably expect a return* on its investment and the capital injection is not legally in the form of a loan (see item 5.2 for lending schemes). If there is evidence that the government can expect a realistic return* on its investment, then the payment should be recorded as Net Acquisition of Financial Assets/Equity (3205), with no impact on the deficit. In some cases, such as equity injections above the prevailing market price, then the payments can be partitioned into Net Acquisition of Financial Assets/Equity (3205) element and an Expense/Other Expense/Capital transfer not elsewhere classified (2822) element.

Government intervention	GFS recording
	*However, a realistic rate of return can be difficult to assess during a time of crisis. Where there is significant doubt about the likely viability of the corporation and some return on the investment then the payment should be reported as an Expense/Other expense/Capital transfer not elsewhere classified (2822).
5.2 Direct government lending schemes to public and/or private corporations (often at favorable interest rates).	In general, recorded as Net Acquisition of Financial Assets/Loans (3204), and shown in the balance sheet at nominal value. The recording is not influenced by whether the lending is concessional or non-concessional. However, if there is evidence that the government does not acquire an effective financial claim* on the debtor and so the loan is unlikely to be repaid, then the government payments should be recorded as Expense/Other Expense/Capital transfers not elsewhere classified (2822). However, the establishment of an effective financial claim can be difficult to assess during a time of crisis. In the case of corporations, where there is significant doubt about the likely viability of the corporation and so effectiveness of the financial claim then the payment should be reported as an Expense/Capital transfer not elsewhere classified (2822).
5.3 Direct government lending schemes to households (often at favorable interest rates).	Recorded as Net Acquisition of Financial Assets/Loans (3204), and shown in the balance sheet at nominal value. The recording is not influenced by whether the lending is concessional or non-concessional. However, it is clear at inception that the “loans” will never be repaid by the households then they should be recorded as Expense/Other Expense/Capital transfers not elsewhere classified (2822) from inception.
5.4 Government initiatives to support lending by banks, and other financial corporations, through provision of guarantees on the loans they have extended.	Guarantees are contingent liabilities and so not recorded as government debt (or as transactions) within GFS, although countries are encouraged to record them as memo items. Where government is receiving fees for the provision of guarantees then these should be recorded as Revenue/Other Revenue/Administrative fees (1422).

Government intervention	GFS recording
	Note that if the government provides a guarantee where there is a very high likelihood that it will be regularly called, then the entire amount of debt should be treated from inception as a debt assumption
5.5 Government initiatives to support lending by banks, and other financial corporations, through provision of lending to banks.	Recorded as Net Acquisition of Financial Assets/Loans (3204), and shown in the balance sheet at nominal value. The recording is not influenced by whether the lending is backed by collateral or not.
6.0 Emergency assistance from international organizations and foreign governments	
6.1 Emergency lending by international organizations (such as disbursements from the IMF's lending facilities) or foreign governments.	Recorded in general as Net Incurrence of Liabilities/Loans (3304), and shown in the balance sheet at nominal value. When disbursements from the IMF's lending facilities are made to the country's Central Bank which passes on proceeds of the borrowing to government, or the government directly receives the loans, a Net Incurrence of Liabilities/Loans (3304) is recorded in the government accounts. This can be further separated into domestic liabilities (in the case of on-lending from the Central Bank) and external liabilities (in the case of a direct loan to the government).
6.2 Transfers from international organizations and foreign governments (such as foreign aid payments), where there is no financial claim established.	Recorded as Revenue/Grants/Grants from foreign governments (131), where the cash donation is from a foreign government (see item 4.3 for the situation where the government is the donor). Recorded as Revenue/Grants/Grants from international organizations (132), where the cash donation is from an international organization.
6.3 Donations of goods and assets from international organizations and foreign governments (such as food and medical supply donations).	Recorded as Revenue/Grants/Grants in-kind from foreign governments (131), where donation is from a foreign government.

Government intervention	GFS recording
	Recorded as Revenue/Grants/Grants in-kind from international organizations (132), where the donation is from an international organization. See item 2.4 for the recording related to the onward distribution of the donated goods or assets to households/corporations. Goods (or supplies) should be recorded as current grants, while assets should be recorded as capital grants.
7.0 Liquidity and quasi-fiscal operations by public financial institutions	
7.1 The purchase of government bonds by the Central Bank from the secondary market, as part of a quantitative easing program.	No GFS transaction is recorded and there is no direct government debt impact (at the time of purchase).
7.2 Government provision of government debt securities (either directly or through a public financial corporation) to financial or nonfinancial corporations in exchange for other financial assets.	Recorded as Net Acquisition of Financial Assets in the relevant asset category because it is an exchange of financial assets. If the financial assets received by government are of equal value to the assets exchanged then there is no other transaction to record and no impact on the deficit, but if assessed to be of lower value then an Expense/Other Expense/Capital transfer not elsewhere classified (2822) should be recorded for the difference between the two asset valuations.
8.0 Debt reorganization	
8.1. Government forgives (i.e., cancels) debt which is owed to it by other units in the economy.	Recorded as Expense/Grants/Capital grants to other levels of government (2632) where the debtor unit is another unit of government (for example, the central government forgiving debt owed to it by a local government). An equal reduction in government financial assets and liabilities will also be recorded, although at the general government level there will be no debt impact due to consolidation. Recorded as Expense/ Other Expense/Capital transfer not elsewhere classified (2822) where the debtor unit is outside of government. A reduction in government financial assets is also recorded. The type of assets involved will depend on the nature of the debt.

Government intervention	GFS recording
8.2. Government reschedules debt which is owed to it by other units in the economy, by either postponing repayment or lowering debt service costs.	Recorded as repayment of the original debt instrument simultaneously with creation of the renegotiated new debt instrument. Debt levels at the point of debt rescheduling will be unchanged (any reduction being treated as debt forgiveness – see Item 8.1 (above)) but future interest payable and/or debt repayment dates will change.
9.0 Allocation of sufficient funds by the government to a contingent fund to cater for disasters	
9.1 Governments allocate a defined percentage of their overall budget to cater for unforeseen events which include disaster.	Other Expense (28) Transfers not elsewhere classified (282) payable include a number of gift s and transfers to individuals, private nonprofit institutions, nongovernmental foundations, corporations, or government units that are not included in other categories of transfers and serve quite different purposes. Transfers not elsewhere classified (282) are subdivided into current transfers not elsewhere classified (2821) and capital transfers not elsewhere classified (2822).
10.0 Investment in technology by government	
10.1 Governments purchases software and hardware equipment that provides for continuity of data collection, management and analysis even after the occurrence of disasters	Both Software and ICT hardware are Recorded as acquisition of non-financial assets (311) in the GFSM 2014

10.6. Hypothetical Study Case on Government Transactions Relating to Disaster Relief.

Let us assume that a natural disaster has affected an EAC Partner States. The main GFS implications is that the revenue may decline and the expenditures may increase. It would be useful if the authorities could provide some details on this as the overall effect would be a worsening of the deficit and debt for the Government.

However, if we assume that the disaster is a one-off event, it would be reasonable to be able to isolate the effects of the natural disaster e.g. Government deficit increases to 10.0% of GDP however, if the effects of the natural disaster are stripped out, then the underlying deficit falls to say 3.2% as in the example below. So, the GFS aggregates may look as follows: -

Fiscal Aggregates

Indicator/ Variable (Bn US$)	Last year prior to natural disaster occurring	Year in which disaster occurred
Gross Domestic Product	6.300	6.000
Government Revenue	1.500	1.300
Government Expense	1.550	1.653
Net Acquisition of NFA	0.150	0.247
Net Lending/Borrowing	(0.20)	(0.600)
Deficit as % of GDP (%)	3.17	10.0

For illustrative purposes we are assuming that all changes in the fiscal aggregates are due to the disaster that has occurred during the year, please note that this is not realistic

Revenue Data

Indicator/ Variable (Bn US$)	Last year prior to natura disaster occurring	Year in which disaster occurred
Taxes	0.950	0.800
Other revenue	0.250	0.100
Grants	0.300	0.400
Total	1.500	1.300

For illustrative purposes we are assuming that all changes in the revenue figures are due to the disaster that has occurred during the year, please note that this is not realistic

It can be seen that where revenue has fallen and where the Partners State has increased revenue by say availing of supports from international organization or other external government units. The compiler needs to be sure that it is a grant and not a loan in which case the transaction would be below the line (an increase in cash assets and a corresponding increase in loan liabilities)

On the expense side, assume there is an increase in Wages, Purchase of Goods and Services and Social Benefits which reflects the fact that say more support staff were needed, the governments purchased supplies and paid more payments out to people directly affected by the natural disaster in form of social protection. It is likely that the government might try to curtail other areas of expense to increase the budget available for these areas of new expense brought about by the disaster.

Expenditure Data

Indicator/ Variable (Bn US$)	Last year prior to natural disaster occurring	Year in which disaster occurred
Compensation of Employees	0.400	0.450
Use of Goods and Services	0.550	0.650
Social Benefits	0.200	0.300
All Other expenses	0.400	0.253
Total	1.550	1.653

For illustrative purposes we are assuming that all changes in the expenditure figures are due to the disaster that has occurred during the year, please note that this is not realistic

Net Investment in Non-Financial Assets[38]

Indicator/ Variable (Bn US$)	Last year prior to natural disaster occurring	Year in which disaster occurred
Buildings and Structures	0.055	0.145
Machinery and Equipment	0.035	0.075
Other Fixed Assets	0.030	0.010
Inventories	0.035	0.017
Total	0.150	0.247

Again, it is likely that the capital spending from existing budgets will be moved to deal with the effects of the natural disaster.

Finally, how does this play out in the financial accounts? Well from the first table we see that the net lending borrowing will increase from 200 million US$ to 600 million US$. Therefore, to fund this deficit, the Government would have to raise a further 600 US$ in debt instruments say 200 million US$ in debt securities and 400 million US$ in loans which would be reflected in the transactions in financial assets and liabilities and the financial balance sheet.

[38] Assume that the government increased spending in Fixed Assets (Buildings and Structures and Machinery and Equipment) as a result of the disaster

Indicator/ Variable (Bn US$)	**Change in Assets**	**Change in Liabilities**	**Effect on B9 financial = change in Assets – Change in Liabilities**
Currency and Deposit Assets	0	..	0
Debt Security Liabilities	..	+0.2	-0.2
Loan Liabilities	..	+0.4	-0.4
Total change	0	+0.6	-0.6

CHAPTER 11. CLASSIFICATION OF EXPENDITURE

11.1. Introduction

This chapter focuses on the concepts on expenditure, and recording of expenditure related transactions.

