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## Statistical Commission

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Item 8 of the provisional agenda\*

### International economic and social classifications

## International economic and social classifications

### Report of the Secretary-General

#### *Summary*

The present report was prepared at the request of the Statistical Commission at its twenty-ninth session with respect to the work on international economic and social classifications.<sup>1</sup> It provides an overview of how the recommendations of the Commission concerning international statistical classifications have been addressed since that session. The conclusions of the fourth meeting of the Expert Group on International Economic and Social Classifications, convened in New York from 2 to 4 November 1998, are contained in the annex. Points for discussion are set out in paragraph 22.

#### *Notes*

<sup>1</sup> See *Official Records of the Economic and Social Council, 1997, Supplement No. 4 (E/1997/24)*, para. 19.

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\* E/CN.3/1999/1.

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## I. Status of recommendations

### A. Recommendations on international classifications made by the Statistical Commission at its twenty-ninth session

1. The Statistical Commission considered item 4 of its agenda at its 483rd meeting, on 11 February 1997. It had before it the report of the Secretary-General on economic and social classifications (E/CN.3/1997/4), the report of the Voorburg Group on Service Statistics on the revised Provisional Central Product Classification (E/CN.3/1997/5) and the draft central product classification (services part; sections 5–9),<sup>1</sup> and the Commission:

(a) Agreed that the United Nations Statistics Division should play a pivotal role in the coordination of economic and social classifications so as to resolve differences and encourage the harmonizing of classifications;

(b) Endorsed the recommendation that the name of the Expert Group on International Classifications be changed to Expert Group on International Economic and Social Classifications, reflecting the decision to consider international economic and social classifications as a single family of classifications;

(c) Endorsed the development of a module on basic principles for the implementation and use of international classifications, for inclusion in the common code of best practices in the United Nations System, which is to be drafted, circulated and reviewed at the third meeting of the Expert Group on International Economic and Social Classifications, in 1997;

(d) Recommended that the revised Central Product Classification (CPC) be published as the Central Product Classification, Version 1.0,<sup>2</sup> on the understanding that in the preface users would be alerted to the plans for its further improvement. The Commission also encouraged member States to start implementing CPC, Version 1.0 and make suggestions to the Secretariat for its further improvement;

(e) Emphasized the importance of keeping the goods part of CPC in step with future revisions of the Harmonized Commodity Description and Coding System (HS),<sup>3</sup> and requested the Secretariat to seek country assistance for doing so;

(f) Recognized the need to continue to consult the Voorburg Group on Service Statistics so as to utilize its technical expertise for future revisions.

### B. Activities carried out in response to requests of the Commission

2. In response to the Commission's requests, as specified in paragraph 1 above, the major activities carried out since the twenty-ninth session are described below.

#### Pivotal role in the coordination of economic and social classifications

3. The United Nations Statistics Division is currently providing a central point for registering international statistical classifications through implementation of the inventory on international economic and social classifications. The inventory allows international agencies to identify and register the economic and social classifications for which they are responsible. The United Nations Statistics Division has identified the custodians of international economic and social classifications and the official points of contact. These custodians have been encouraged to increase their technical exchange of information through the newly developed *Classifications Hotline Newsletter*, which is available at the **W e b   s i t e   o n   c l a s s i f i c a t i o n s** ([www.un.org/Depts/unsd/class/class1.htm](http://www.un.org/Depts/unsd/class/class1.htm)).

4. The Classifications Hotline, with access via E-mail, phone or facsimile, is maintained by the United Nations Statistics Division, and continues to handle and register queries regarding CPC, Version 1.0 and the International Standard Industrial Classification of All Economic Activities, Revision 3 (ISIC, Rev.3).<sup>4</sup> The Classifications Hotline is not limited to queries regarding ISIC and CPC but handles all requests in the field of economic and social classifications, and promotes common approaches, principles and conventions relating to the use of classifications. The International Classifications Database Registry maintains a record of the problems in interpretation of CPC and ISIC and other questions of classification structure reported by national statistical offices and other agencies, and also records the solutions provided by the United Nations Statistics Division to resolve them. Significant issues that arise in the interpretation of ISIC and CPC are then posted on the classifications Web site for dissemination to a wide range of classifications users. Registry activities have resulted in an increase in proactive signalling to the Statistical Commission of classifications issues requiring a larger forum for solutions.

