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PROGRESS REPORT ON CLASSIFICATION OF GOVERNMENT ACCOUNTS
(Report by the Secretary-General)

1. At its 11th session the Statistical Commission, in reviewing the progress of work on classification of government transactions, discussed the Manual for Economic and Functional Classification of Government Transactions^{1/} issued in 1958 and the comments thereon received from Member States. The Commission recognized it as a useful technical contribution which has become a basic reference work. It emphasized that the classification schemes and accounts presented in the Manual should in no way be considered normative but should be applied with a considerable degree of flexibility. At the same time, the Commission cautioned against the premature adoption of international standards in this field.
2. The Commission also requested the Secretary-General to consider the development of simplified schemes of economic and functional classification of government transactions with reference to the particular needs of countries engaged in important economic development efforts. The relationship between the system of accounts presented in the Manual and the treatment of government accounts in centrally planned economies would also be a suitable field for study in this connexion. The Commission finally recommended that progress reports in the field of classification of government accounts be submitted to subsequent sessions of the Commission, whenever developments in this field might warrant such reports.
3. In accordance with this request, the following developments are reported. Since the 11th (1960) session of the Statistical Commission, two regional workshops on problems of budget reclassification and management were held, one in August/September 1960 in Bangkok-Manila and the other in September 1961 in Addis Ababa.

^{1/} United Nations publication, Sales No.: 58.XVI.2
62-01787

4. The Workshop held in Bangkok-Manila dealt mainly with problems of programme and performance budgeting but also reviewed the progress made by the countries of the region in the field of budget reclassification. It had before it a draft public finance questionnaire together with the comments received from the Governments of the region.^{2/}

5. This questionnaire was essentially based on the classification schemes presented in the Manual although simplifying them in several important respects. Emphasis was put on a consolidated statement covering the whole central government sector. The Workshop noted that economic and functional classifications have become a well-established feature in an increasing number of countries of the region and that the Manual has proved a valuable guide in the reclassification work undertaken. The comments received on the questionnaire and particularly the discussions during the Workshop clearly brought out the difficulties which arise from attempts to establish uniform reporting systems on government financial transactions in a region with such variations in the constitutional structure, institutional arrangements and in the scope of government responsibilities. The Workshop did not feel it profitable or desirable to attempt to devise at this particular juncture a uniform system of reporting public finance data on a regional basis. It considered, however, that the draft questionnaire had served a useful purpose in stimulating thought and action in this field and recommended that it should be circulated as an annex to its report.

6. The Workshop reaffirmed the recommendation of the earlier Workshop that the Manual should continue to be regarded as a main source of guidance for work in this field and recommended extension of budget reclassification work to the transactions of provincial or state governments, local authorities and government enterprises. The Workshop further recommended that the Secretariat should prepare and circulate an annual review of developments in the field of budget reclassification as well as of other improvements in budget management and control introduced by the countries of the region. The Economic Commission for Asia and the Far East at its 17th session, held in March 1961 (E/3466), endorsed the preparation of an annual review and took note of the recommendation that, in view of the practical usefulness of the past three workshops, a fourth should be organized in 1963 or 1964.

^{2/} The questionnaire was submitted in response to the recommendation of the 1957 Workshop to prepare suggestions for a uniform system of reporting of budgetary data on a regional basis.

7. The major purpose of the first budget workshop held for the benefit of the countries of Africa, in Addis Ababa in September 1961, was to study methods of analysing public finance transactions with a view to planning economic and social development. The Workshop dealt with the role of government and the purposes served by public sector accounts; the scope, structure and composition of the public sector, the economic and functional classification of government transactions and problems relating to the application of programme and performance budgeting techniques.

8. The meeting provided another opportunity to test the applicability of the classification schemes presented in the Manual. The Workshop noted that the Manual provided valuable guidance to the countries of the region in undertaking such work. The countries engaged in such reclassification modified the schemes to suit their own particular requirements, although the basic concepts used remained the same as those developed in the Manual.

9. The Workshop recommended a simplified scheme of current and capital accounts presented in its report to the countries of the region for their consideration and noted that this classification might be appropriate for a first attempt in undertaking such work. The main items of these accounts represent a simplified version of those included in the Manual and could in their opinion be adopted by the African countries without impairment of the flexibility they need to meet their own internal requirements. The Workshop report (E/CN.14/117) also includes an annex providing concise definitions of all the items and sub-items shown in the simplified accounts.