When supplying non-market goods and services to the community, a government unit may produce goods and services itself and distribute them, purchase them from a third party and distribute them, or transfer cash to households so that they can purchase the goods and services directly. While doing this, expenditure transactions are executed. Expenditure transactions are classified in two ways, one based by economic classification and the other by functional classification.

Under this chapter, expenditure includes all expense transaction and investment in non-financial assets. The expense category includes compensation of employees, use of goods and services, consumption of fixed capital, interest payments, subsidies, grants, social benefits and other expense. The investment in non-financial assets includes fixed assets, inventories, valuables, non-produced assets such as land, sub soil assets, other natural occurring assets and intangible non produced assets.

11.2. Problem Statement

The GFSM 2014 framework requires that compilers assess certain transactions to ensure that they are appropriately recorded. This chapter will attempt to provide clarity to compilers in a consistent way of recording such transactions in expenditure. Having harmonized and comparable GFS is key for monitoring the fiscal requirements for the East African Monetary union (EAMU): Specifically, EAMU Protocol establishes that, EAC Partner States should maintain a ceiling on deficit excluding grants at 6 percent of gross domestic product (GDP), and including grants at 3 percent of GDP to be able to join the monetary union. The manner in which transactions on expenditure, being a component in compilation of the deficit are recorded in government finance statistics would imply that a Partner States' assessment may/may not meet the requirements. Its therefore important to guide the compilers in a harmonized way of recording transactions related to expenditures.

11.3. Economic classification of Expense

11.3.1. Main Economic Types of Expense and its Characteristics

Economic classification identifies the type of expense incurred by what was paid for. Economic classification of expenditures is required for analyzing the budget and defining the macro-fiscal policy position. Expense can be characterized either by an exchange, a transfer or imputed depending on its nature. The main economic types of expense can therefore be characterized as presented in Table 11.1.

Table 11. 1 : Type of Transaction by their Characteristic

Type of expense transaction	Characteristic
Compensation of employees	Exchanges
Use of goods and services	Exchanges
Consumption of fixed capital	Imputations (internal transactions)
Interest	Exchanges
Subsidies	Transfers
Grants	Transfers
Social benefits	Transfers
Other property expense	Exchanges
Other expense	Transfers and exchanges

11.3.2. Boundary Cases between Use of Goods and Services and Compensation of Employees

Compensation of employees excludes amounts payable to contractors, self-employed outworkers, and other workers who are not employees of general government or public sector units. Any such amounts should be recorded under use of goods and services (22). An employer-employee relationship exists when there is a written or oral agreement, which may be formal or informal, between an entity and an individual, normally entered into voluntarily by both parties, whereby the person works for the enterprise in return for remuneration in cash or in kind.

The employer-employee relationship exists when there is written or oral agreement between the two parties. An indication of whether an employer/ employee relationship exists is that of control. The right to control or to direct work performed and how it shall be performed is a strong indication of an employer-employee relationship. The method of measuring or arranging for the payment is not important as long as the employer has effective control over both the method and the result of the work undertaken by the individual. However, certain control of the work being undertaken may also exist for the purchase of a service for example, when subcontracts are entered into. Other basis can be used to clearly judge whether there is employer-employee relationship. Where there is payment of social contributions by the employer, it indicates employer-employee relationship. Entitlement by the individual to the same kinds of benefits (e.g., allowances, holidays, and sick leave) generally provided to an entity's employees would also indicate an employer-employee relationship. Payment of taxes on the provision of services (such as sales tax or value-added tax) by the individual is an indication that the individual is a self-employed service provider.

Certain goods and services used by governments do not enter directly into the process of production itself but are consumed by employees working on that process. In general, when the goods or services are used by employees on their own time and at their own discretion for the direct satisfaction of their needs or wants, they constitute remuneration in kind. However, when such use is mandatory in order to enable employees to carry out their work, it should be recorded as use of goods and services. Examples of the latter are: Tools or equipment used exclusively, or mainly, at work; Clothing or footwear of a kind that ordinary consumers do not choose to purchase or wear and that are worn exclusively, or mainly, at work (protective clothing, overalls, or uniforms); Accommodation services at the place of work of a kind that cannot be used by the households to which the employees belong: barracks, cabins, dormitories, huts, etc. Special meals or drinks necessitated by exceptional working conditions, while traveling for business reasons, or meals or drinks provided to employees while on active duty; Changing facilities, washrooms, showers, baths, etc. necessitated by the nature of the work; and First aid facilities, medical examinations, or other health checks required because of the nature of the work.

11.3.3. Boundary Cases between Use of Goods and Services and Transfers

All transfers of goods and services or non-financial assets to other institutional units, other than goods and services or non-financial assets produced by the donor government unit are recorded as grants (26) or transfers not elsewhere classified (282). Such transfers may entail the transfer of government owned fixed assets, the transfer of goods held in inventories, the construction of fixed assets, or the purchase and subsequent transfer of either fixed assets or goods and services for current consumption. Examples are transfers of food, clothing, blankets, and medicines as emergency aid after natural disasters; transfers of machinery and other equipment; the direct provision of the construction of buildings or other structures; and transfers of military equipment of all types.

Goods and services used by a donor government unit to produce nonmarket goods and services consumed by other governments and international organizations are included in use of goods and services. An example would be the goods and services acquired so that government employees can conduct relief operations in a foreign country after a natural disaster. The purpose of this treatment is to show in GFS the reduction in cash, or increase in other accounts payable, with an entry in the respective expense items that made up the cost of producing nonmarket goods and services provided by the government sector unit.

Use of goods and services also includes all goods and services consumed by a general government unit to produce nonmarket goods and services that are distributed either as social benefits in kind or distributed to households in particular circumstances, such as following a natural disaster. Such social benefits can be distributed through social security schemes; social insurance schemes operated for the benefit of government employees, their dependents, or survivors; or social assistance.

Goods and services that were not produced by the donor government unit, but are distributed as social benefits in kind or distributed to households in particular circumstances, are classified as social benefits (27) rather than use of goods and services. Such distributions include transfers of goods held in inventories, the purchase and simultaneous transfer of goods and services from market producers, and the reimbursement by a general government unit for purchases by households of specified goods or services, such as food, education services, medicines, medical or dental treatments, hospital bills, and optometrists' bills.

On occasions, government units transfer economic value by purchasing goods and services for prices that greatly exceed their market value. When such transactions can be detected, they should be partitioned into a purchase of goods and services at their true market value and a transfer recorded under the relevant category.

Membership dues and subscription fees should be recorded as an expense in use of goods and services (22) if there is an exchange of a payment for some form of a service. These include payments by public corporations of membership dues or subscriptions to market non-profit institutions (NPIs) serving businesses, such as chambers of commerce or trade associations, since these are payments for services rendered and are not transfers.

11.3.4. Boundary Cases between Use of Goods and Services and Acquisitions of Non-financial Assets

Goods acquired for use as fixed assets or valuables, or for use in own-account capital formation, are classified as acquisitions of fixed assets or valuables. Costs incurred on inexpensive durable goods, such as small/hand tools, are recorded as use of goods and services (22) when such expenses are incurred regularly and are small compared with the costs incurred for the acquisition of machinery and equipment. This exclusion of small/ hand tools is pragmatic rather than conceptual. Some goods may be used repeatedly, or continuously, in production over many years but may nevertheless be small, inexpensive, and used to perform relatively simple operations. Hand tools such as saws, spades, knives, axes, hammers, screwdrivers, and spanners or wrenches are examples. If expense on such tools takes place at a fairly steady rate and if their value is small compared with amounts payable on more complex machinery and equipment, it may be appropriate to treat the tools as materials or supplies under use of goods and services (22). Countries may account for the value of the total stock of machinery and equipment as fixed assets and their acquisition and disposal by public sector units recorded under the net acquisition of non-financial assets.

Goods and services acquired to increase inventories of materials and supplies, work in progress, finished goods, and goods for resale are included in changes in inventories (312), a type of non-financial asset. Inventories should be valued at their current market prices on the balance sheet date rather than their acquisition prices. In principle, current market prices should be available for most types of inventories, but in practice, the values of inventories frequently are estimated by adjusting book or acquisition values of inventories with the aid of price indexes.

Goods and services consumed for the ordinary maintenance and repair of fixed assets constitute use of goods and services. However, major renovations, reconstructions, or enlargements of existing fixed assets are recorded as acquisitions of fixed assets.

Goods and services used in research and development are recorded as acquisitions of fixed assets in the category intellectual property products (31132), except in cases where it is clear that the activity does not create any future economic benefit for its owner, in which case it is recorded as use of goods and services.

Goods and services used in mineral exploration and evaluation are not recorded as use of goods and services. Regardless of whether successful, they are needed to acquire new reserves and so are all classified as acquisitions of fixed assets recorded as intellectual property products (31132).

Materials to produce coins or notes of the national currency or amounts payable to contractors to produce the currency are included in use of goods and services. The issuance of the coins or notes is a financial transaction that does not involve revenue or expense. Commemorative coins that are not actually in circulation as legal tender are classified as non-financial assets.

Expenditure on military equipment, including large military weapons systems and armored vehicles acquired by the police and internal security services, are recorded as acquisition of the respective categories of fixed assets, namely weapons systems (3114) or machinery and equipment (3112). Expenditure on military goods, such as single-use weapons (ammunition, missiles, rockets, bombs, torpedoes) and spare parts, should be recorded as inventories until used, when they are recorded as use of goods and services and a withdrawal from inventories.

11.3.5. Other Boundary cases related to Use of goods

There is a significant conceptual difference between rentals of fixed assets under an operating lease and the acquisition of an asset under a financial lease. Under an operating lease, the lessor remains the economic owner of the fixed asset and payments by the lessee are recorded as payments for a service, and therefore recorded as use of goods and services. Under a financial lease, the lessee becomes the economic owner of the fixed asset and payments are recorded as payments of interest and repayments of principal by the lessee to the lessor, and thus do not affect use of goods and services.

Amounts payable for the use of non-produced naturally occurring assets, such as land, are classified as rent (2814) and not as use of goods and services (22).