5. The *Classifications Hotline Newsletter* is now published on the Web three times per year, beginning in 1998 ([www.un.org/Depts/unsd/class/class1.htm](http://www.un.org/Depts/unsd/class/class1.htm)). The *Newsletter* provides access to information on international economic and social classifications, meetings and announcements of

classifications updates and revisions, and newly published material on this subject (see *Newsletter* Nos. 1, 2 and 3), as well as announcements of interpretations and rulings of ISIC and CPC. As a way of broadening the forum, the *Newsletter* also provides a link to Internet sites of other international custodians of classifications.

**Broaden the scope of the Expert Group to include international economic and social classifications and consider them as a family**

6. The third meeting of the Expert Group on International Economic and Social Classifications was convened in New York in December 1997. It considered the development plans and key problems of agencies responsible for a wide range of international economic and social classifications. Participants from international agencies presented the state of work of 12 international classifications of the economic and social classifications family, covering very different domains: education, tourism, labour, health, time-use and economy. The Expert Group recommended constructing a network to exchange information about international standard economic and social classifications; preparing a work programme that allows international agencies to identify and register all international standard classifications for which they are responsible; and circulating this information widely through the newly established international classifications network.

7. A preamble, stating the role and obligation of agencies responsible for international standard classifications and stating what it means to be a member of the international classifications family, was prepared by the United Nations Statistics Division and approved at the fourth Expert Group meeting in November 1998 (see annex). It was recommended to be widely disseminated both on the Web and in printed format.

8. The United Nations Statistics Division has prepared summary profiles of each classification of the family of international economic and social classifications, based on the technical descriptions provided by the agencies through responses to a standardized registration questionnaire. This activity was reported to the fourth meeting of the Expert Group, where it was agreed that this information would be made accessible through the United Nations Classifications Web site to become part of a larger dynamic network of classifications material available to users worldwide.

**Develop a module on basic principles for the implementation and use of international classifications for inclusion in the common code of best practices in the United Nations system**

9. Experts at the third meeting of the Expert Group on International and Economic Social Classifications in 1997 requested that a consolidated statement be prepared drawing together four proposals for a statement of basic principles that were discussed at that meeting, and that a glossary of standard terminology be prepared since there was significant variation in terminology evident throughout many of the papers presented for the meeting. The consolidated paper and the glossary were presented as working papers to the fourth meeting of the Expert Group in November 1998. The meeting found the best practices paper a useful document and recommended it for wider circulation. The paper is available to the Commission for information as a background document.

10. As part of best practices, the Expert Group has initiated a strategic overview of selected international standard classifications included in the family, as a regular feature of the Expert Group meeting, thus allowing each selected international classification to act as a test case of the basic principles of best practice for the design, implementation, revision and use of international standard classifications. The fourth Expert Group meeting in November 1998 conducted a review of ISIC and its derived and related classifications, such as the General Industrial Classification of Economic Activities within the European Community and the North American Industry Classification System, as part of the regular strategic overview of international standard classifications. The review included discussion of the current status of ISIC implementation; its adequacy as an international standard; user perspectives; and updating and revision intentions. Conclusions of the Expert Group on this matter are presented in the annex.

**Publish the Central Product Classification, Version 1.0, and begin implementation by member States, while making suggestions to the Secretariat for its further improvement**

11. CPC, Version 1.0, has been published in English,<sup>2</sup> and its translation and publication in all United Nations languages is under way. CPC provides a framework for international comparison of statistics dealing with all products, that is, goods and services. Particular attention was paid in the new publication to further elaboration of the services part of the classification, including a newly prepared alphabetical index to assist in the classification of service products and detailed explanatory notes describing the content of services. CPC,

Version 1.0 is also available electronically, upon request to the United Nations Statistics Division through the Classifications Hotline (chl@un.org).

12. Strategies for the first phase of implementation of CPC, Version 1.0, and mechanisms for making suggestions to the Secretariat for its further improvement during the implementation process are discussed in a separate report before the Commission (E/CN.3/1999/29).

**Keeping the goods part of CPC in step with future revisions of the Harmonized Commodity Description and Coding System (HS) and seeking country assistance for doing so**

13. With the assistance of the CPC sub-group of the Voorburg Group, the goods part of CPC, Version 1.0 has been brought up to date with the 1996 edition of the Harmonized Commodity Description and Coding System (HS).<sup>5</sup> The Commission has requested that CPC be regularly updated to coincide with further revisions of HS, and that the Secretariat should seek assistance of countries to complete this activity. This matter will be taken up as part of the follow up to the conclusions of the Expert Group meeting requesting that the family of classifications be managed and revisions timed so that derived and related classification systems do not get out of step.

