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PROGRESS REPORT ON CLASSIFICATION OF GOVERNMENT ACCOUNTS

(Report by the Secretary-General)

1. At its twelfth session the Statistical Commission reviewed the progress of work on classification of government accounts. It observed that the Manual for Economic and Functional Classification of Government Transactions<sup>1/</sup> served as a useful guide to countries in their budget reclassification work but noted that a number of countries felt the need for developing more simplified schemes for practical application. Reference was also made to the usefulness of the regional budget workshops where the progress made by the various countries was discussed and suitable recommendations for further work in this field could be formulated. The Commission suggested "that the Secretary-General might wish to prepare a model simplified cross-classification of government expenditures by economic and functional categories, taking into account the modifications suggested by the ECAFE Budget Workshop held in 1960 in Bangkok and the ECA Budget Workshop held in 1961 in Addis Ababa, as well as the views on the subject expressed by the South American Workshop in 1959. The Secretary-General may further wish to supplement this cross-classification of government expenditures by a simplified economic classification of receipts" (E/3633, para. 109). In considering these recommendations, the Secretary-General had to bear in mind certain other developments which have taken place since the last meeting of the Commission. One of them was the report of the working group on public sector statistics of the Conference for European Statisticians, which had before it a comprehensive study on public sector accounts

<sup>1/</sup> United Nations publication, Sales No. 58.XVI.2.

prepared by two consultants.<sup>2/</sup> The report of the working group which met in June 1964 in Geneva, indicated that there were still considerable problems in developing public sector accounts which would be equally applicable to the European economies operating within the framework of the market and to the centrally planned economies. Further, questions which are closely related to a simplified model classification of public sector transactions are being considered as part of the review of the systems of national accounts and balances. During the review, considerable attention is being given to the accounts and tables covering the public sector. In particular, the Commission has for consideration at this session a report (E/CN.3/320) of an expert group on the extension and revision of the system of national accounts (SNA), that met at United Nations Headquarters in December 1964 and the comments on the report by the Conference of European Statisticians' Working Group on National Accounts and Balances. The review of the SNA and MPS (material product system) will be carried forward, based on the decisions taken by the Commission. It is considered that during the second phase of the review, preparation of a model simplified cross-classification of government expenditures by economic and functional categories, as well as of a simplified economic classification of government receipts, could be much more fruitfully undertaken.

2. The Commission, at its twelfth session, further, "expressed the hope that the Secretary-General would initiate, within the resources available for this purpose, work on classification of public debt transactions" (E/3633, para. 109). This task appeared to be less affected by the review of the systems of national accounts and balances. The Secretary-General has accordingly prepared a report (E/CN.3/325) indicating how classifications of government transactions according to economic character can be linked to changes in the government cash position and changes in the public debt. The paper also presents classifications of the outstanding public debt according to currency of issue and maturity. A table on ownership distribution of public debt is also included in the paper.

3. Notwithstanding the need for postponement of the consideration of simplified model classification of government transactions, it is useful to review briefly the

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<sup>2/</sup> Conf.Eur.Stats/WG 20/2 and WG 20/3.

developments which have taken place since the last meeting of the Commission. These are the South American Budget Workshop held in Santiago, Chile in September 1962, the Central American Budget Workshop held in San José, Costa Rica in September 1963 and the Inter-Regional Budget Workshop held in Copenhagen, Denmark in September 1964.

4. The South American Budget Workshop concentrated mostly on problems related to the introduction of programme and performance budgeting techniques which it considered particularly suited for establishing a closer relationship between the budgetary and the planning processes. The Workshop reviewed with great satisfaction the progress made by countries in South America in reclassifying the budget along economic and functional lines and reaffirmed the recommendations of the first South American Budget Workshop that the Manual for Economic and Functional Classification of Government Transactions should continue to serve as a guide for work in the field of the reclassification.

5. The Central American Budget Workshop likewise emphasized the problems related to the introduction of programme and performance budgeting and reconfirmed the recommendations of earlier workshops regarding the introduction of the classifications put forward in the United Nations Manual. The Workshop, further, recommended the adoption of a simplified scheme for economic and functional classification of transactions in the public sector to serve as a standard basis for the area. This recommendation is a reflection of the efforts for economic integration in which the countries of the Central American isthmus are engaged and which has created an increasing need for co-ordination among the national development plans adopted in these countries. "The Workshop attached special importance to the establishment of planning mechanisms and budgetary systems on uniform technical and methodological bases aimed at making such co-ordination easier to achieve." (ST/TAO/SER.C/66, para. 102) In developing such a simplified scheme, the Workshop took into account not only the reports and recommendations of the workshops in South America but of other regions as well. In particular it felt that the simplified model accounts included in the African Budget Workshop Report of 1961 provided useful guidelines for developing a model for the Central American countries.