Explicit fees for financial services should always be classified as use of goods and services. However, some transactions include an implicit fee for financial services that is not recorded separately in GFS. These implicit fees can be calculated only in the context of an analysis of the whole of the economy or industry. Financial intermediation services indirectly measured (FISIM) can usually be estimated only indirectly by compilers of the national accounts. Similarly, the service fee implied by nonlife insurance premiums can be estimated only by looking at all the transactions and costs of the insurance industry.

Table 11. 2: Economic Classification of Expense

2	**Expense**		
21	**Compensation of Employees**	263	To other general government units
211	Wages and salaries	2631	Current
2111	Wages and salaries in cash	2632	Capital
2112	Wages and salaries in kind	**27**	**Social benefits [GFS**
212	Employers' social contributions	271	Social security benefits
2121	Actual social contributions	2711	Social security benefits in cash
2122	Imputed social contributions	2712	Social security benefits in kind
22	**Use of goods and services**	272	Social assistance benefits
23	**Consumption of fixed capital**	2721	Social assistance benefits in cash
24	**Interest**	2722	Social assistance benefits in kind
241	To non-residents	273	Employment social benefits [GFS]
242	To residents other than general government	2731	Employment social benefits in cash
243	To other general government units	2732	Employment social benefits in kind
25	**Subsidies**	**28**	**Other expense**
251	To public corporations	281	Property expense other than interest
2511	To non-financial corporations	2811	Dividends
2512	To non-financial corporations	2812	Withdrawal of income from quasi corporation
252	To private enterprises	2813	Property expense for investment income disbursements
2521	To non-financial private enterprises	2814	Rent
2522	To non-financial private enterprises	2815	Reinvested earnings on foreign direct investment
253	To other sectors	282	Transfers not elsewhere classified
26	**Grants**	283	Premiums, fees, and claims related to non-life insurance and standardized guarantee schemes
261	To foreign governments		
2611	Current	2831	Premiums, fees, and current claims
2612	Capital	2832	Capital claims
262	To international organizations		
2621	Current		
2622	Capital		

11.4. Classification of Assets

The GFSM 2014 classification of assets is fully aligned with the SNA 2008 classification. The treatment of two items has however changed significantly from the earlier classifications: weapons systems and associated military inventories, and research and development, where outlays on both items are treated as acquisitions of fixed assets.

11.4.1. Non-financial assets

Non-financial assets are economic assets other than financial assets. There are two major groupings of non-financial assets:

- Produced assets, which are the result of a production process, and
- Non-produced assets, which are not the result of a production process.

There are three main types of produced assets:

- fixed assets,
- Inventories, and
- Valuables.

Fixed assets are produced assets used repeatedly or continuously in production processes for more than one year. Inventories are produced assets that consist of goods and services, which came into existence in the current period or in an earlier period, and that are held for sale, use in production or other use at a later date. Valuables are produced assets of considerable value, held primarily as stores of value over time. A more detailed discussion of produced assets is presented further below in this section.

There are two main types of non-produced assets:

- Natural resources, and
- Intangible non-produced assets.

Natural resources consist of naturally occurring resources that have an economic value. Intangible non-produced assets include contracts, leases and licenses, and goodwill and marketing assets. Contracts, leases and licenses are treated as assets if the terms of the document specify a price for the use of an asset or provision of a service different than would prevail otherwise, and if one party can effectively realize the price difference. Goodwill and marketing assets are the part of the net worth of an institutional unit not accounted for by other assets.

11.4.2. Valuation of Assets

Acquisitions of non-financial assets other than inventories are valued at their exchange price plus all costs of ownership transfer, which include professional charges or commissions incurred, transport costs, taxes payable on the transfer of ownership or on the disposal of the asset, delivery and installation costs, and any terminal costs incurred at the end of an asset's life. Assets produced on own-account are valued at their cost of production. Sales and other disposals of non-financial assets are valued at their exchange value less the costs of ownership transfer. Additions to and withdrawals from inventories are valued at the prices applicable at the time of the addition or withdrawal.

Stocks of non-financial assets are valued at current market prices if available. If there are no observable prices, then a price has to be estimated. The current price of a similar item may be used if available. In practice, tangible fixed assets are commonly valued at their written-down replacement costs, estimated using the perpetual inventory method. With this method the value of a given stock is based on estimates of acquisitions and disposals that have been accumulated (after deduction of the accumulated consumption of fixed capital, amortization, or depletion) and revalued over a long period. Intangible non-produced assets are typically valued at their initial acquisition costs (appropriately revalued) less an allowance for amortization. Other non-financial assets are sometimes valued using the present value method, which discounts the expected future economic benefits from an asset to a current value.

Assets produced on own-account or acquired from another unit, which are constructed over more than one accounting period, should be recorded in the balance sheet as work proceeds. If the contract does not specify the time of the ownership transfer, then the percentage completion or progress payments may be used. General government units may acquire or dispose of non-financial assets on a non-market basis for policy reasons. In other words, they may acquire an asset for more than its market value or dispose of an asset for less than its market value. In these cases, if possible, the transaction should be valued at market price, and the transfer component should be recorded separately.

11.4.3. Non-financial assets–produced assets

Fixed assets

Fixed assets are classified as:

- Buildings and structures,
- Machinery and equipment, and
- Other fixed assets.

Buildings and structures are further classified into:

- Dwellings,
- Buildings other than dwellings,
- Other structures, and
- Land improvements.

Dwellings are buildings used primarily as residences. Buildings other than dwellings covers buildings not designated as dwellings. Other structures cover structures other than buildings, including infrastructure assets. Land improvements are the result of actions that lead to major improvements in the quantity, quality, or productivity of land, or prevent its deterioration.

Machinery and equipment are further classified into:

- Transport equipment;
- Information, computer and telecommunications (ICT) equipment; and
- Other machinery and equipment.

Transport equipment consists of equipment for moving people and objects. ICT equipment consists of devices using electronic controls and also the electronic components forming part of these devices. Other machinery and equipment consist of machinery and equipment not elsewhere classified. This latter category includes works of art or antiques displayed in museums.

Other fixed assets are further classified into:

- Cultivated biological resources,
- Intellectual property products,
- Costs of ownership transfer of non-produced assets, and
- Weapons systems.

Cultivated biological resources include animal resources and tree, crop, and plant resources, which yield repeat products. If the cultivated biological resources do not yield repeat products, such as animals raised for slaughter, trees grown for timber, and single crop vegetables, they are not treated as fixed assets but as inventories (work in progress). Intellectual property products are the result of research, development, investigation or innovation leading to knowledge that the developers can market or use to their own benefit in production, because use of the knowledge is restricted by means of legal or other protection. Intellectual property products include mineral exploration and evaluation, computer software, databases, and entertainment, literary and artistic originals.

The costs of ownership transfer of non-produced assets represent produced assets but their value cannot be integrated with the value of another produced asset. The treatment of costs of ownership is peculiar. The flows are recorded as a separate category, under costs of ownership transfer of non-produced assets; however, the value of the stocks of these assets includes the costs of ownership transfer. An exception is made in the case of land, where the flows associated with costs of ownership transfer are treated by convention as land improvements, and the value of the stocks of land exclude land improvements. Weapons systems include vehicles and other equipment such as warships, submarines, military aircraft, tanks, missile carriers and launchers, etc. Most single-use weapons they deliver are treated as military inventories.

Table 11. 3: Classification of Flows and Stocks for Non-Financial Assets

	Transactions	Holding gains/ losses	Other volume changes	Total other economic flows	Stocks
Non-financial assets	**31**	**41**	**51**	**91**	**61**
Produced assets	**310**	**410**	**510**	**910**	**610**
Fixed assets	**311**	**411**	**511**	**911**	**611**
Buildings and structures	3111	4111	5111	9111	6111
Dwellings	31111	41111	51111	91111	61111
Buildings other than dwellings	31112	41112	51112	91112	61112
Other structures	31113	41113	51113	91113	61113
Land improvements	31114	41114	51114	91114	61114
Machinery and equipment	3112	4112	5112	9112	6112
Transport equipment	31121	41121	51121	91121	61121
Machinery and equipment other	31122	41122	51122	91122	61122
Information, Communication and Telecommunication (ICT) equipment	311221	411221	511221	911221	611221
Machinery and equipment n.e.c.	311222	411222	511222	911222	611222
Other fixed assets	3113	4113	5113	9113	6113
Cultivated biological resources	31131	41131	51131	91131	61131
Intellectual property products	31132	41132	51132	91132	61132
Costs of ownership transfer of non-produced assets (other than land)	31133	41133	51133	91133	61133
Weapons systems	31134	41134	51134	91134	61134
Inventories	**312**	**412**	**512**	**912**	**612**
Materials and supplies	31221	41221	51221	91221	61221
Work-in-progress	31222	41222	51222	91222	61222
Finished goods	31223	41223	51223	91223	61223
Goods for resale	31224	41224	51224	91224	61224
Military inventories	31225	41225	51225	91225	61225
Valuables	**313**	**413**	**513**	**913**	**613**
Non-produced assets	**314**	**414**	**514**	**914**	**614**
Natural resources	3140	4140	5140	9140	6140
Land	3141	4141	5141	9141	6141
Mineral and energy resources	3142	4142	5142	9142	6142
Other naturally occurring assets	3143	4143	5143	9143	6143
Intangible non-produced assets	3144	4144	5144	9144	6144

Inventories

Inventories are classified as:

- Materials and supplies,
- Work-in-progress,
- Finished goods,
- Goods for resale, and
- Military inventories.

Materials and supplies consist of all products that an enterprise holds in inventory with the intention of using them as intermediate inputs into production. Work-in-progress consists of output produced by an enterprise that is not yet sufficiently processed to be in a state in which it is normally supplied to other institutional units. Finished goods consist of goods produced as outputs that their producer does not intend to process further before supplying them to other institutional units. Military inventories consist of single-use items delivered by weapons or weapons systems. Goods for resale are goods acquired by enterprises for purposes of reselling them to their customers. By convention, goods acquired by government for distribution as social transfers in kind are also included in goods for resale. Of particular interest in the GFS system is the change in inventories from one period to another, as it is this change that is recorded as an adjustment to the use of goods and services under expense.