14. The Statistical Office of the European Communities (Eurostat) has also stated its concern for the necessity of coordinating the timing of changes to be made to the European statistical classifications, namely CPA (classifying products by activity); NACE (activity classification) and PRODCOM (the list of industrial products), in harmony with the planned updates and revisions of HS, ISIC and CPC. The Expert Group in November 1998 also underlined the necessity of coordinating the timing of updates and revisions of international standard classifications used for statistical purposes including the timing and coordination of the goods part of the CPC with HS.

**Continue to consult with the Voorburg Group on Service Statistics for future revisions of the Central Product Classification**

15. Extensive consultations and collaboration of the Secretariat with the CPC sub-group of the Voorburg Group has occurred on matters related to services statistics, with special attention to trade in services (see paras. 19–21 below).

## **II. Additional work accomplished in the field of international statistical classifications since the twenty-ninth session of the Commission**

### **A. Classifications of expenditure according to purpose**

16. A complete set of all classifications of expenditure according to purpose including COFOG, COICOP, COPNI and COPP,<sup>6</sup> is before the Statistical Commission at its thirtieth session for approval and subsequent publication. The revision included restructuring and defining the classifications based on previous classifications — namely, the Classification of the Functions of Government (ST/ESA/STAT/SER.M/70); the Classification of Household Goods and Services of the 1968 SNA; the Classification of the Purposes of Private Non-Profit Bodies Serving Households of the 1968 SNA; and the Draft Classification of Outlays of Industries by Purpose (ST/ESA/STAT/83).

17. COFOG, COICOP, COPNI and COPP are primarily designed to classify transactions undertaken by government, households, non-profit institutions serving households (NPISHs) and producers. There are close links between COFOG, COICOP and COPNI. Once the consumption expenditures of NPISHs and general government have been classified according to COPNI and COFOG, the individual consumption expenditures in these two classifications can be transferred directly into divisions 13 and 14 of COICOP.

### **B. Other work**

18. Work has begun between the United Nations Statistics Division and the Economic Commission for Europe (ECE) to reconcile their commodity nomenclatures for the collection of industrial production statistics.<sup>7</sup> Preliminary discussions have also been held with the Food and Agriculture Organization of the United Nations (FAO) and Eurostat on this same subject.

19. In trade in services, the United Nations Statistics Division supported a consultancy for the specific purpose of ensuring that the draft manual on statistics of international trade in services be coordinated to maintain consistency with the fifth edition of the *Balance of Payments Manual* of the International Monetary Fund (IMF); statistics of international merchandise trade; CPC, Version 1.0 and the 1993 SNA. This consultancy resulted in the preparation of an introductory

statement to the manual that reviews these standards and attempts to incorporate them in an integrated way into plans for future work on statistics of international trade in services.

20. Furthermore, CPC has now been further elaborated for use in the preparation of statistics on international trade in services through its use to define the categories of the Balance of Payments extended list of services and to provide a structure for those who may wish to collect more detail. This work was initiated by the United Nations Statistics Division, IMF, Statistics Canada and the CPC sub-group of the Voorburg Group and presented to the Task Force for its approval, where it was agreed that the elaboration of the Balance of Payments (BOP) through its correspondence with CPC will now be provided as an annex to the manual. The BOP/CPC correspondence was reviewed by the IMF Committee at its October 1998 meeting.<sup>9</sup>

21. During 1997 and part of 1998, the United Nations Statistics Division and the CPC sub-group of the Voorburg Group worked extensively with the World Trade Organization to review the changes made during the preparation of CPC, Version 1.0, and to explain their significance to the interpretation of trade in service categories. This was required because CPC was used as a source for the elaboration of trade negotiations agreements by the secretariat of the former General Agreement on Tariffs and Trade in the preparation of the General Agreement on Trade in Services (GATS), under the Uruguay round of multilateral trade negotiations.

### III. Points for discussion

22. The Commission is invited to comment on (a) general classifications activities such as the Inventory, the International Classifications Database Registry and the Classifications Hotline Newsletter; and (b) the request of the Expert Group for UNSD to implement a classifications discussion forum. The Commission also may wish to discuss, based on the conclusions of the Expert Group, the recommended strategies and activities for further implementation and adaptation of the International Standard Industrial Classification of All Economic Activities (ISIC).