6. Annex IV of the Report of the Central American Budget Workshop<sup>3/</sup> includes a simplified model of economic classification for the central government covering general government agencies, government enterprises, ancillary agencies as well as a model functional classification of government expenditures. The Workshop Report, further, includes a model classification scheme of government development expenditures in certain fields according to programme, sub-programme, activity and project as well as a classification of expenditure by objects.

7. The Workshop also emphasized the need for the adaptation of government accounting systems to the requirements of planning as well as to budget formulation and execution. Accounting systems, the Workshop believed, should ensure a regular flow of data on the progress of plans and programmes and on efficient control of funds.

8. The Inter-Regional Budget Workshop which was held in Copenhagen in September 1964 focused its discussions on the relationship between planning and government budgeting in developing countries. In that conference, twenty-eight experts from countries in Africa, Asia and the Far East, Latin America, Europe and the Middle East participated besides the representatives of the four regional commissions and of the International Monetary Fund.<sup>4/</sup> The Workshop considered it imperative that there should be a very close relationship between the planning activity and the budget activity in developing countries. The economic and functional classifications developed along the lines of the Manual for Economic and Functional Classification of Government Transactions, were designed to bring out more clearly the interrelationship between the government sector and the rest of the economy and the relative magnitude of different government activities. These classifications, therefore, the Workshop thought served to strengthen the links between the macro-economic aspects of planning and budgeting.

9. The newly developed techniques of financial management served to make the control of public expenditure more effective, and to ensure that the annual

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<sup>3/</sup> ST/TAO/Ser.C/66.

<sup>4/</sup> ST/TAO/Ser.C/70.

budgetary process was more closely linked to the implementation of the economic development plan. The techniques of programme and performance analysis were therefore of considerable interest to the Workshop which found to provide a link between the specific projects included in the annual segments of the development plan and the corresponding programmes included in the government budget. It thus presented a link between the micro-economic aspects of the plan and of the budget.

10. The Workshop stressed the urgent need to strengthen the basic accounting system of a country in order to make it a more effective tool of financial management and a source of basic information for planning and budgetary purposes. It stressed the development of an accounting system designed to meet these purposes. In this connexion, the Workshop considered a paper prepared by the Secretariat on the Links between Economic and Functional Classification of Government Transactions and Classification in Programme and Performance Budgeting.<sup>5/</sup> The problem was whether such classifications may be in conflict with each other or could form part of an integrated system of classification providing the information needed for planning as well as for budgeting purposes. The Secretariat paper which attempted to analyse the relationship between the classifications presented in the United Nations Manual for Economic and Functional Classification of Government Transactions and in the Draft Manual for Programme and Performance Budgeting, pointed out that these classifications were not in conflict with each other. While the problem of linking the two systems would not be exactly the same for each country, the Workshop agreed that the approach taken in the Secretariat paper could provide useful guidance to those engaged in introducing these classifications into the accounting system of a country. The paper also pointed out that there were indications that a budget on programme and performance basis is likely to facilitate in many respects classification of government transactions according to economic and functional categories. Likewise, certain changes carried out in the basic accounting structure in order to better meet the requirements for economic and functional classifications may facilitate the introduction of certain elements of programme and performance budgeting.

11. With regard to the functional classification as given in the two United Nations Manuals, there appeared, however, in the opinion of the Inter-Regional

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<sup>5/</sup> IBRW 1/L.9.

Workshop, a significant difference in approach. The Workshop report stated that in the United Nations Classification Manual all expenditures are assumed to be grouped first under the broad functional heads and then, further, sub-classified on the basis of sub-functions; in the Manual for Programme and Performance Budgeting, the emphasis is on the determination of well-defined programmes the execution of which is entrusted to specific organizational units forming part of the administrative structure of the government and the programmes are then grouped under the functional heads to which they relate. Nevertheless, in practice it is usually found that application of the two approaches does not produce any basic problems of reconciliation. A classification according to function on a programme approach corresponds more closely to the organizational pattern of government administration and, in the opinion of the Workshop, provides a better tool for financial management, than a functional classification merely designed to meet statistical requirements.

12. As far as future work by the Secretariat is concerned, much emphasis will be given to further studies on relationships between economic planning and budgeting and to the development of an integrated system of budgeting and accounting meeting the requirements of planning as well as of budget formulation and execution, including expenditure control.

13. For 1966 a Budget Workshop is planned for the countries of Asia and the Far East with major emphasis on the relationship between government budgeting and economic development planning. The Workshop will also review several case studies on the application of programme and performance budgeting techniques in some countries of the region. It is expected that regional workshops will continue to be held in Africa, Asia and Latin America. In the light of the recommendations of the first Inter-Regional Budget Workshop, it can also be expected that another Inter-Regional Workshop will be organized in due course.