Valuables

The common characteristic of items classified as valuables is that they are held exclusively because they are expected to maintain or increase their value over time, i.e. are held as a form of investment. Valuables may be classified as:

- Precious metals and stones,
- Antiques and other art objects, and
- Other valuables.

11.4.4. Non-financial assets–non-produced assets

Natural resources

Natural resources are classified as:

- Land,
- Mineral and energy resources, and
- Other naturally occurring assets (non-cultivated biological resources, water resources, radio spectra, and other).

Land consists of the ground, including the soil covering and any associated surface waters. The value of land excludes any buildings or other structures situated on it or running through it. If it is not possible to separate the value of the land from the buildings or other structures, an attempt should be made to determine which item has the highest value, and assign the whole value to that item. Land improvements and the costs of ownership transfer on land are treated as fixed assets and shown separately. Mineral and energy resources consist of mineral and energy reserves located on or below the Earth’s surface that are economically exploitable given current technology and relative prices. Depletion of these resources is recorded as another change in the volume of assets.

Intangible non-produced assets

It is recommended that contracts, leases, and licenses only be recorded when the holder actually obtains an economic benefit from holding these assets. For example, when a tenant subleases a building, a taxi driver sells his operating license, or a publisher sells the rights to the works of an author. Goodwill is the excess value of an enterprise above the net value of its individually identified and valued assets. Goodwill can't be separately identified and sold to another party, as it is the result of using in combination the other assets. Marketing items consist of items such as brand names, mastheads, trademarks, logos, and domain names.

Issues in the classification of non-financial assets. The treatment of certain transactions involving non-financial assets can pose classification difficulties to compilers. We discuss three such cases: (a) major improvements, (b) leases, and (c) public-private partnerships.

Major improvements. Major improvements to existing assets lead to an increase in the value of the asset that has been improved, and is treated as the acquisition of an asset. Major improvements are usually a deliberate investment decision, that aims to increase the performance, productive capacity, or expected life of an existing asset. Maintenance and repair aim to ensure the asset reaches its expected service life and maintains its original performance level, and is treated as an expense.

Leases. There are three types of leases involving non-financial assets are recognized in the SNA:

- Operating leases,
- Financial leases, and
- Resource leases.

Fundamental to the distinction between leases is the difference between legal and economic ownership. The legal owner of an asset is the institutional unit entitled by law to claim the benefits associated with the asset. By contrast, the economic owner of an asset is entitled to claim the benefits associated with the use of the asset in an economic activity by virtue of accepting the associated risks. The legal owner is often the economic owner also. When they are different, the legal owner has divested itself of the risks in return for agreed payments from the economic owner

An operating lease is one where the legal owner is also the economic owner and accepts the operating risks and rewards from ownership of the asset. One indicator of an operating lease is that the legal owner has the responsibility to provide any necessary repair and maintenance of the asset. Under an operating lease the asset remains on the balance sheet of the lessor. Payments made under an operating lease are called —rentals and are recorded as payments for a service (expense, use of goods and services (22)).

Example of recording for Lease: If a government made a payment of Sh. 3,800 on a lease of 20 generators for its buildings. The lessor is responsible for all maintenance and repairs to the generator, and the transaction will be recorded as follows.

GFS Code	Description	Debit	Credit
22	Use of goods and services	3,800	
3212	Domestic currency and deposits		3,800

A financial lease is one where the lessor as legal owner of an asset passes to the lessee the operating risks and rewards of ownership of the asset, i.e., the lessee becomes the economic owner of the asset.

One commonly used indicator of a financial lease is that the economic owner has the responsibility to provide any necessary repair and maintenance of the asset.

Under a financial lease the legal owner is shown as issuing a loan to the lessee whom the lessee uses to acquire the asset. Thereafter the asset is shown on the balance sheet of the lessee and not the lessor, while the corresponding loan is shown as an asset of the lessor and a liability of the lessee. Payments under the financial lease are treated not as rentals but as the payment of interest and repayment of principal.

Example of recording for a financial Lease: If a government enters into an obligation to purchase cars worth Sh. 2,000 through a financial lease, the cars will be recorded as an asset to the government while at the same time a loan of similar amount.

GFS Code	Description	Debit	Credit
31121	Transport equipment		2,000
3304	Loan	2,000	

A resource lease is an agreement whereby the legal owner of a natural resource makes it available to a lessee in return for a regular payment recorded as property income and described as rent (2814). The resource continues to be recorded on the balance sheet of the lessor even though it is used by the lessee. The classic case of an asset subject to a resource lease is land, but natural resources (mineral and energy deposits, fishing rights, etc.) are also generally treated in this way.

Public-private partnerships. Public-private partnerships (PPPs) are long-term contracts between two units, whereby one unit acquires or builds an asset or set of assets, operates it for a period and then hands the assets over to a second unit. Such arrangements are usually between a private enterprise and government. These schemes are also known as Private Finance Initiatives (PFIs), or Build, Own, Operate, Transfer schemes (BOOTs). Refer to the EAC guidelines on compilation of GFS and PSDS 2020, Chapter 7.

PPPs vary greatly. In general terms, these schemes can be described as follows. A private enterprise builds or acquires fixed assets, and uses them together with other production inputs to provide services to the government or the public. The private enterprise expects to recover its costs and earn an adequate rate of return on its investment from the payments made by the government or the public. At the end of the contract period, the government usually gains legal and economic ownership of the assets, possibly without payment. The assets typically have service lives much longer than the contract period so the government will control the assets, bear the risks and receive the rewards for a major portion of the assets' service lives. Thus, it frequently is not obvious whether the private enterprise or the government is the economic owner of the assets.

The statistical treatment of PPPs depends on the economic ownership of the assets. An assessment of the unit that bears the majority of the risks and receives the majority of the rewards is required. Factors to consider in the assessment include construction risk, supply risk, demand risk, residual value and obsolescence risk, and availability risk. The relative importance of each risk is likely to vary with each PPP, and therefore it is not possible to state prescriptive rules applicable to all cases. Likewise, the complexity and variety of PPP contracts also precludes the enumeration of detailed governing the transactions to be recorded concerning the control and use of the assets.

In general, if the private enterprise is assessed as being the legal and economic owner of the assets during the contract period and if, as usual, the government becomes the legal and economic owner at the end of the contract without an explicit payment, a transaction must be recorded for the government's acquisition of the assets at the end of the contract. One approach is for the government to gradually build up a financial claim and the private unit gradually to accrue a corresponding liability, such that the value of both is expected to be equal to the residual value of the assets at the end of the contract period. An alternative approach is to record the change of legal and economic ownership as being funded by a capital transfer. This approach does not reflect the underlying economic reality as well, but data limitations, uncertainty about the expected residual value of the assets and other considerations could make recording a capital transfer acceptable on pragmatic grounds.

In general, if the government is assessed as being the legal owner during the contract period, but does not make any explicit payment at the beginning of the contract, a transaction must be imputed to cover the acquisition. The recommended option is to impute a financial lease, because of the similarity with actual financial leases.

11.5. Functional Classification of Expenditure (COFOG)

11.5.1. Introduction

The Classification of expenditure by Functions of Government (COFOG) is a detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of expenditure. Functional classification provides information on expenditure based on the purpose for which an expenditure was incurred.

The functional classification of expenditure (GFSM 2014) is consistent with the COFOG produced by the Organization for Economic Cooperation and Development (OECD) and published by the United Nations. The GFSM 2014 applies this classification to both expense and the net acquisition of non-financial assets, which are jointly called outlays. All outlays for a particular function are collected in one category of COFOG regardless of their type. COFOG permits trends in government outlays on particular functions to be examined over time and compared across countries. Expenditure by function of government may either be on individual services (IS) or collective services (CS). Individual services are consumed by individuals while collective services are consumed collectively by groups of individuals.

COFOG is also used for making international comparisons of the extent to which governments are involved in particular economic and social functions. Just as COFOG avoids the problems of organizational changes in a single government, so too does it avoid the problems of organizational differences among countries. In one country, for example, all functions connected with water supply may be undertaken by a single government agency, while in another country, they may be distributed among departments dealing with the environment, housing, or industrial development.

A cross classification of functional and economic classification of expenditure can be analytically useful, and is recommended if the available source data allows its compilation.

GFSM 2014 framework classifies expenditure by ten major functions of government namely:

- General public services (701);
- Defence (702);
- Public order and safety (703);
- Economic affairs (704);
- Environmental protection (705);
- Housing and community amenities (706);
- Health (707);
- Recreation, culture, and religion (708);
- Education (709); and
- Social protection (710)

11.5.2. Problems Encountered by Compilers in Identifying Functions of Government

Conventional government accounts are not usually suitable for this purpose because they reflect the organizational structures of governments, which are not similar across board. Not only might time series be distorted by organizational changes, but at a specific time some organizations may be responsible for more than one function, and responsibility for one function might be divided among several organizations. For example, if a government establishes a new department that brings together some of the functions previously administered by several departments or at several levels of government, it will not usually be possible to use conventional government accounts to compare expenditure on these purposes over time.

In principle, individual transactions should be classified, but this is normally not possible or too costly. Instead, all transactions of agencies, offices, program units, bureaus, and similar units within government departments or ministries are assigned the same code. The more detailed the level at which the functional classification can be undertaken the more useful the resulting statistics. When program-based budgeting is implemented, a specific program should be allocated to the function of government that is closest to the program objectives.