#### Notes

<sup>1</sup> Draft central product classification (services part, sections 5–9), Version 1.0 (PROV/ST/ESA/STAT/SER.M/77 (Version 1.0) and Corr.1).

<sup>2</sup> Statistical Papers, Series M, No. 77, Version 1.0 (United Nations publication, Sales No. E.98.XVII.5).

<sup>3</sup> Brussels, Customs Cooperation Council, 1984.

<sup>4</sup> Statistical Papers, Series M, No. 4, Rev.3 (United Nations publication, Sales No. E.90.XVII.11).

<sup>5</sup> *Harmonized Commodity Description and Coding System*, 1996 version (Brussels, World Customs Organization, 1996).

<sup>6</sup> Draft Classifications of Expenditure According to Purpose: Classification of the Functions of Government (COFOG); Classification of Individual Consumption According to Purpose (COICOP); Classification of the Purposes of Non-Profit Institutions Serving Households (COPNI); and Classification of the Outlays of Producers According to Purpose (COPP) (PROVISIONAL ST/ESA/STAT/SER.M/84).

<sup>7</sup> See report of a meeting to reconcile commodity nomenclatures used by ECE, FAO, Eurostat and the United Nations Statistics Division, Geneva, 16 and 17 April 1998.

<sup>8</sup> See “Manual on statistics of international trade in services: status report”, prepared by the Statistics Department, International Monetary Fund, for the eleventh meeting of the IMF Committee on Balance of Payments Statistics, Washington, D.C., 21–23 October 1998 (BOPCOM98/1/5).

## Annex

### Conclusions and recommendations of the fourth meeting of the Expert Group on International Economic and Social Classifications

#### Progress in work

1. The Expert Group agreed that the standard documents for purposes of defining the international family of classifications are: (a) the preamble prepared by the United Nations Statistics Division (see para. 7 above); (b) the inventory of international economic and social classifications and their respective custodians; and (c) the relationships among custodians as described through the classifications linkages.
2. The Expert Group approved the preamble to the international classifications family, and asked that the preamble be widely circulated after taking into account the following suggestions: (a) that the name of the family be changed to "International family of economic and social classifications"; (b) that reference be made to the "types" of classifications rather than their relationships, which would be dealt with at a later stage; (c) that because of its importance, the registration of classifications should be included in the Preamble; and (d) that the terminology of the best practices paper and the glossary be made consistent with the Preamble.
3. The Expert Group welcomed the progress made by the United Nations Statistics Division in the work on the classifications inventory. In the first phase, international classifications and their custodians, along with some multinational and regional classifications, have been registered. The Expert Group stressed the importance of the registration process for custodians of classifications. The Expert Group found the inventory particularly useful in showing the time dimension of the classifications where the successive versions of each classification were documented and archived, providing a clear mapping of their evolution, and recommended that such analysis continue.
4. A model, attempting to show relationships and linkages of existing classifications, was presented to the Group. The presented diagram of classifications, even though drawn from a limited example, visualizes how members of the international family of economic and social classifications are related. In particular, it demonstrates how changes in one classification can have an impact on other members of the family of classifications, and how uncoordinated changes may cause difficulties for users of classifications.
5. The Expert Group welcomed the consolidated paper on best practices, and believed it to be a useful document for two major purposes: (a) as a charter of classifications for use by senior management of agencies who are involved in strategic planning of work with classifications; and (b) as a methodological statement on basic principles of building, maintaining, updating, revising and using of classifications for use by national statistical offices and by statistical offices of agencies. For this reason, the Group recommended that it be circulated in draft as a background document to the Statistical Commission to elicit further comments on it. The Group welcomed the glossary, and recommended that it undergo a revision utilizing the System of National Accounts, 1993 (1993 SNA) glossary currently being prepared by the Organisation for Economic Cooperation and Development, and that it focus more explicitly on classification terminology.
6. The Expert Group believes that although conventional meetings are necessary, they cannot be convened with the frequency required by classification work, and that mechanisms are needed to increase contact between meetings. The Group is also of the opinion that "virtual" and ongoing meetings, provided they are well structured and managed, could provide a useful means for making more rapid progress between conventional meetings.
7. The Expert Group urges the United Nations Statistics Division to give consideration to the creation of an inter-agency electronic bulletin board designed to provide:
  - (a) An ongoing discussion venue for custodians with their peers about current interpretations and rulings;
  - (b) A means of reaching and recording consensus, as a basis for the design of future classifications or supplements thereto.
8. Accordingly, the Expert Group believes that the United Nations Statistics Division should propose to its ruling bodies the creation of an on-line discussion forum (bulletin board), as long as such a proposal is accompanied by:
  - (a) An outline of the role of the bulletin board "master";
  - (b) The rules and regulations by which those authorized to work with the bulletin board would abide;

(c) The wide promulgation — in the interest of transparency — of the regulations and rules emerging from the bulletin board discussions.