14. Since the last meeting of the Statistical Commission, a number of additional countries have undertaken or have expanded work on budget reclassification. Important progress was made in the Federation of Malaya, where the Department of Statistics published in 1962 an economic and functional classification of the transactions on the Federal and State level for the year 1960. In the Philippines the budget document now includes a table classifying government expenditures according to economic character and function. In Burma, India, Israel, Japan

and the Republic of Korea, economic classification has become a well-established feature in the budget documents. As an example of a significant extension of the work, an unpublished study by the Indian Ministry of Finance might be referred to which presents an economic classification of transactions of the States starting with 1951 making it possible to prepare a consolidated economic classification for the Central Government and for the States for a ten-year period ending 1960.

15. In Africa, the Government of the Sudan prepared an economic classification of the Central Budget for 1961/1962 based on the United Nations Manual. In the United Arab Republic this classification has been introduced in 1962/1963 into the presentation of the budget. Since the publication of the report of the African Budget Workshop of 1961, the simplified model account it recommended has been applied in Senegal in 1963 with the assistance of a United Nations regional expert. In April 1964 the Banque Central des Etats de l'Afrique de l'Ouest published classifications based on the simplified model account for the Ivory Coast, Dahomey, Upper Volta, Mauritania, Senegal and Togo. The statistical services of Ghana, Malawi, Nigeria, Southern Rhodesia, Sudan, Uganda, United Republic of Tanzania and Zambia continued to publish economic and functional classifications of government transactions along the lines developed in the United Nations Manual.

16. In Latin America a major budgetary reform is now in progress in Argentina which should lead to the application of such classifications to the public sector as a whole and each of its components. Economic and functional classifications of government transactions continue to be part of the budget documentation of Brazil, Chile, Colombia, Dominican Republic, Ecuador, Honduras, Mexico, Peru and Venezuela.

17. In Europe, Belgium included in the Exposé General of the Budget for 1962 an economic classification of Central Government Transactions which is influenced by the schemes developed in the United Nations Manual. The transactions are grouped in a system of multiple accounts similar to that presented in the Budget of the Netherlands. In most countries of Western Europe, the statistical work on economic and functional classification of government transactions was already at an advanced stage before the publications of the United Nations Manual and started before the convening of budget workshops in other regions of the world. Denmark, France, Finland, Federal Republic of Germany, Netherlands, Norway, Sweden and

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United Kingdom publish such classifications mostly within the framework of their systems of national accounts. In Austria, Italy, Spain and Turkey, developments followed the United Nations Manual. In the United Kingdom in 1962/1963 a new shortened and simplified form of estimates was introduced, one feature of which was a national accounts classification at the end of each "Vote". A White Paper on the Reform of Exchequer Accounts published in 1963 provided a national accounts table for the Central Government including National Insurance Funds with figures for the new financial year 1963-1964. It expressed the hope that it would be possible in due course to do the same for local authorities and public corporations and "to present to Parliament tables showing total public expenditures and how it is financed (i.e. 'public sector estimates') for the same periods and at the same time as the budget statement".<sup>6/</sup>

18. Owing to these improvements it was possible to further revise a number of country tables included in the public Finance chapter of the United Nations Statistical Yearbook as well as to add entirely new country tables. In the 1958 edition an economic classification supplemented by a functional classification of government expenses was shown for ten countries.

19. Tables based on new classification are now shown for the following thirty-six countries: Australia, Austria, Belgium, Bolivia, Ceylon, Chile, Colombia, Denmark, Ecuador, Finland, France, Federal Republic of Germany, Ghana, Honduras, India, (Central Government), Ireland, Israel, Italy, Japan, Malawi, Mexico, Netherlands, New Zealand, Norway, Peru, Philippines, Portugal, Republic of Korea, Southern Rhodesia, Sweden, Thailand, Togo, United Kingdom, United Republic of Tanzania, Venezuela and Zambia.

20. Possible Recommendations for Future Action. The Commission may wish to recommend that the Secretary-General prepare a model simplified classification of government transactions by economic character and function including a cross-classification of expenditures taking into account the modifications to the United Nations Manual for Classification of Government Transactions suggested by the ECA, ECAFE and ECLA Budget Workshops held in 1957, 1959, 1960, 1961, 1962 and 1963

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<sup>6/</sup> Reform of the Exchequer Accounts (H.M.S.O Cmnd. 2014) para. 7 as quoted in para. 19 of the 1964 Workshop Report (ST/TAO/Ser.C/70).



and the Inter-Regional Workshop of 1964 as well as related developments in the field of public sector statistics in the course of the review of the systems of national accounts and balances. The Commission might wish the Secretary-General to circulate such a draft to the national statistical offices for their comments and submit to the fourteenth session of the Statistical Commission a progress report on this subject and on major developments in the field of classification of government accounts.

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