The following are some the challenges experienced by compilers in identifying the function of government to allocate to expenditures, along with guidance on how best to address these challenges:

i. **Shared Expenditures:** Government ministries generally are responsible for the formulation, administration, coordination, and monitoring of overall policies, plans, programs, and budgets; for the preparation (in some countries) and enforcement of legislation; and for the production and dissemination of general information, technical documentation, and statistics. Consequently, the expenditure of these ministries has to be shared across the classes for which they are responsible. For example, the expenditure of a ministry of transport should be divided between road transport (70451), water transport (70452), railway transport (70453), air transport (70454), and pipeline and other transport (70455). In this case these shared expenditures should be apportioned among the various sub-categories based on the ratios of the non-shared expenditures for the sub-categories on pro-rata basis. A possible allocation could be based on the use of physical indicators to calculate the percentage of expenditure to be split between the two functions. Figures taken from demographic and social statistics might be suitable indicators for dividing such public expenditure.

ii. **Administrative expenditure**: Administrative expenditure on general services, such as personnel services, supply and purchasing services, accounting and auditing services, and computer and data processing services, undertaken by ministries or units within ministries should be classified at the most detailed level possible. If administrative expenditure overlaps two or more classes, an attempt should be made to apportion expenditure between the classes concerned. If this approach is not feasible, the total should be allocated to that class that accounts for the largest part of the total expenditure.

iii. **Subsidies**: Particular difficulties may arise with regard to subsidies. The main objective behind such government support may be, for example, to assure capacity to build naval vessels considered vital to national defence, to maintain living standards of important groups such as farmers or miners, or to provide employment for workers in underutilized hospitals. These political objectives are not to be confused with functions as the term is used in COFOG. Hence, a government subsidy to shipyards is classified under manufacturing (70442), and grants to hospitals are classified under hospital services (7073) regardless of the ultimate purposes. Subsidies and grants designed chiefly to increase employment opportunities in general are an exception to this rule. Because such programs do not focus on any single industry, they should be classified under general labour affairs (70412).

iv. **Consumption of fixed Capital**: It is likely that consumption of fixed capital will be difficult to allocate by function, especially if only aggregated figures for total government capital stock and consumption of fixed capital are compiled. In these circumstances, approximations will have to be used. One possibility may be to distribute consumption of fixed capital according to book value depreciation, if it is available for detailed organizational units within government. Another approach should be to distribute consumption of fixed capital among functions in proportion to the net acquisition of fixed assets over a number of earlier years.

v. **Net investment in non-financial assets**: Another caution regarding the use of COFOG statistics relates to net investment in non-financial assets. Because expenditure classified by COFOG includes consumption of fixed capital as an expense, and includes it in the calculation of net investment in non-financial assets (deducted from acquisition minus disposals), the consumption of fixed capital will net out in COFOG data. However, if a functional classification is compiled for expense items only, this will include consumption of fixed capital representing part of the resource cost of using previously acquired fixed assets.

Table 11. 4*: Classification of Expenditure by Function of Government*

7	**Total outlays (Expenditure)**		
701	**General public services**	**706**	**Housing and community amenities**
7011	Executive and legislative organs, financial and fiscal affairs, external affairs	7061	Housing development
7012	Foreign economic aid	7062	Community development
7013	General services	7063	Water supply
7014	Basic research	7064	Street lighting
7015	R&D General public services	7065	R&D Housing and community amenities
7016	General public services n.e.c.	7066	Housing and community amenities n.e.c.
7017	Public debt transactions	**707**	**Health**
7018	Transfers of a general character between different levels of govt	7071	Medical products, appliances, and equipment
702	**Defense**	7072	Outpatient services
7021	Military defence	7073	Hospital services
7022	Civil defence	7074	Public health services
7023	Foreign military aid	7075	R&D Health
7024	R&D Defence	7076	Health n.e.c.
7025	Defense n.e.c.	**708**	**Recreation, culture, and religion**
703	**Public order and safety**	7081	Recreational and sporting services
7031	Police services	7082	Cultural services
7032	Fire protection services	7083	Broadcasting and publishing services
7033	Law courts	7084	Religious and other community services
7034	Prisons	7085	R&D Recreation, culture, and religion
7035	R&D Public order and safety	7086	Recreation, culture, and religion n.e.c.
7036	Public order and safety n.e.c.	**709**	**Education**
704	**Economic affairs**	7091	Pre-primary and primary education
7041	General economic, commercial, and labour affairs	7092	Secondary education
7042	Agriculture, forestry, fishing, and hunting	7093	Post-secondary non-tertiary education
7043	Fuel and energy	7094	Tertiary education
7044	Mining, manufacturing, and construction	7095	Education not definable by level
7045	Transport	7096	Subsidiary services to education
7046	Communication	7097	R&D Education
7047	Other industries	7098	Education n.e.c.
7048	R&D Economic affairs	**710**	**Social protection**
7049	Economic affairs n.e.c.	7101	Sickness and disability
705	**Environmental protection**	7102	Old age
7051	Waste management	7103	Survivors

7052	Waste water management	7104	Family and children
7053	Pollution abatement	7105	Unemployment
7054	Protection of biodiversity and landscape	7106	Housing
7055	R&D Environmental protection	7107	Social exclusion n.e.c.
7056	Environmental protection n.e.c.	7108	R&D Social protection
		7109	Social protection n.e.c.

11.6. Regional Best Practices in Classification of Expenditure

11.6.1. Economic Classification of Expenditure

Classification

Best practice on economic classification of expenditure requires that the Standard Chart of Accounts (SCOA) which defines the source data from the Integrated Financial Management System to aligned with the GFSM2014 economic classification. The SCOA of most of the Partner States are to a large extent aligned to the GFSM 2014. For the cases where there is misalignment with chart of accounts, bridge tables are prepared to correctly map the source data to the GFSM2014.

Source Data availability and format

Source data from the Partner States vary from hard copy printouts of the financial statements, Portable Document Format (PDF) documents of the financial statements, or access to the Integrated Financial Management Systems (IFMIS) database. Best practices in the advanced Partner States provide the compilers with access to the IFMIS databases. When this is the case there is need to ensure that any transactions not executed through the IFMIS are fully identified, and the financial information for these areas complement the data for full coverage as per the disseminated national public sector institutional table, which is used by compilers of macroeconomic statistics at national level. The public sector institutional table need to be updated every year, and disseminated publicly

Data Dissemination

Good practice dictates that statistics are disseminated once they are compiled and validated, to enable users at national, regional and international level to use the information. The Partner States compile the economic classification of expenditure, on annual, quarterly and monthly basis. Most of the Partner States disseminate the annual economic classification data on annual and quarterly basis, while the monthly data is largely for internal use in the Ministries responsible for Finance in the Partner States. Partner states that do no disseminate the validated statistics need to commence the dissemination.

11.6.2. Classification of Expenditure by Functions of Government

Classification

Best practice requires that the Expenditure by Functions of Government (COFOG) codes be integrated in the Standard Chart of Accounts (SCOA). The COFOG codes are allocated to programmes being executed in the budget from the programme based budgeting. A programme usually be supporting one and only one function of government, making the source data to be aligned with the GFSM2014 COFOG classification. Most of the Partner States have either adopted programme based budgeting, or are in the process of adopting programme based budgeting.

For Partner States that are yet to adopt programme based budget, the administrative structure of the government through directorates and departments are allocated the COFOG codes. The directorates and departments are mapped to the GFSM2014 COFOG classification, where each department/ directorate is allocated one COFOG code that relates to the mandate of the directorate/ department.

Source Data availability and format

Source data in the Partner States vary from hard copy printouts of the financial statements, Portable Document Format (PDF) documents of the financial statements, or access to the Integrated Financial Management Systems (IFMIS) database. Best practices in the advanced Partner States provide the compilers with access to the IFMIS databases, and run the reports by COFOG codes. When the IFMIS codes are not integrated in the IFMIS, data is downloaded and mapping of either the programmes or departments is done, and summaries by COFOG done.

There is need to ensure full coverage of the whole of government, and that expenditure by economic classification n is equal to the expenditure by functional classification.

Data Dissemination

Best practice requires that the expenditure by Functions of Government (COFOG) be compiled and disseminated on annual basis. Partner States that compile expenditure by COFOG on annual basis disseminate the annual data. Partner states that do no disseminate the validated statistics need to commence the dissemination.

12. LIST OF ANNEXES

12.1. Glossary of Concepts

An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of carrying forward value from one accounting period to another. These assets may be non-financial or financial.

Financial assets consist of financial claims and gold bullion held by monetary authorities as a reserve asset.

Nonfinancial assets are economic assets other than financial assets

In Accrual basis of recording, flows are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished.

Actual employers' social contributions consist of actual contributions payable to social security funds, employment-related pension funds, and other employment-related social insurance schemes to obtain entitlement to social benefits for their employees.

Actual premium (fee) is the amount payable to the insurer (guarantor) to secure insurance coverage for a specific event over a stated time period.

Aggregates are summations of individual entries and elements in a class of flows or stock positions.

Amortized value of a loan reflects the gradual elimination of the liability by regular payments over a specified period of time.

Arrears are defined as amounts that are both unpaid and past the due date for payment

Asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the resource over a period of time.

Balance sheet is a statement of the values of the stock positions of assets owned and of the liabilities owed by an institutional unit or group of units, drawn up in respect of a particular point in time

Balancing items are economic constructs obtained by subtracting one aggregate from a second aggregate

Bills defined as securities (usually short-term) that give holders the unconditional rights to receive stated fixed sums on a specified date.

Bonds and debentures are securities that give the holders the unconditional right to fixed payments or contractually determined variable payments on a specified date or dates.

Book value generally refers to the value recorded in the entities' records

Budgetary central government is a single unit of the central government that encompasses the fundamental activities of the national executive, legislative, and judiciary powers.

Buildings other than dwellings include whole buildings or parts of buildings not designated as dwellings. Fixtures, facilities, and equipment that are integral parts of the structures are included.

Capital grants are capital transfers receivable by government units, from other resident or non-resident government units or international organizations, that do not meet the definition of a tax, subsidy, or a social contribution.

Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories).

Capital transfers not elsewhere classified are gift s and transfers of a capital nature (other than grants) from individuals, private non-profit institutions, nongovernmental foundations, or corporations.

In Cash basis of recording flows are recorded when cash is received or disbursed.

Catastrophic loss is the partial or complete destruction of a significantly large number of assets within any of the asset categories resulting from a large-scale, discrete, and recognizable event.

Centre of predominant economic interest: An institutional unit has a centre of predominant economic interest in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which, or from which, the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale

Central bank is the national financial institution that exercises control over key aspects of the financial system.

Central government subsector consists of the institutional unit(s) of the central government plus those nonmarket NPIs that are controlled by the central government. The political authority of the central government extends over the entire territory of the country.

Change in net worth due to holding gains or losses is defined as the sum of the positive or negative holding gains and holding losses on all assets and liabilities.

Change in net worth due to other changes in the volume of assets and liabilities is defined as the sum of the positive and negative other changes in the volume

of assets and liabilities.

Change in net worth due to other economic flows is defined as the sum of the change in net worth due to holding gains or losses and the change in net worth due to other changes in the volume of assets.

Collective service is a service provided simultaneously to all members of the community or to all members of a particular section of the community, such as all households living in a particular region.