9. The Expert Group welcomed the reports of the classifications sub-group of the Voorburg Group and of the Task Force on Statistics of International Trade in Services, and asked that such reporting continue. The Expert Group noted with satisfaction the more detailed elaboration of categories of the Balance of Payments classification of services through use of the Central Product Classification, Version 1.0. Participants viewed such work as important to the integration of statistics on domestic production and international trade, particularly in the area of services. The experts emphasized the importance of ensuring a continuing dialogue between custodians and users of the various classifications and statistical frameworks.

### **Review of the International Standard Industrial Classification of all Economic Activities**

10. The Experts confirmed that support for implementation of the International Standard Industrial Classification of all Economic Activities (ISIC), Revision 3 worldwide continued to be a priority for the custodians of ISIC, at least until such time as the classification's adoption, regionally and nationally, reaches a satisfactory level.

11. The Experts advised the United Nations Statistics Division that the following specific actions designed to improve the quality and the accessibility of ISIC, Rev.3 were warranted:

- (a) Development of alphabetical indexes for ISIC, Rev.3 in all official United Nations languages;
- (b) Revision of the introduction incorporating more recently approved standards, such as the 1993 SNA;
- (c) Clarification of the explanatory notes to correct errors and resolve ambiguities;
- (d) Dissemination of a series of supplements/addenda to ISIC, Rev.3 in order to maintain the relevance of ISIC in the face of recent developments;
- (e) Continuation of the maintenance of the documentation repository of the United Nations Statistics Division Classifications Registry to indicate problems and suggest improvements to ISIC;
- (f) Elaboration and expansion of the rulings for application of ISIC.

12. The experts urged the United Nations Statistics Division to disseminate, whenever appropriate and feasible, the documents resulting from these actions in the languages in which ISIC is available.

13. The Experts considered that a revision of ISIC should be guided by the following facts and considerations:

- (a) ISIC is a part of a family of interrelated classifications;
- (b) The degree of penetration of ISIC, Rev.3 into national statistical programmes, as shown by initiatives to develop or revise national classifications using ISIC, Rev.3 as a model;
- (c) The extent to which national statistics are submitted to regional and international agencies according to ISIC, Rev.3 categories;
- (d) ISIC, Rev.3 is not yet at an advanced stage of its life cycle;
- (e) Technology and business organizations have created new opportunities that should be reflected in ISIC;
- (f) The benefit accruing from any classification change must be commensurate with the cost;
- (g) The cost of implementation of new versions of a classification has risen immensely;
- (h) A revision must balance the need to include changes in types of economic activity with the need to maintain continuity of time series;
- (i) The degree of detail of the current version of ISIC should be preserved.

14. The Expert Group is firm in its opinion that the existence of a family of classifications implies that revisions of any of its classifications should be managed and timed, so that derived and related systems do not get out of step. For example, the expected revision to the Harmonized System (HS) in 2007 would imply that ISIC should not be revised immediately before that time.

15. In the light of the discussion on best practices and having taken into account the factors listed in annex paragraph 11 above, the Expert Group agreed that the fourth revision to ISIC should not be introduced before 2007. Nevertheless, the Expert Group also agreed that steps to engage in preparatory work should begin immediately. Part of this critical review would include examining the analytical uses of ISIC and improving the existing ISIC, through activities such as those stated in annex paragraph 11 above.



16. Conscious of the importance of training, the group urged the United Nations Statistics Division to intensify its efforts and to reach out to the broadest constituency possible.

17. In this connection, the Expert group noted that training for the implementation of the 1993 SNA might provide a suitable vehicle to administer training in best practices for classifications.

18. The Expert Group affirmed that a revision of ISIC cannot take place without close cooperation with other statistical agencies — international, regional and national — and urged the United Nations Statistics Division to take appropriate steps to ensure such collaboration.

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