10. The Workshop recommended certain modifications in the functional classification of the Manual for the consideration of the countries in the African region. Before recommending these modifications, it recognized that several countries in the region had already applied the Manual scheme. It also noted that this scheme is known in other areas of the world. In this context, reference was made to the report of the 1957 Workshop (held in Bangkok) which adopted the Manual scheme with certain modifications only for use by ECAFE countries.

11. The Workshop considered that an international standard in respect of the functional categories of the Manual scheme would be of great interest, since a

functional classification when combined with an economic classification would be very useful for purposes of international comparison. The Workshop therefore recommended that the Statistical Commission of the United Nations should consider the possibility of preparing an international standard in this field and that, pending the establishment of such a standard, African countries which are starting this type of analysis for the first time should attempt to apply the cross-classification by economic and functional categories presented in its report.

12. The Workshop recommended the continued use of the Manual as a standard reference work and the preparation of an annex to the Manual on practical problems involved in applying it. It further recommended the convening of another workshop.

13. As far as South America is concerned, a budget workshop will be held in September 1962 in Santiago with major emphasis on the relationship between government budgeting and economic development programming and on the techniques of programme and performance budgeting. The workshop is also expected to review the progress made by the Governments of the region in the field of budget reclassification.

14. Since the last meeting, an increasing number of countries has undertaken or expanded work on budget reclassification. The Manual and the regional workshops were a contributive factor in these developments. In addition to the developments referred to in the last progress report (E/CN.3/279), the following significant developments can be reported.

15. In Chile, the National Council of Applied Economic Research published in September 1960 an Economic-Functional Classification of Central and State Government Budgets (1957-58), and a year later, an Economic-Functional Classification of Government Accounts (1951-52 and 1957-58). The Budget of the Republic of Chile, since 1960, reclassifications along economic and functional lines. The Department of Statistics of New Zealand has recently published a comprehensive study on the Accounts of the Government Sector 1955-1956 to 1958-1959.

16. In Belgium, the Ministry of Finance is submitting to the legislature since 1960 as part of the annual budget, an economic-functional classification of government transactions. In Bolivia, since 1961 includes in its budget an economic and functional classification. In Africa also, an increasing number of countries has such classifications. For instance, in Ghana an economic-functional classification forms an integral part of the 1961 Budget. The Statistical Department of Madagascar published in 1959 a comprehensive study on the transactions of the

government sector. The major results of this study are being kept up to date in its Statistical Abstract. Kenya and Uganda have developed functional classifications along the lines of the Manual. The Central African Statistical Office of the Federation of Rhodesia and Nyasaland has reclassified the transactions of the federal as well as of provincial governments covering a seven-year period. Nigeria and the Sudan are experimenting with systems of economic classification of government transactions. A study recently prepared by the Central Bank for the States of West Africa includes an economic-functional classification for the years 1956, 1957 and 1958 for Togo.

16. Owing to these improvements, it has been possible to further revise a number of country tables included in the public finance chapter of the United Nations Statistical Yearbook. In the 1958 edition an economic classification, supplemented by a functional classification of government expenditures, was shown for sixteen countries. Tables based on the new classification are now shown for the following twenty-six countries: Austria, Belgium, Bolivia, Ceylon, Chile, Colombia, Denmark, Ecuador, the Federation of Rhodesia and Nyasaland, Finland, France, Ghana, Honduras, India (central government), Ireland, Israel, Italy, the Netherlands, New Zealand, Norway, Peru, the Republic of Korea, Sweden, Tanganyika, the United Kingdom and Venezuela. As further improvements in this field are made, it is expected that the number of country tables presented on the new basis can still be increased.

Possible recommendations for future action

17. The Commission may wish to recommend:

That the Secretary-General prepare a model simplified cross-classification by economic and functional categories, taking into account the modifications suggested by the ECAFE and ECA Budget Workshops held in 1957 in Bangkok and in 1961 in Addis Ababa, as well as the views on the subject expressed by the South American Workshop held in 1959. The Secretary-General may further wish to supplement this cross-classification of government expenditures by a simplified economic classification of receipts. The Secretary-General should circulate such a draft to the regional statistical conferences for their comments and submit to the 13th session of the Statistical Commission a progress report on this subject.