In Commitments basis of recording, flows are recorded when an institutional unit has committed itself to a transaction.

Compensation of employees is the total remuneration, in cash or in kind, payable to an individual in an employer-employee relationship in return for work performed by the latter during the reporting period.

Computer software includes computer programs, program descriptions, and supporting materials for both systems and applications soft ware that are expected to be used for more than one year.

Consolidation is a method of presenting statistics for a set of units (or entities) as if they constituted a single unit.

Consumption of fixed capital is the decline, during the course of the reporting period, in the current value of the stock of fixed assets owned and used by a government unit as a result of physical deterioration, normal obsolescence, or normal accidental damage.

Contingent liabilities are obligations that do not arise unless a particular, discrete event(s) occurs in the future.

Contracts, leases, and licenses are treated as assets only when both the following conditions are satisfied: (i) the terms of the contract, lease, or license specify a price for the use of an asset or provision of a service that differs from the price that would prevail in the absence of the contract, lease, or license, and (ii) one party to the contract must be able legally and practically to realize this price difference.

Control of a corporation is defined as the ability to determine general corporate policy of the corporation.

Control of an NPI is defined as the ability to determine the general policy or program of the NPI.

Corporations are defined as entities that are capable of generating a profit or other financial gain for their owners, are recognized by law as separate legal entities from their owners, and are set up for purposes of engaging in market production

Costs of ownership transfer are Costs of ownership transfer the costs associated with acquiring and disposing of nonfinancial assets (other than inventories).

Credit entry is a decrease in an asset, an increase in a liability, or an increase in net worth

Cultivated biological resources cover animal resources yielding repeat products and tree, crop, and plant resources yielding repeat products whose natural growth and regeneration are under the direct control, responsibility, and management of institutional units.

Currency consists of notes and coins that are of fixed nominal values and are issued or authorized by the central bank or government

Currency union is defined as a union to which two or more economies belong and that has a regional central decision-making body, commonly a currency union central bank, endowed with the legal authority to conduct a single monetary policy and issue the single currency of the union.

Current grants are current transfers receivable by government units, from other resident or non-resident government units or international organizations, and that do not meet the definition of a tax, subsidy, or a social contribution

Current transfers consist of all transfers that are not capital transfers.

Custom union is a form of regional arrangement whereby agreement exists on a common tariff (custom duties) vis-à-vis the other economies while the movement of goods within the arrangement tends to be duty-free.

Databases consist of files of data organized in such a way as to permit resource effective access and use of the data.

Debit entry is an increase in an asset, a decrease in a liability, or a decrease in net worth

Debt assumption is a trilateral agreement between a creditor, a former debtor, and a new debtor (typically a government unit), under which the new debtor assumes the former debtor's outstanding liability to the creditor, and is liable for repayment of debt.

Debt conversion (swap) is an exchange of debt-typically at a discount-for a nondebt claim (such as equity), or for counterpart funds that can be used to finance a particular project or policy.

Debt forgiveness (or debt cancellation) is defined as the voluntary cancellation of all or part of a debt obligation within a contractual arrangement between a creditor and a debtor.

Debt payments on behalf of others: Rather than assuming a debt, a public sector unit may decide to repay that debt or make a specific payment on behalf of another institutional unit (original debtor), without a guarantee being called or the debt being taken over.

Debt prepayment consists of a repurchase, or early payment, of debt at conditions that are agreed between the debtor and the creditor.

Debt refinancing involves the replacement of an existing debt instrument or instruments, including any arrears, with a new debt instrument or instruments,

Debt reorganization (also referred to as debt restructuring is defined as an arrangement involving both the creditor and the debtor (and sometimes third parties) that alters the terms established for servicing an existing debt.

Debt rescheduling is a bilateral arrangement between the debtor and the creditor that constitutes a formal postponement of debt service payments and the application of new and generally extended maturities.

Debt securities are negotiable financial instruments serving as evidence of a debt.

Debt write-offs or write-downs refer to unilateral reductions by a creditor, of the amount owed to it.

Defined-benefit pension scheme is one where the benefits payable to an employee on retirement are determined by the use of a formula, either alone or as a minimum amount payable.

Defined-contribution pension scheme is one where the benefits payable to an employee on retirement are defined exclusively in terms of the level of the funds built up from the contributions made over the employee's working life and the increases in value that result from the investment of these funds by the manager of the scheme.

Deposits are all claims, represented by evidence of deposit, on the deposit taking corporations (including the central bank) and, in some cases, general government or other institutional units.

Distributable income of a corporation is equal to entrepreneurial income, plus all current transfers receivable, minus all current transfers payable and minus the adjustment for the change in pension entitlements relating to the pension scheme of that corporation.

Dividends are the distributed earnings allocated to government or public sector units, as the owners of equity, for placing funds at the disposal of corporations.

Domestic currency is that which is legal tender in the economy and issued by the monetary authority for that economy- that is, either that of an individual economy or, in a currency union, that of the common currency area to which the economy belongs.

In Due-for-payment basis of recording flows that give rise to cash payments are recorded at the latest times they can be paid without incurring additional charges or penalties or, if sooner, when the cash payment is made.

Dwellings are buildings, or designated parts of buildings, that are used entirely or primarily as residences, including any associated structures, such as garages, and all permanent fixtures customarily installed in residences.

Economic assets are resources over which ownership rights are enforced and from which economic benefits may flow to the owners.

Economic classification of expense identifies the types of expense incurred according to the economic process involved.

Economic flows reflect the creation, transformation, exchange, transfer, or extinction of economic value; they involve changes in the volume, composition, or value of a unit’s assets, liabilities, and net worth.

Economic owner of resources such as goods and services, natural resources, financial assets, and liabilities is the institutional unit entitled to claim the benefits associated with the use of these resources by virtue of accepting the associated risks.

Economic territory in its broadest sense, can be any geographic area or jurisdiction for which statistics are required.

Economically significant prices are prices that have a significant effect on the amounts that producers are willing to supply and, on the amounts, purchasers wish to buy.

Economy An economy consists of a set of resident institutional units.

Employers’ social contributions are social contributions payable by employers, to social security funds, employment-related pension funds, or other employment-related social insurance schemes to obtain entitlement to social benefits for their employees

Employment-related social benefits are social benefits payable in cash or in kind by government or public sector units to their employees or employees of other government or public sector units participating in the scheme (or to survivors and dependents of the employees who are eligible for such payments)

Environmental protection activities are those activities whose primary purpose is the prevention, reduction, and elimination of pollution and other forms of degradation of the environment.

Equity consists of all instruments and records that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met.

Establishment is an enterprise, or part of an enterprise, that is situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added.

Estate, inheritance, and gift taxes cover taxes on transfers of property at death and on gift s, including gift s made between living members of the same family to avoid, or minimize, the payment of inheritance taxes.

Exchange is a transaction in which one unit provides a good, service, asset, or labour to a second unit and receives a good, service, asset, or labour of the same value in return.

Excises are taxes levied as a product-specific unit tax on a predefined limited range of goods.

Expenditure is the sum of expense and the net investment in nonfinancial assets

Expense is a decrease in net worth resulting from a transaction

Explicit contingent liabilities are defined as legal or contractual financial arrangements that give rise to conditional requirements to make payments of economic value.

Face value of a debt instrument is the undiscounted amount of principal to be repaid at (or before) maturity.

Fair value is a market-equivalent value defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial assets consist of financial claims and gold bullion held by monetary authorities as a reserve asset.

Financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability.

Financial corporations are corporations that are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units.

Financial corporations sector consists of resident corporations that are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units.

Financial intermediaries are institutional units that incur liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market.

Financial lease is a contract under which the lessor, as legal owner of an asset, conveys substantially all risks and rewards of ownership of the asset to the lessee.

Fines and penalties are compulsory current transfers imposed on units by courts of law or quasi-judicial bodies for violations of laws or administrative rules.

Finished goods consist of goods that are the output of a production process, are still held by their producer, and are not expected to be processed further by the producer before being supplied to other units.

Fiscal policy is the use of the level and composition of the general government and public sectors' spending and revenue—and the related accumulation of government assets and liabilities—to achieve such goals as the stabilization of the economy, the reallocation of resources, and the redistribution of income.

Fixed assets are produced assets that are used repeatedly or continuously in production processes for more than one year.

Flows refer to economic actions engaged in by institutional units and other events affecting the economic status of units that occur within an accounting period, which create, transform, exchange, transfer, or extinguish economic value. Flows involve changes in the volume, value, or composition of an institutional unit's assets, liabilities, and net worth. All flows are classified as transactions or other economic flows.

Forfeits: Forfeits are amounts that were deposited with a general government unit pending a legal or administrative proceeding and that have been transferred to the general government unit as part of the resolution of that proceeding.

Functional classification of expense provides information on the purpose for which an expense was incurred.

General government sector consists of resident institutional units that fulfil the functions of government as their primary activity.

General taxes on goods and services are levied on the production, leasing, delivery, sale, purchase, or other change of ownership of a wide range of goods and the rendering of a wide range of services.

Goods for resale are goods acquired for the purpose of reselling or transferring to other units without being further processed.

Government units are unique kinds of legal entities established by political processes that have legislative, judicial, or executive authority over other institutional units within a given area.

Grants are transfers receivable by government units, from other resident or non-resident government units or international organizations, and that do not meet the definition of a tax, subsidy, or social contribution.

Gross debt at market value means that debt securities are valued at market prices; insurance, pension, and standardized guarantee schemes are valued according to principles that are equivalent to market valuation; and all other debt instruments are valued at nominal prices, which are considered to be the best generally available proxies of their market prices.

Gross debt at nominal value means that debt securities are valued at their nominal values. The nominal value of a debt instrument at any moment in time is the amount that the debtor owes to the creditor.

Gross value added or gross domestic product (GDP) is defined as the value of output minus the value of intermediate consumption.

Historic cost in its strict sense, reflects the cost at the time of acquisition, but sometimes it may also reflect occasional revaluations.

Holding gain or loss is a change in the monetary value of an asset or liability resulting from changes in the level and structure of prices, excluding qualitative or quantitative changes in the asset or liability.

Household is a group of persons who share the same living accommodation, who pool some, or all, of their income and wealth, and who consume certain types of goods and services collectively, mainly housing and food.

Households sector consists of all resident households.

Implicit contingent liabilities do not arise from a legal or contractual source but are recognized after a condition or event is realized.

Imputed employers' social contributions are the amounts calculated and added to actual contributions, sufficient to exactly match the increases in employees' social benefit entitlements.

Individual consumption good or service is one that is acquired by a household and used to satisfy the needs or wants of members of that household.

Institutional sector groups together similar kinds of institutional units according to their economic objective s, functions, and behaviour.

Institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities.

Intangible non-produced assets are constructs of society evidenced by legal or accounting actions.

Intellectual property products are the result of research, development, investigation, or innovation leading to knowledge that the developers can market or use to their own benefit in production because use of the knowledge is restricted by means of legal or other protection.

Interest is a form of investment income that is receivable by the owners of certain kinds of financial assets (SDRs, deposits, debt securities, loans, and other accounts receivable) for putting these financial assets and other resources at the disposal of another institutional unit.

Intermediate consumption consists of the goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital.

Inter-sectoral consolidation is consolidation between subsectors of the public sector to produce consolidated statistics for a particular grouping of public sector units.

Intra-sectoral consolidation is consolidation within a particular subsector to produce consolidated statistics for that particular subsector.

Inventories are produced assets consisting of goods and services, which came into existence in the current period or in an earlier period, and that are held for sale, use in production, or other use at a later date.

Land consists of the ground, including the soil covering and any associated surface waters, over which ownership rights are enforced and from which economic benefits can be derived by their owners by holding or using them.

Land improvements are the result of actions that lead to major improvements in the quantity, quality, or productivity of land, or prevent its deterioration.

Legal or social entity is one whose existence is recognized by law or society independently of the persons or other entities that may own or control it.

Legal owner of resources such as goods and services, natural resources, financial assets, and liabilities is the institutional unit entitled by law and sustainable under the law to claim the benefits associated with the resource.

Liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor).

Loan is a financial instrument that is created when a creditor lends funds directly to a debtor and receives a nonnegotiable document as evidence of the asset.

Loans and other debt instrument guarantees are commitments by one party to bear the risk of non-payment by another party.

Local government units are institutional units whose fiscal, legislative, and executive authority extends over the smallest geographical areas distinguished for administrative and political purposes.

Machinery and equipment cover transport equipment, machinery for information, computer, and telecommunications (ICT) equipment, and machinery and equipment not elsewhere classified.

Market establishment is an establishment that charges economically significant prices.

Market prices refer to current exchange value-that is, the value at which goods, services, labour, or assets are exchanged or else could be exchanged for cash (currency or transferable deposits).

Market prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers; the exchanges are made between independent parties and on the basis of commercial considerations only, sometimes called “at arm’s length”.

Market producer is an institutional unit that provides all or most of its output to others at prices that are economically significant.

Market regulatory agencies act on behalf of a government (or a regional organization with governments as its members) and influence the market for specific goods or services directly and/or indirectly.

Marketable operating leases are third-party property rights relating to fixed assets.

Maturity of a debt instrument refers to the time until the debt is extinguished according to the contract between the debtor and the creditor.

Military inventories consist of single-use items, such as ammunition, missiles, rockets, bombs, etc., delivered by weapons or weapons systems.

Mineral and energy resources consist of mineral and energy reserves located on or below the earth's surface that are economically exploitable, given current technology and relative prices.

Mineral exploration and evaluation consist of the value of expenditure on exploration for petroleum and natural gas and for nonpetroleum deposits and subsequent evaluation of the discoveries made.

Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset.

Monetary transaction is one in which one institutional unit makes a payment (receives a payment) or incurs a liability (acquires an asset) to (from) another institutional unit stated in units of currency.

Monetary union exists where there is the presence of a single monetary policy among economies, established by an intergovernmental legal agreement.

Motor vehicle taxes include taxes on the use of motor vehicles or permission to use motor vehicles.

Net debt is calculated as gross debt minus financial assets corresponding to debt instruments.

Net financial worth of an institutional unit (or grouping of units) is the total value of its financial assets minus the total value of its liabilities.

Net investment in inventories (change in inventories) is measured by the value of the additions to inventories minus the value of withdrawals from inventories minus the value of any recurrent losses of goods held in inventories during the reporting period.

Net worth of an institutional unit (or grouping of units) is the total value of its assets minus the total value of its liabilities.

Nominal value at any moment in time is the amount that the debtor owes to the creditor

Non-cultivated biological resources consist of animals, birds, fish, and plants that yield both once-only and repeat products over which ownership rights are enforced but for which natural growth or regeneration is not under the direct control, responsibility, and management of any institutional units.

Nonfinancial assets Nonfinancial assets are economic assets other than financial assets.

Non-financial corporations are corporations whose principal activity is the production of market goods or nonfinancial services.

Nonfinancial corporations sector consists of resident institutional units that are principally engaged in the production of market goods or nonfinancial services.

Nonmarket producer provides all or most of its output to others for free or at prices that are not economically significant.

Nonmonetary transactions are transactions that are not initially stated in units of currency.

Non-pension social benefits include payments made to individuals when they are temporarily unemployed, suffering from a medical condition, or suffering from an event that prevents them from working for a period

Nonperforming loans are those for which (i) payments of principal and/or interest are past due by three months (90 days) or more; or (ii) interest payments equal to three months (90 days) interest or more have been capitalized (reinvested to the principal amount) or payment has been delayed by agreement; or (iii) evidence exists to reclassify a loan as nonperforming even in the absence of a 90-day past due payment, such as when the debtor fi les for bankruptcy.

Non-profit institutions (NPIs) are legal or social entities created for the purpose of producing or distributing goods and services, but they cannot be a source of income, Profit, or other financial gain for the institutional units that establish, control, or finance them

Non-profit institutions serving households (NPISHs) sector consists of resident nonmarket non-profit institutions (NPIs) that are not controlled by government.

One-off guarantees comprise those types of guarantees where the debt instrument is so particular that it is not possible to calculate the degree of risk associated with the debt with any degree of accuracy.

On-lending of borrowed funds refers to a resident institutional unit, A (usually central government), borrowing from another institutional unit(s), B (usually a non-resident unit), and then on-lending the proceeds from this borrowing to a third institutional unit(s), C (usually state or local governments, or a public corporation(s)), where it is understood that unit A obtains an effective financial claim on unit C.

Operating leasing is the activity of renting out produced assets under arrangements that provide use of a tangible asset to the lessee, but do not involve the transfer of the bulk of risks and rewards of ownership to the lessee.

Original maturity Original maturity is the period from the issue date until the final contractually scheduled payment date.

Other accounts receivable/payable consist of trade credit and advances and miscellaneous other items due to be paid or received.

Other changes in the volume of assets are any changes in the value of an asset or liability that do not result from a transaction or a holding gain/loss.

Other current transfers not elsewhere classified are gifts and transfers of a current nature (other than grants or subsidies) from individuals, private non-profit institutions, nongovernmental foundations, or corporations,

Other economic flows are changes in the volume or value of assets or liabilities that do not result from transactions.

Other employment-related social insurance schemes derive from an employer/ employee relationship in the provision of pension entitlement and other social benefit to employees as part of the conditions of employment.

Other equity is equity that is not in the form of securities.

Other intellectual property products consist of new information and specialized knowledge not elsewhere classified.

Other public financial corporations comprise all resident financial corporations, except public deposit-taking corporations, controlled by general government units or other public corporations.

Other recurrent taxes on property include all recurrent taxes on property other than immovable property or net wealth.

Other revenue is all revenue receivable excluding taxes, social contributions, and grants.

Other social contributions are actual and imputed contributions receivable by social insurance schemes operated by employers on behalf of their employees.

Other subsidies on production are subsidies that enterprises receive as a consequence of engaging in production but that are not related to specific products.

Other taxes cover revenue from taxes levied predominantly on a base or bases not elsewhere classified, and unidentified taxes.

Other taxes on goods and services includes taxes on the extraction of minerals, fossil fuels, and other exhaustible resources from deposits owned privately or by another government and any other taxes on goods or services not included in categories 1141 through.

Other taxes on use of goods and on permission to use goods or perform activities include business and professional licenses that consist of taxes paid by enterprises in order to obtain a license to carry on a particular kind of business or profession and taxes payable by individuals to perform certain activities.

Own funds are defined as the difference between total assets (at market values) and total liabilities excluding shares and other equity (at market value).

Partitioning records a transaction that is a single transaction from the perspective of the parties involved as two or more differently classified transactions.

Pension entitlements Pension entitlements are financial claims that existing and future pensioners hold against either their employer or a fund designated by the employer, to pay pensions earned as part of a compensation agreement between the employer and employee

Pensions and other retirement benefits are payable when individuals cease employment upon retirement.

Permit to undertake a specific activity is an asset for the holder when: (i) the permits are limited in number and so allow the holders to earn monopoly Profits, (ii) the monopoly Profits do not come from the use of an asset belonging to the permit-issuer, and (iii) a permit holder is able both legally and practically to sell the permit to a third party.

Permits to use natural resources are third-party property rights relating to natural resources

Premium earned is the part of the actual premium that relates to coverage provided in the reporting period

Premiums, fees, and claims payable related to nonlife insurance and standardized guarantee schemes include nonlife insurance premiums payable to insurance schemes/corporations to secure entitlement to insurance against risks, claims payable by insurance schemes to beneficiaries, and fees payable to obtain standardized guarantees.

Premiums, fees, and claims receivable related to nonlife insurance and standardized guarantee schemes comprise nonlife insurance premiums receivable by insurance schemes to provide entitlement to insurance against risks; claims receivable from insurance schemes by beneficiaries; and fees receivable for the issuance of standardized guarantees.

Premiums, fees, and current claims payable comprise nonlife insurance premiums expense and fees payable for the issuance of standardized guarantees, as well as insurance settlement expense that is not exceptional.

Premiums, fees, and current claims receivable comprise nonlife insurance premium revenue and fees receivable for the issuance of standardized guarantees, as well as insurance settlement revenue that is not exceptional.

Present value is the value today of a future payment or stream of payments discounted at some appropriate compounded interest rate.

Production measure of gross domestic product is defined as gross value added plus any taxes minus subsidies on products not already included in the value of output.

Profits of fiscal monopolies Profits of fiscal monopolies cover that part of the Profits of fiscal monopolies that is transferred to the government. Fiscal monopolies are public corporations, public quasi-corporations, or government-owned unincorporated enterprises that have been granted a legal monopoly over the production or distribution of a particular kind of good or service in order to raise revenue and not in order to further the interests of public economic or social policy.

Property expense is the expense payable to the owners of financial assets or natural resources when they put them at the disposal of another unit.

Property expense for investment income disbursements includes property income attributed to insurance policyholders, pension entitlements, and holders of investment fund shares.

Property income is the revenue receivable in return for putting financial assets and natural resources at the disposal of another unit.

Property income from investment income disbursements includes property income attributed to insurance policyholders and holders of investment fund shares.

Provident funds Provident funds are compulsory saving schemes that maintain the integrity of the contributions for individual participants.

Public corporations subsector consists of all resident corporations controlled by government units or by other public corporations.

Public deposit-taking corporations are financial corporations controlled by general government units or other public corporations whose principal activity is financial intermediation and who have liabilities in the form of deposits or financial instruments that are close substitutes for deposits.

Public deposit-taking corporations except the central bank consist of all resident depository corporations, except the central bank, that are controlled by general government units or other public corporations.

Public financial corporations subsector: All resident financial corporations controlled by general government units or other public corporations are part of the public financial corporations subsector

Public monuments are identifiable because of particular historical, national, regional, local, religious, or symbolic significance

Public nonfinancial corporations subsector: All resident nonfinancial corporations controlled by general government units or other public corporations are part of the public nonfinancial corporations subsector

Public-private partnerships (PPPs) are long-term contracts between two units, whereby one unit acquires or builds an asset or set of assets, operates it for a period, and then hands the asset over to a second unit.

Public sector consists of all resident institutional units controlled directly, or indirectly, by resident government units - that is, all units of the general government sector and resident public corporations.

Quasi-corporation is (i) either an unincorporated enterprise owned by a resident institutional unit that has sufficient information to compile a complete set of accounts and is operated as if it were a separate corporation and whose relationship to its owner is effectively that of a corporation to its shareholders, or (ii) an unincorporated enterprise owned by a non-resident institutional unit that is deemed to be a resident institutional unit because it engages in a significant amount of production in the economic territory over a long or indefinite period of time.

Quasi-fiscal operations are government operations carried out by institutional units other than general government units.

Real holding gain is defined as the value accruing to an asset as a result of a change in its price relative to the prices of goods and services in general.

A **Realized holding gain** is realized when an asset is sold, redeemed, used, or otherwise disposed of, or a liability incorporating a holding gain or loss is repaid.

Reassignment records a transaction arranged by a third party on behalf of others as taking place directly by the two principal parties involved.

Recurrent taxes on immovable property cover taxes levied regularly on the use or ownership of immovable property, which includes land, buildings, and other structures.

Recurrent taxes on net wealth cover taxes levied regularly on net wealth.

Rent (expense) payable to the owners of a natural resource (the lessor or landlord) for putting the natural resource at the disposal of another institutional unit (a lessee or tenant) for use of the natural resource in production.

Rent (revenue) receivable by the owners of a natural resource (the lessor or landlord) for putting the natural resource at the disposal of another institutional unit (a lessee or tenant) for use of the natural resource in production.

Rerouting records a transaction as taking place through channels that differ from the actual ones, or as taking place in an economic sense when no actual transactions take place.

Research and development consist of the value of expenditure on creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture, and society, and use of this stock of knowledge to devise new applications.

Residence of each institutional unit is the economic territory with which it has the strongest connection (i.e., its centre of predominant economic interest).

Resource management activities are those activities whose primary purpose is preserving and maintaining the stock of natural resources and hence safeguarding against depletion.

Revenue is an increase in net worth resulting from a transaction.

Sales of goods and services consist of the sales by market establishments, administrative fees charged for services, incidental sales by nonmarket establishments, and imputed sales of goods and services.

Sales taxes are all general taxes levied on sales at one stage only, whether at manufacturing or production stages or on wholesale or retail trade.

Securities are debt and equity instruments that have the characteristic feature of negotiability.

Securities repurchase agreement (repo) is an arrangement involving the sale of securities for cash, at a specified price, with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date (often one or a few days hence) or with an open maturity.

Securitization occurs when a unit, named the originator, conveys the ownership rights over financial or nonfinancial assets, or the right to receive specific future flows, to another unit, named the securitization unit. In return, the securitization unit pays an amount to the originator from its own source of financing. The securitization unit obtains its own financing by issuing debt securities using the assets or rights to future flows transferred by the originator as collateral.

Sinking fund is a separate account, which may be an institutional unit, made up of segregated contributions provided by the unit(s) that makes use of the fund (the “parent” unit) for the gradual redemption of the parent unit’s debt. A sinking fund may also be established to provide for major repairs or replacements.

Social assistance provides social protection benefits to all persons who are in need without any formal requirement to participate as evidenced by the payment of contributions.

Social assistance benefits are transfers payable in cash or in kind to households to meet the same needs as social insurance benefits but are not made under a social insurance scheme.

Social benefits are current transfers receivable by households intended to provide for the needs that arise from social risks.

Social contributions are actual, or imputed, revenue receivable by social insurance schemes to make provision for social insurance benefits payable.

Social insurance contribution is the amount payable to a social insurance scheme in order for a designated beneficiary to be entitled to receive the social benefits covered by the scheme.

Social insurance schemes provide social protection and require formal participation by the beneficiaries, evidenced by the payment of contributions (actual or imputed).

Social protection is the systematic intervention intended to relieve households and individuals of the burden of a defined set of social risks.

Social risks are events or circumstances that may adversely affect the welfare of the households concerned either by imposing additional demands on their resources or by reducing their income.

Social security benefits Social security benefits are social benefits expense payable in cash or in kind to households by social security schemes.

Social security contributions are actual revenue receivable by social security schemes organized and operated by government units, for the benefit of the contributors to the scheme.

Social security fund is a particular kind of government unit that is devoted to the operation of one or more social security schemes.

Social security schemes are social insurance schemes covering the community as a whole, or large sections of the community, and are imposed and controlled by government units

Special Drawing Rights (SDRs) are international reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement reserve assets

State governments consist of institutional units exercising some of the functions of government at a level below that of central government and above that of the government institutional units existing at a local level.

Stock is a measure economic value at a point in time. In other words, stock positions refer to a unit's holdings of assets and liabilities at a specific time and the unit's resulting net worth, equal to total assets minus total liabilities. Stock position is the total holdings of assets and/or liabilities at a point in time

Subsidies are current unrequited transfers that government units make to enterprises

On the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import.

Subsidy on products is a subsidy payable per unit of a good or service.

Tax credit is an amount subtracted directly from the tax liability due by the beneficiary household or corporation after the liability has been computed.

Tax expenditures are concessions or exemptions from a "normal" tax structure that reduce government revenue collection.

Tax refunds are adjustments for overestimation of taxes payable or the return of amounts to taxpayers due to overpayments

Tax relief measures are incentives that reduce the amount of tax owed by an institutional unit.

Taxes are compulsory, unrequited amounts receivable by government units from institutional units

Taxes on capital gains consist of taxes on the capital gains (including capital gain distributions of investment funds) of persons or corporations that become payable during the current reporting period, irrespective of the periods over which the gains have accrued.

Taxes on financial and capital transactions are taxes levied on the change in ownership of property, except those classified as gift s, inheritance, or estate transactions.

Taxes on goods and services are taxes that become payable as a result of the production, sale, transfer, leasing, or delivery of goods and rendering of services, or as a result of their use for own consumption, or own capital formation

Taxes on income, Profits, and capital gains consist of taxes assessed on the actual or presumed incomes of institutional units.

Taxes on individual or household income consist of personal income taxes, including those deducted by employers (pay-as-you-earn taxes), and surtaxes

Taxes on international trade and transactions are taxes that become payable when goods cross the national or customs frontiers of the economic territory, or when transactions in services exchange between residents and non-residents.

Taxes on property are taxes payable on the use, ownership, or transfer of wealth

Taxes on specific services are levied on payments for specific services

Taxes on the income of corporations consist of corporate income taxes, corporate profits taxes, corporate surtaxes, etc.

Taxes on use of goods and on permission to use goods or perform activities are fees levied for the issuance of a license or permit that are not commensurate with the cost of the control function of government.

Total gross debt often referred to as “total debt” or “total debt liabilities”— consists of all liabilities that are debt instruments. A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.

Transaction is an economic flow that is an interaction between institutional units by mutual agreement or through the operation of the law, or an action within an institutional unit that is analytically useful to treat like a transaction, often because the unit is operating in two different capacities.

Transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart.

Transfers not elsewhere classified (payable include a number of gift s and transfers to individuals, private non-profit institutions, nongovernmental foundations, corporations, or government units that are not included in other categories of transfers, and serving quite different purposes.

Transfers not elsewhere classified (receivable) include subsidies, as well as gift s and transfers from individuals, private non-profit institutions, nongovernmental foundations, corporations, or sources other than governments and international organizations.

Transport equipment: consists of equipment for moving people and objects.

Turnover and other general taxes on goods and services: are multistage cumulative taxes and taxes where elements of consumption taxes are combined with multistage taxes.

Valuables: are produced assets of considerable value that are not used primarily for purposes of production or consumption, but are held primarily as stores of value over time.

Value-added taxes (VAT) are taxes on goods or services collected in stages by enterprises but ultimately charged in full to the final purchasers.

Wages and salaries are compensation of employees payable in cash and/or in kind, except for social contributions payable by employers

Wages and salaries in cash are the amounts payable in cash, or any other financial instruments used as means of payments, to employees in return for work performed

Wages and salaries in kind are amounts payable in the form of goods, services, interest forgone, and shares issued to employees in return for work performed.

Water resources consist of surface and groundwater resources used for extraction to the extent that their scarcity leads to the enforcement of ownership or use rights, market valuation, and some measure of economic control.

Weapons systems include vehicles and other equipment such as warships, submarines, military aircraft, tanks, missile carriers and launchers, etc.

Withdrawals of income from quasi-corporations consist of that part of distributable income that the owner withdraws from the quasi-corporation

Work in progress consists of goods and services that are not yet sufficiently processed to be in a state in which it is normally supplied to other institutional units

Zero-coupon bonds are long-term securities that do not involve periodic payments during the life of the bond.